



*Improving the Toll-Free Telephone  
Agreement Would Better Assure  
Tax-Exempt Customer Needs  
Will Be Met*

**September 18, 2007**

**Reference Number: 2007-10-184**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 18, 2007

**MEMORANDUM FOR** COMMISSIONER, TAX EXEMPT AND GOVERNMENT ENTITIES  
DIVISION

*Margaret E. Bezz*

**FROM:** (for) Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Improving the Toll-Free Telephone Agreement  
Would Better Assure Tax-Exempt Customer Needs Will Be Met  
(Audit # 200710029)

This report presents the results of our review of the Tax Exempt and Government Entities (TE/GE) Division's transfer of its toll-free telephone operation to the Wage and Investment (W&I) Division. The overall objective of this audit was to determine whether processes will ensure TE/GE Division customers continue to receive timely and accurate information through the toll-free telephone call site operated by the W&I Division. This audit was conducted as part of the Treasury Inspector General for Tax Administration Office of Audit Fiscal Year 2007 Annual Audit Plan.

The TE/GE Division was organized to serve customers exempt from paying income tax. During Fiscal Year 2006, the Internal Revenue Service (IRS) initiated plans to transfer the toll-free telephone operation for tax-exempt customers to the W&I Division at the beginning of Fiscal Year 2007. The purpose of the transfer was to enhance customer service by providing expanded hours of operation and incrementally increasing the number of calls answered.

*Impact on the Taxpayer*

Because the transfer of the toll-free telephone operation to the W&I Division did not involve a change to the toll-free telephone number or system, tax-exempt customers should receive similar levels of customer service to their telephone calls in the short term. The one change that affected customers involved some of the more complex tax-exempt questions. Instead of these calls being routed to tax-exempt specialists, questions were emailed to experienced TE/GE Division employees to respond within 5 business days. We identified significant long-term risks that



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could lead to a drop in overall customer service to tax-exempt customers if not addressed by the TE/GE and W&I Divisions.

### *Synopsis*

Because the TE/GE and W&I Divisions implemented processes for accomplishing the transfer of the toll-free telephone operation to the W&I Division, tax-exempt customers should receive similar levels of customer service to their telephone calls in the short term. Several of the new processes were part of a Memorandum of Understanding (Memorandum) established by the two organizations and provided continuity of the operation so the transfer was transparent for most tax-exempt customers. However, the Memorandum needs to be strengthened to address conflicts which exist between the Memorandum in its present form, the principles of the IRS Restructuring and Reform Act of 1998,<sup>1</sup> the IRS Organizational manual, and the IRS mission.

For example, subject matter experts for tax-exempt customers are still managed by the TE/GE Division, yet the Memorandum does not provide a significant role for the TE/GE Division to identify service requirements or to maintain and update procedures and programs for the W&I Division toll-free telephone operation. In addition, the W&I Division is not required to obtain approval from the TE/GE Division to deviate from the Internal Revenue Manual provisions outlined in the Customer Account Services Telephone Operations Manual (which provides guidance on tax-exempt questions). We identified one deviation the W&I Division did not inform the TE/GE Division about. Further, the TE/GE Division is not required to review updates to training materials, which presents a risk that incomplete or incorrect material could be provided to customer service representatives responding to tax-exempt questions.

Addressing these risks will provide better assurance that the toll-free telephone operation for tax-exempt customers will be able to achieve the strategic goal of improving taxpayer service.

### *Recommendations*

We recommended the Commissioner, TE/GE Division, work with the W&I Division to strengthen the existing Memorandum of Understanding. We also recommended the Commissioner, TE/GE Division, ensure tax-exempt customers are timely notified of operational changes associated with the W&I Division toll-free telephone call site.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



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*Response*

The IRS agreed with our recommendations and provided planned actions to address them. The TE/GE and W&I Divisions will work together to modify and adopt an addendum to the Memorandum of Understanding to address the recommendations. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



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*Abbreviations*

IRS	Internal Revenue Service
TE/GE	Tax Exempt and Government Entities
W&I	Wage and Investment



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## *Background*

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998<sup>1</sup> required the IRS Commissioner to develop and implement a plan to reorganize the IRS around organizational units serving particular groups of taxpayers with similar needs. The Tax Exempt and Government Entities (TE/GE) Division was organized to serve customers exempt from paying income tax. The TE/GE Division Customer Account Services function assists tax-exempt customers in two primary areas: ensuring quality service for returns processing activities through oversight of the IRS Wage and Investment (W&I) Division<sup>2</sup> and, prior to October 1, 2006, providing toll-free telephone assistance for tax-exempt customers.<sup>3</sup>

When toll-free telephone assistance was managed by the TE/GE Division, tax-exempt customers were generally provided with accurate responses to their inquiries. However, tax-exempt customer demand for toll-free telephone service significantly exceeded the capacity of the toll-free telephone operation. Access to toll-free telephone service was evaluated by computing a Level of Service<sup>4</sup> measure. Approximately 60 percent of calls from customers were answered in Fiscal Years 2004 and 2005; the Level of Service fell to 57 percent for Fiscal Year 2006.

***Customer demand for toll-free telephone service significantly exceeded the TE/GE Division's resource capacity.***

The TE/GE Division toll-free telephone call site maintained its own toll-free telephone number, which was different from the telephone number used by other IRS business units. During Fiscal Year 2006, the IRS initiated plans to transfer the toll-free telephone operation for tax-exempt customers to the W&I Division at the beginning of Fiscal Year 2007. The purpose of the transfer was to enhance customer service by providing expanded hours of operation and incrementally increasing the number of calls answered to be more commensurate with the service provided to W&I Division customers. The W&I Division plans to maintain the separate toll-free telephone number for tax-exempt customers.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>2</sup> The W&I Division provides tax law and account-related assistance to individuals and businesses by telephone, correspondence, and email in addition to processing their paper and electronic tax returns.

<sup>3</sup> During Fiscal Year 2004, the Pacific Consulting Group determined the TE/GE Division Customer Account Services function should work on two primary areas: 1) reduce the amount of time it takes to complete a customer's call once the customer gets through to a TE/GE Division Customer Account Services function assistor; and 2) improve issue resolution.

<sup>4</sup> The Level of Service is a performance measure used to determine the percentage of callers who receive assistance. This measure is determined by dividing the total telephone calls answered by assistors by the total telephone call demand.



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On October 1, 2006, resources and responsibility for managing the TE/GE Division toll-free telephone call site was transferred to the W&I Division. This change brought all IRS telephone customer service operations for individuals, businesses, tax professionals, tax-exempt organizations, employee plans, and government entities under the W&I Division. A Memorandum of Understanding (Memorandum) between the TE/GE and W&I Divisions was established to define roles and responsibilities for the two Divisions. The Memorandum formally transferred ownership of the toll-free telephone operation, although the calls would continue to be answered by former TE/GE Division assistors (who were transferred to the W&I Division) providing the same high-quality assistance as that given before the transfer. When management of the toll-free telephone operation was transferred, the TE/GE Division believed it would continue to provide technical and training support and to track and report on customer satisfaction, quality, and service measures for customer service provided to its customers.

This review was performed at the TE/GE Division Customer Account Services function offices and the W&I Division Customer Account Services Accounts Management call site in Cincinnati, Ohio, and the W&I Division Customer Account Services Accounts Management offices in Covington, Kentucky, during the period January through March 2007. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Results of Review*

### ***Improving Agreements and Processes Will Provide Better Assurance That the Unique Needs of Tax-Exempt Customers Will Be Met***

Because the transfer of the toll-free telephone operation to the W&I Division did not involve a change to the toll-free telephone number or system and the TE/GE and W&I Divisions implemented processes for accomplishing this transfer, tax-exempt customers should receive similar levels of customer service to their telephone calls in the short term. Several of the new processes were part of the Memorandum established by the two Divisions and provided for continuity of the operation so the transfer was transparent for most tax-exempt customers. Specifically, the Memorandum included the following:

- Conditions were established for transferring trained call site assistors and other resources from the TE/GE Division to the W&I Division.
- Provisions were established for technical experts<sup>5</sup> within the TE/GE Division to annually review and concur with the Telephone Operations Manual<sup>6</sup> used by W&I Division call site assistors.
- Concurrence from TE/GE Division technical experts is required for any changes to the W&I Division Customer Account Services function manuals that may affect service provided to tax-exempt customers.
- TE/GE Division technical experts are required to provide the W&I Division with information on new legislation, regulations, and other items that will affect the Telephone Operations Manual used as a guide for answering inquiries from TE/GE Division customers.

In the short term, these actions should mitigate many of the risks that are inherent with transferring the management and control of the toll-free telephone call site operation to a division that does not have the necessary technical expertise in the complex tax-exempt area. However,

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<sup>5</sup> Technical experts refer to TE/GE Division employees who will be able to maintain current working-level knowledge of legislative changes, regulations, new revenue procedures, tax return changes, and other issues affecting tax-exempt customers. These subject-matter experts would be responsible for providing W&I Division employees with information that will affect the Internal Revenue Manual or any other guidance for the toll-free telephone operation in responding to tax-exempt questions.

<sup>6</sup> The Telephone Operations Manual is part of the Internal Revenue Manual; it provides guidance to customer service representatives for responding to inquiries from tax-exempt customers.



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we identified significant long-term risks that could lead to a drop in overall customer service to tax-exempt customers if they are not addressed.

Specifically, the TE/GE Division needs to ensure appropriate actions are taken to correct the following conditions.

- The Memorandum does not define the TE/GE Division's role for ensuring customers with tax-exempt questions are provided service when calling the W&I Division call site.
- The Memorandum does not require approval from the TE/GE Division to deviate from the Internal Revenue Manual sections pertaining to customers calling with tax-exempt questions. These instructions were previously known as the TE/GE Division Customer Account Services Operations Manual.
- Processes do not provide sufficient assurance that adequate resources are devoted to tax-exempt customer inquiries.
- Processes do not provide sufficient assurance that W&I Division customer service representatives are appropriately trained to respond to tax-exempt customer inquiries.
- The Memorandum does not provide that customer satisfaction surveys be performed solely for tax-exempt customers calling with tax-exempt questions.
- Processes do not provide sufficient assurance that tax-exempt customers are timely notified of operational changes associated with the toll-free telephone call site.

The IRS needs to improve the Memorandum and some of the key processes associated with operating the toll-free telephone call site to address conflicts that exist among the Memorandum in its present form, the principles of the IRS Restructuring and Reform Act of 1998,<sup>7</sup> the IRS Organizational manual, and the IRS mission. Addressing these risks will provide better assurance that in the long term the toll-free telephone operation for tax-exempt customers will be able to achieve the strategic goal of improving taxpayer service.

**The Memorandum should define the TE/GE Division's role for ensuring customers with tax-exempt questions are provided with appropriate service**

Although the Memorandum transfers ownership and responsibility for providing toll-free telephone service to the W&I Division, it does not indicate that the TE/GE Division retains responsibility for ensuring its customers' needs are met or provide reasonable assurance the TE/GE Division will be capable of assessing whether its customers' needs are being met. We

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<sup>7</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



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are concerned that, over time, the end-to-end responsibility for servicing tax-exempt customers may be lost because of this change. The Senate Committee Report on the IRS Restructuring and Reform Act of 1998 notes that, “a key reason for taxpayer frustration with the IRS [was] the lack of appropriate attention to taxpayer needs.” The IRS’ reorganization was intended to give each division end-to-end responsibility for servicing particular groups of customers and to enable IRS personnel to understand the needs and problems affecting particular groups of customers.

Another longer term challenge to providing quality toll-free telephone service is that technical experts for tax-exempt customers will be managed by the TE/GE Division, yet the Memorandum does not provide a significant role for the TE/GE Division to identify service requirements or to maintain and update procedures and programs.

The Office of Management and Budget defines management’s responsibility for internal control in Federal Government agencies. Internal control includes (1) the plan of organization, methods, and procedures adopted by management to meet its goals and (2) processes for planning, organizing, directing, controlling, and reporting on agency operations. Further, management must clearly define the areas of responsibility and authority.

It is important for the TE/GE Division to maintain responsibilities for tax-exempt customers that extend beyond simply monitoring performance measures. For example, the Level of Service is essentially just an indicator of how difficult it is for customers to access services provided by the toll-free telephone operation. There are several actions that can be taken by call site managers which affect the Level of Service measure. Some of the actions could result in an improved Level of Service measure, but it may not necessarily reflect improved customer service to tax-exempt customers, whose needs are significantly different from customers of other operating divisions.

In comparison, the TE/GE and W&I Divisions entered into a Service Level Agreement for processing information returns and other submissions made by tax-exempt customers. The Agreement clearly identifies the W&I Division as a service provider and the TE/GE Division as an operating division with service requirements. Further, the Agreement clearly states the W&I Division is responsible for processing submissions, monitoring performance, managing processing resources, and notifying the TE/GE Division of service lapses. The Agreement also states the TE/GE Division is responsible for clearly identifying its service requirements, maintaining and updating procedures and programs, and providing subject-matter expertise in tax-exempt matters. The Memorandum for toll-free telephone inquiries does not provide that the TE/GE Division retains these capabilities to ensure its tax-exempt customers are provided with appropriate service.



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**The Memorandum should require approval from the TE/GE Division for the W&I Division to deviate from guidelines for customers calling with tax-exempt questions**

The Memorandum does not require the W&I Division to obtain approval from the TE/GE Division to deviate from Internal Revenue Manual provisions outlined in the Customer Account Services Telephone Operations Manual, which provides guidance to customer service representatives on appropriate responses to customers with tax-exempt questions.

We determined the W&I Division did not advise the TE/GE Division about one deviation it made. The Customer Account Services Telephone Operations Manual required that an issue code be entered to the management information system upon closing an incoming telephone inquiry. The TE/GE Division Customer Account Service function used issue codes to identify trends, training needs, and possible systemic problems. However, after transfer of the toll-free telephone operation, the W&I Division concluded that the issue codes were not needed for the tax-exempt toll-free telephone operation and discontinued the requirement without seeking concurrence from the TE/GE Division. Requiring the W&I Division to obtain the TE/GE Division's concurrence before deviating from the Telephone Operations Manual should provide the TE/GE Division with better assurance that customers are receiving the same type of service from the W&I Division call site as they did before the transfer and that calls are answered according to the guidelines.

In contrast to the Memorandum, the Service Level Agreement for processing TE/GE Division customer return submissions clearly establishes that authority to deviate from current Internal Revenue Manual guidelines was not extended. This provides TE/GE Division management with better assurance that their customers' return submissions are processed in a manner consistent with expectations. If the toll-free telephone operation Memorandum had this authority, the W&I Division would have been unable to stop inputting issue codes without first discussing the change with the TE/GE Division.

**The Memorandum does not provide assurance that sufficient resources are devoted to tax-exempt customer inquiries or that customer service representatives are appropriately trained to respond to the inquiries**

The Memorandum does not require the W&I Division to provide information to TE/GE Division managers on resources used to answer tax-exempt telephone inquiries or whether resources devoted to those inquiries are appropriately trained. As a result, the TE/GE Division does not have sufficient assurance that the unique needs of tax-exempt customers will be met.

- In December 2006, the W&I Division notified the TE/GE Division that 9 additional customer service representatives had been hired that month for the Cincinnati Call Site to respond to technical tax law and account issues and 17 customer service representatives had been hired that month for the Ogden Call Site in Ogden, Utah, to



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respond to exempt organization notice inquiries beginning in January 2007. The notification indicated the hiring was complete and training was in progress. However, the TE/GE Division did not timely receive information on when the new employees had successfully completed the training and had begun taking tax-exempt customer calls because the Memorandum did not require that notification of these actions be given to the TE/GE Division. This information would allow TE/GE Division management to be alert for any problems associated with the newly trained representatives and to assess whether its customers receive appropriate toll-free telephone service. In addition, it would enable TE/GE Division management to track and report on any resulting changes to quality measures during Business Performance Reviews.<sup>8</sup>

- Changes to the Internal Revenue Manual are forwarded from the W&I Division to the TE/GE Division for review and concurrence, but the TE/GE Division is not required to review updates to training materials. In the near term, the risk of inadequate training is low because the training materials now being used for new employees were developed by the TE/GE Division; however, in the long term, there are plans to revise the training materials to ensure consistency with processes used by other call sites managed by the W&I Division. This presents a risk that incomplete and/or incorrect material could be provided to customer service representatives responding to tax-exempt customers' questions. The W&I Division plans to mitigate some of this risk by using W&I Division call site employees who were formerly TE/GE Division call site employees to revise materials for the training courses. However, over time, these former TE/GE Division employees may not be able to maintain current knowledge of the tax-exempt area. If this occurs and TE/GE Division technical experts do not review training materials developed by the W&I Division, we believe the IRS will have insufficient assurance that the full scope of information needed to respond to technical inquiries is included in future revisions to training materials provided to customer service representatives.

**The Memorandum should require that customer satisfaction surveys be performed solely for tax-exempt customers**

The Memorandum does not provide a guarantee that customer satisfaction surveys will be conducted for tax-exempt customers. It currently requires the W&I Division to administer the TE/GE Division toll-free Customer Satisfaction Survey for telephone calls received during October 1, 2006, through December 31, 2007, with options to have the Pacific Consulting Group perform surveys for Calendar Years 2008 and 2009. These option years would be exercisable at the Federal Government's discretion only, with no guarantee they will actually be extended.

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<sup>8</sup> TE/GE Division Business Performance Reviews are periodic discussions with the IRS Commissioner to review the Division's strategic and operational issues and organizational performance.



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Customer satisfaction surveys have been regularly conducted by the TE/GE Division and the Pacific Consulting Group as part of an agency-wide initiative to monitor and improve taxpayer satisfaction with services provided by the IRS. The objectives of the surveys are to identify actions that can be performed by call site staff and managers to improve customer service, to track progress for improving customer satisfaction with the services provided by the call site, and to learn and understand taxpayers' experiences with resolving issues through use of the IRS Internet web site (IRS.gov).

Similar toll-free telephone service customer satisfaction surveys are conducted by the W&I and the Small Business/Self-Employed Divisions. On October 1, 2004, these Divisions merged their toll-free telephone call site operations and combined the two customer satisfaction surveys. If IRS management determines in the future that tax-exempt customers should also be combined with the other survey, there is a risk that gaps in service for this unique customer segment will go unidentified. A separate toll-free telephone customer satisfaction survey is essential for the TE/GE Division Customer Account Services function to assess whether the call site is meeting the needs of tax-exempt customers.

**Processes should be implemented to ensure that tax-exempt customers are timely notified of operational changes associated with the toll-free telephone call site**

Existing processes do not ensure tax-exempt customers will be timely notified of changes associated with the toll-free telephone call site. One change made since the transfer of toll-free telephone services to the W&I Division that affected customers involved some of the more complex tax-exempt questions. Instead of calls being routed to tax-exempt specialists, questions were emailed to experienced TE/GE Division employees to respond within 5 business days.

Prior to the transfer of the TE/GE Division Customer Account Service function's toll-free telephone operation, calls from customers with complex exempt organization or employee plan questions could be transferred to a TE/GE Division revenue agent<sup>9</sup> who possessed expertise to either answer the question or research the issue for later response. However, the W&I Division does not have the necessary technical expertise to handle some of the complex tax-exempt questions, so these questions were entered into an internal email system and sent to experienced TE/GE Division employees to respond within 5 business days. Customers were not advised beforehand of the potential delay in service. This represents a significant change in service to tax-exempt customers. TE/GE Division management considered using the Internet and newsletters to announce this operational change, but these announcements were not made. Some customers have noticed the change in service. We believe the TE/GE Division should have used its educational outreach programs to communicate the change to customers who may have been

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<sup>9</sup> Revenue Agents make determinations and conduct examinations to ensure compliance of deferred compensation pension plans and tax exempt organizations with Federal tax laws.



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affected. During the first quarter of Fiscal Year 2007, the TE/GE Division Customer Account Services revenue agents received 2,079 employee plan and 1,564 exempt organization questions. We believe the change in service for complex questions from a “real time” toll-free telephone service to a slower, internal email system potentially increased the burden to at least a portion of these 3,643 customers. In addition, the replies may not answer all the customers’ questions because there is no opportunity to obtain feedback or clarification prior to researching the responses to ensure they will actually answer the questions.

## ***Recommendations***

**Recommendation 1:** The Commissioner, TE/GE Division, should work with the W&I Division to modify the existing Memorandum of Understanding to require:

- The role of technical experts in the TE/GE Division be strengthened to include identification of service requirements and more involvement/approval in the maintenance and updating of procedures and training programs.
- Prior approval from the TE/GE Division when the W&I Division identifies a need to deviate from the Telephone Operations Manual.
- The W&I Division to provide TE/GE Division managers information regarding the status of training programs and the number of W&I Division customer service representatives to be used to answer tax-exempt customers’ inquiries.
- The continuation of a separate TE/GE Division toll-free telephone Customer Satisfaction Survey.
- The W&I Division to timely notify the TE/GE Division of operational changes to the toll-free telephone call site that affect tax-exempt customers.

**Management’s Response:** IRS management agreed with the recommendation. The TE/GE and W&I Divisions will adopt an addendum to the original Memorandum of Understanding to address the recommendations. Also, the TE/GE Division will stay in close contact with the W&I Division on the level and quality of service provided to TE/GE Division customers but will not focus exclusively upon or attempt to prescribe the number of assistants that should be on duty from day to day.



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**Recommendation 2:** The Commissioner, TE/GE Division, should implement processes to ensure tax-exempt customers will be timely notified in the future of operational changes associated with the W&I Division toll-free telephone call site that will affect tax-exempt customers.

**Management's Response:** IRS management agreed with the recommendation. The TE/GE and W&I Divisions will modify the Memorandum of Understanding to provide that the W&I Division will timely notify the TE/GE Division of changes to the call-site operations that will affect TE/GE Division customers. The TE/GE Division is currently prepared to use its embedded Communication, Education, and Outreach functions to ensure a wide distribution of information and updates to affected customers.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this audit was to determine whether processes will ensure TE/GE Division customers continue to receive timely and accurate information through the toll-free telephone call site operated by the W&I Division. To accomplish our objective, we:

- I. Interviewed TE/GE and W&I Division personnel and reviewed the Memorandum of Understanding (Memorandum) between these Divisions, as well as other applicable documents, to determine if the processes developed and implemented ensured the TE/GE Division Customer Account Services function is provided information that enables it to monitor (1) the Level of Service<sup>1</sup> and the quality of responses provided to TE/GE Division customers; (2) any trends identified by the W&I Division; and (3) whether it is advised of and provided with information that enables identification of actions taken by the W&I Division to improve the Level of Service and/or the quality of responses provided to TE/GE Division customers.
- II. Interviewed TE/GE and W&I Division personnel and reviewed TE/GE Division toll-free telephone operation customer satisfaction surveys to determine if the processes developed and implemented ensured the TE/GE Division Customer Account Services function is provided information that allows it to monitor (1) trends in TE/GE Division customer satisfaction and (2) actions taken by the W&I Division to improve the customers' satisfaction with the toll-free telephone call site.
- III. Interviewed TE/GE Division Customer Account Services function personnel and reviewed the Memorandum between the TE/GE and W&I Divisions, as well as other applicable documents, to determine if (1) the processes developed ensure W&I Division personnel possess the specialized skills necessary to respond to TE/GE Division customers' telephone inquiries, and (2) there are processes in place to ensure tax-exempt customers are timely notified of operational changes associated with the W&I Division toll-free telephone call site.

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<sup>1</sup> The Level of Service is a performance measure used to determine the percentage of callers who receive assistance. This measure is determined by dividing the total telephone calls answered by assistors by the total telephone call demand.



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**Appendix II**

*Major Contributors to This Report*

Nancy Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)  
Troy Paterson, Director  
James Westcott, Audit Manager  
Gregory Holdeman, Lead Auditor  
Andrew Burns, Senior Auditor  
Steve Myers, Senior Auditor  
Yolanda Brown, Auditor  
Carol Rowland, Auditor



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**Appendix III**

*Report Distribution List*

Acting Commissioner C  
Office of the Commissioner – Attn: Acting Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Commissioner, Wage and Investment Division SE:W  
Deputy Commissioner, Tax Exempt and Government Entities Division SE:T  
Director, Customer Account Services, Tax Exempt and Government Entities Division  
SE:T:CAS  
Director, Customer Account Services, Wage and Investment Division SE:W:CAS  
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Director, Communications and Liaison, Tax Exempt and Government Entities  
    Division SE:T:CL  
    Director, Communications and Liaison, Wage and Investment Division SE:W:C



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## Appendix IV

### *Outcome Measure*

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

**Type and Value of Outcome Measure:**

- Taxpayer Burden – Potential; 3,643 taxpayer accounts affected (see page 3).

**Methodology Used to Measure the Reported Benefit:**

During the first quarter of Fiscal Year 2007, the TE/GE Division Customer Account Services function revenue agents<sup>1</sup> received 2,079 employee plan questions and 1,564 exempt organization questions referred from the W&I Division toll-free telephone operation through the internal email system. These customers received responses to their questions in an average of fewer than 5 business days. However, before the transfer of the toll-free telephone operation to the W&I Division, some customers would speak to TE/GE Division revenue agents during their initial calls and have their questions answered during those calls. As a result of the transfer, customers may not receive replies for up to 5 business days because the questions are routed internally to experienced TE/GE Division revenue agents to respond to the customers within 5 business days. Because the TE/GE Division did not communicate this response-time change to its customers, we believe the change potentially increased the burden to some of these 3,643 callers. In addition, a written reply may not answer all of a customer's questions because there is no opportunity to obtain immediate feedback or clarification that the response provided to the customer actually answered the questions.

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<sup>1</sup> Revenue agents make determinations and conduct examinations to ensure compliance of deferred compensation pension plans and tax exempt organizations with Federal tax laws.



*Improving the Toll-Free Telephone Agreement Would  
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**Appendix V**

*Management's Response to the Draft Report*

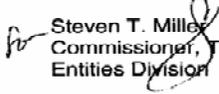


DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

**RECEIVED**  
AUG 31 2007

AUG 31 2007

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:  Steven T. Miller  
Commissioner, Tax Exempt and Government  
Entities Division

SUBJECT: Response to Draft Audit Report – Improving  
the Toll-free Telephone Agreement Would  
Better Assure Tax Exempt and Government  
Entities Customer Needs Will Be Met  
(Audit # 200710029)

Operating an effective toll-free telephone call site for TE/GE customers is an important element of the service we provide to help TE/GE taxpayers comply with the tax law. TE/GE and Wage and Investment (W&I) worked closely to plan and execute the transfer of the call site from TE/GE to W&I. The transition was successful due to the hard work and dedication of employees and managers in both Operating Divisions.

Most importantly, service to TE/GE taxpayers has improved and expanded as a result of the realignment. We implemented a new routing method to allow more callers to gain access to the TE/GE scripts at one time. We trained more customer service representatives and added them to the TE/GE product line. We also extended the hours of service for tax law issues. All of this contributed to a significant improvement in the Customer Service Representatives' (CSRs) Level of Service (LOS).

CSRs continue to provide assistance covering the same range of inquiries that they answered prior to the transition, and we now provide live assistance for the resolution of account related inquiries that previously were written up as referrals. W&I has added a second TE/GE site staffed with CSRs who can respond to both tax law and account-related telephone inquiries. This further enhances our abilities to deliver service to TE/GE customers while providing a backup call site for business resumption purposes. We believe the success of this transition is the result of good coordination and communication between TE/GE and W&I, as well as the comprehensive planning we undertook in preparation for the realignment. The realignment was transparent for most tax-exempt customers.

Under the existing Memorandum of Understanding (MOU) between W&I and TE/GE, and the proposed amendments to it arising from this report, W&I will



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remain responsible for the management and day to day operation of the call site, including the determination of the number of assistants on duty from time to time. W&I has committed to provide a level of service to TE/GE customers that is at least equal to the level of service W&I provides to the other toll-free call-sites it operates. TE/GE will maintain close contact with W&I with respect to the call site, and will consult with W&I on any issues of concern to TE/GE regarding the level or quality of service offered to TE/GE customers.

We appreciate your comments and suggestions, and recognize the importance of TE/GE continuing its cooperation and liaison with W&I with respect to the call site. TE/GE AND W&I are committed to maintaining an excellent and effective working relationship for the benefit of TE/GE call site users.

Our response to your recommendations is found in the attachment. We concur with your determination of measurable benefit on tax administration.

If you have any questions, please call me at 202-283-2500; or members of your staff may contact Donna Carlisle at (513) 263-3709.



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*Improving the Toll-Free Telephone Agreement Would Better Assure Tax-Exempt Customer Needs Will Be Met*

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**Attachment**

**RECOMMENDATION 1**

The Commissioner, TE/GE Division, should work with the W&I Division to modify the existing Memorandum of Understanding to require:

- The role of technical experts in the TE/GE Division to be strengthened to include identification of service requirements and more involvement/approval in the maintenance and updating of procedures and training programs.
- Prior approval from the TE/GE Division when the W&I Division identifies a need to deviate from the Telephone Operations Manual.
- The W&I Division to provide to TE/GE Division managers information regarding the status of training programs and the number of W&I Division customer service representatives to be used to answer tax-exempt customers' inquiries.
- The continuation of a separate TE/GE Division toll-free telephone Customer Satisfaction Survey.
- The W&I Division to timely notify the TE/GE Division of operational changes to the toll-free telephone call site that affect tax-exempt customers.

**CORRECTIVE ACTION**

TE/GE and W&I will adopt an addendum to the original MOU to address the recommendations. With respect to the third bullet above, we note that TE/GE will stay in close touch with W&I with respect to the level and quality of service provided to TE/GE customers, but will not focus exclusively upon or attempt to prescribe the number of assistants that should be on duty from day to day.

**IMPLEMENTATION DATE**

November 15, 2007

**RESPONSIBLE OFFICIAL**

Deputy Commissioners, TE/GE and W&I

**RECOMMENDATION 2**

The Commissioner, TE/GE Division, should implement processes to ensure tax-exempt customers will be timely notified in the future of operational changes associated with the W&I Division toll-free telephone call site that will affect tax-exempt customers.



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**CORRECTIVE ACTION**

TE/GE and W&I will modify the Memorandum of Understanding to provide that W&I will timely notify TE/GE of changes to the call-site operations that will impact TE/GE Customers. TE/GE is currently prepared to use its embedded Communication, Education, and Outreach functions to ensure a wide distribution of information and updates to affected customers.

**IMPLEMENTATION DATE**

November 15, 2007

**RESPONSIBLE OFFICIAL**

Deputy Commissioners, W&I and TE/GE.