DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

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MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: Draft Management Advisory Report -- Enhancing the Electronic Tax Law Assistance Program

We appreciate the opportunity to respond to your draft management advisory report entitled "Enhancing the Electronic Tax Law Assistance Program." The Electronic Tax Law Assistance (ETLA) program is designed to answer tax law and procedural questions received from taxpayers who use the IRS' Internet web site (Digital Daily). The Internal Revenue Service has answered over 330,000 inquiries via the ETLA system during Fiscal Year (FY) 2000 through mid-September. Although we are not advertising the program, it has grown substantially since its inception as a pilot in 1994 with a doubling of inventory each year prior to FY 2000. We expect an increase of about 30 percent in FY 2000 over FY 1999. The program has been very well received by the public.

We are transitioning ETLA to a fully supported production system. This includes making incremental enhancements to improve operating efficiency and service to customers pending the more extensive changes that will occur under modernization. While we agree that several of your recommendations for enhancements have merit when viewed independently, we do not support their implementation because of business experience we have gained from the ETLA program. We are also concerned that in several cases the reasons presented as evidence to support your recommendation are misleading and therefore do not support the recommendation. Our comments and concerns related to each recommendation in the report follow.

IDENTITY OF RECOMMENDATION 1
The Assistant Commissioner (Customer Service) should place an introductory message on the IRS web site to help ensure taxpayers include sufficient information when formulating their questions.

ASSESSMENT OF CAUSE
The IRS web site currently has an introductory message for the ETLA system, which provides information to assist the customer in understanding the service offered and the types of questions that are specifically excluded (for example, account questions). However, the message does not emphasize the importance of providing adequate information to ensure that we can fully answer the question. We have attempted to limit the amount of explanatory information so as not to discourage customers from reading it.

CORRECTIVE ACTION
We are planning to revise the current introductory message and will incorporate language to encourage taxpayers to be as specific as possible when they submit their question.

IMPLEMENTATION DATE
PROPOSED: January 1, 2001

RESPONSIBLE OFFICIAL
John R. Watson, Director, Customer Account Services, Wage and Investment

CORRECTIVE ACTION(S) MONITORING PLAN
Customer Account Services management will ensure the proposed change is made on or before January 1, 2001.

IDENTITY OF RECOMMENDATION 2
The Assistant Commissioner (Customer Service) should include a disclaimer on the IRS web site and taxpayer responses to reinforce the significance of providing sufficient information and the potential limitations in using the information provided in the IRS response.

ASSESSMENT OF CAUSE
The ETLA site includes the following statement, which was approved by Chief Counsel: "The answer we provide will be based on our understanding of the facts you present in your question. Omission of facts will affect the answer given." A slightly modified version of this statement also generates automatically with each ETLA response.

CORRECTIVE ACTION(S)
We do not agree with your assessment of this issue. In your report you said all IRS publications include a warning regarding the reliability of the information in the publication. The statement you are referring to says in part " . . . the information given does not cover every situation and is not intended to replace the law or change its meaning . . . " and further states " . . . this publication might cover some subjects on

which a court may have made a decision more favorable to taxpayers than the IRS interpretation." This language does not appear in the majority of IRS publications. It appears in Publication 17, which covers a wide variety of topics and certain other publications. Such a statement would not be appropriate for the majority of ETLA responses, which are usually very specific to the taxpayer's situation and are not intended to cover broad situations.

We understand you are questioning the adequacy of the current disclaimer. However, before posting this message, the ETLA site contained a statement that was substantially the same as the current message. In August 1999, we asked Counsel to determine whether a more detailed disclaimer was appropriate. The Office of the Associate Chief Counsel (Domestic) reviewed the prior message and made minor changes which we posted on the ETLA site and added to outgoing responses in October 1999.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION(S) MONITORING PLAN
N/A

IDENTITY OF RECOMMENDATION 3
The Assistant Commissioner (Customer Service) should provide taxpayers with an automated acknowledgement of receipt and the expected timeframe for a response. Beside giving taxpayers the courtesy of a notice of receipt, this technique may result in more efficient use of resources.

ASSESSMENT OF CAUSE
On an earlier version of the system, the IRS sent an automated acknowledgment receipt of ETLA messages. Once they received the acknowledgement, we found that a significant number of customers sent a follow-up inquiry either to provide additional information, ask another question, or just to say thanks - all of which increased our inventory. Also, when customers respond to messages by hitting the reply button (which is the natural reaction) rather than going back to the IRS web site as instructed, the messages cannot be downloaded in the normal matter and require special processing. Although we can manually associate messages from the same customer, the system does not associate messages automatically.

CORRECTIVE ACTION
We agree an acknowledgement might provide an extra measure of customer satisfaction. However, we believe the potential uncertainty that a customer may experience from not receiving an acknowledgment is offset by the 2-day response time goal for ETLA inquiries. As your report states, the average response time during the 2000 filing season was 1.3 days. Obviously, we cannot answer every inquiry in less than 2 days. However, after weighing the impact of the various problems described above and the fact that they will grow as the number of ETLA inquiries increase, we believe our current position is valid.

In addition, we do not agree with your suggestion that an acknowledgement could reduce our reliance on Compliance support. Resource needs are determined in the annual planning process based on expected receipts in each of the three planning periods on a weekly (not daily) basis. Program success is measured by how well we meet the stated objectives. If we wanted to make allowances for sending a response in 4 or 6 days instead of 2, it would have little or no impact on resources required as long as we continue to schedule on a weekly basis.

As we stated in our response to your previous report (Expanding the Electronic Tax Law Assistance Program--Audit No. 199930108), the IRS is planning to hire additional Customer Service staff to reduce the amount of Compliance support required during the filing season. We have proposed a 3-year phase out to significantly reduce reliance on Compliance support.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION(S) MONITORING PLAN
N/A

IDENTITY OF RECOMMENDATION 4
The Assistant Commissioner (Customer Service) should improve the quality measurement system by coordinating with the Centralized Quality Review Site (CQRS) function and the Statistics of Income Division to determine the optimum sampling design that would meet the quality assurance needs of the ETLA program. The Sampling Plan should be designed to provide accuracy rates at the call site level as well as national statistics.

ASSESSMENT OF CAUSE

Please note: There are several references throughout the draft report to the "CQRS database." The database is the Quality Review Database (QRDb). The CQRS is where ETLA work is reviewed.

The ETLA sample, which is selected through ETLA system programming, is a random sample. There is a misconception that if a sample size is not met at a specific measurement level (in this case, an individual site), then a probability sample is no longer valid. In fact, as long as the sampled selection was random (that is, each case has an equal chance of selection), then the sample is still valid.

Specifically, when a sample size is developed, three critical pieces of information are needed – 1) the expected precision margin, 2) the confidence z-value, and 3) the expected estimate of occurrence. If, due to unforeseen problems, the desired sample size is not met, then the actual precision margin is greater than the expected precision margin. This insufficient sample size does not make the sample invalid, it simply results in a valid estimate of accuracy with a larger than expected precision margin. As long as each case has an equal probability of selection, monthly estimates of accuracy are valid. The only problem encountered is that the precision margins associated with the estimates are larger than the generally accepted statistical standard of 90 percent confidence, with a precision of ± five.

The CQRS sampling plan was designed to produce monthly national estimates of accuracy with 90 percent confidence and 5 percent precision. With their current limited resources, the CQRS is unable to review enough e-mails each month to produce site level estimates of accuracy with precision margins of 5 percent. However, individual site level estimates are within the desired confidence and precision margins. It generally takes several months to accumulate data to produce site-level estimates that also meet the desired precision margin at the call site level. The QRDb provides planning period and fiscal year cumulative reports of individual call site's quality estimates that reflect the desired precision margin.

CORRECTIVE ACTIONS

We do not plan to make any changes to the ETLA sampling methodology or plan at this time. Our current sampling methodology meets the quality assurance needs of the ETLA program.

If you have questions, please call Ron Watson, Director, Wage and Investment Customer Accounts Services, at (678) 530-6612.