TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Taxpayer Online Account Access Is Contingent on the Completion of Key Information Technology Projects

May 29, 2015

Reference Number: 2015-40-053

TAXPAYER ONLINE ACCOUNT ACCESS IS CONTINGENT ON THE COMPLETION OF KEY INFORMATION TECHNOLOGY PROJECTS

Highlights

Final Report issued on May 29, 2015

Highlights of Reference Number: 2015-40-053 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

Taxpayers continue to desire electronic products and services that enable them to interact and communicate with the IRS. In Calendar Year 2013, the IRS started developing its latest strategy, called the Service on Demand Initiative, to improve customer service. Its vision is a tax administration that delivers tailored efficient services where, when, and how customers want to be served.

WHY TIGTA DID THE AUDIT

In its most recent Strategic Plan, the IRS acknowledged that the current technology environment has raised taxpayers' expectations for online customer service and it needs to meet these expectations. The IRS's goal is to provide taxpayers with dynamic online account access that includes viewing their recent payments, making minor changes and adjustments to their accounts in real-time, and corresponding digitally with the IRS to respond to notices or complete forms. TIGTA performed this audit to assess IRS efforts to identify taxpayers' needs and preferences for online services and the actions planned or taken to deliver these online capabilities.

WHAT TIGTA FOUND

The IRS has made progress in providing taxpayers with online customer service options. However, it needs to prioritize the completion of key information technology projects that are needed to provide the electronic platform for developing future projects that will provide taxpayers with dynamic online access

capabilities. Although the IRS Commissioner noted that the IRS expects to deliver these capabilities in three to five years and IRS stakeholders continue to emphasize the importance of providing taxpayers with online account access, additional funding needs to be committed to fully complete the key information technology projects.

The Service on Demand Initiative is the IRS's latest attempt to deliver such capability and contains specific projects that will provide online account access options. This initiative identified 71 projects to improve customer service but does not adequately emphasize dynamic online account access when assigning a priority rank to these projects. For example, TIGTA determined that 12 of the 71 projects directly address providing taxpayers with dynamic online account access or improved digital communication.

However, five of these 12 projects are not included in the top 20 that the Service on Demand team is emphasizing as the most important. Three of these five projects would improve the IRS's ability to address the continued challenge of tax-related identity theft.

Lastly, leading practices of successful State agencies would assist the IRS in developing a long-term online strategy. Online account access is a service that taxpayers already receive from some State tax agencies.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Deputy Commissioner for Services and Enforcement reprioritize the 71 Service on Demand projects to align with the IRS Commissioner's long-term vision for modernizing taxpayer service.

The IRS agreed with the recommendation. The IRS plans to use its annual Services Approach reflection and refresh process to ensure that the projects proposed for implementation, including the Service on Demand projects, align with the IRS Commissioner's long-term vision for modernizing taxpayer service.

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

**TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION**

May 29, 2015

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT

FROM: Michael E. McKenney
              Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Taxpayer Online Account Access Is Contingent
              on the Completion of Key Information Technology Projects
              (Audit # 201440011)

This report presents the results of our review to assess Internal Revenue Service (IRS) efforts to
identify taxpayers' needs and preferences for online services and the actions planned or taken to
deliver these online capabilities. This review included tests to assess efforts to identify
taxpayers' needs and preferences for online services and the actions planned or taken to ensure
that the IRS's online customer service strategy delivers the capabilities that taxpayers need. This
audit was included in the Treasury Inspector General for Tax Administration's Fiscal Year 2014
Annual Audit Plan and addresses the major management challenge of Providing Quality
Taxpayer Service Operations.

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. If you have any questions, please contact me or Russell Martin, Acting
Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

Background

Taxpayers continue to desire electronic products and services that enable them to interact and communicate with the Internal Revenue Service (IRS). The IRS Oversight Board's[1] 2014 taxpayer attitude survey reported that 82 percent of taxpayers are likely to use a website, like the IRS public website (www.IRS.gov), to help them comply with their tax obligations. In its most recent Strategic Plan,[2] the IRS acknowledged that the current technology environment has raised taxpayers' expectations for online customer service interactions and it needs to meet these expectations. In response, the IRS continues to expand the information and tools available online to assist taxpayers. The IRS's goal is to provide taxpayers with dynamic online account access that includes viewing their recent payments, making minor changes and adjustments to their accounts in real-time, and corresponding digitally with the IRS to respond to notices or complete required forms.

The Service on Demand Initiative would shift more taxpayer services to online options

In Calendar Year 2013, the IRS started developing its latest strategy, called the Service on Demand Initiative, to improve customer service. The IRS's vision is a tax administration that delivers tailored efficient services where, when, and how customers want to be served. The Service on Demand Working Team includes a cross-functional task force of executives tasked with creating a five-year vision and strategy for customer service with the mandate to provide and deliver better and more efficient service to taxpayers. This ongoing initiative is scheduled to be completed in Calendar Year 2019.

The strategy has a four-phase approach that includes developing plans for the overall Service on Demand Initiative, creating a customer service blueprint, implementing designs and plans, and executing the strategy. Goals and objectives include expanding the IRS's customer service reach, modernizing the customer service channel mix, and providing and promoting digital self-service options to redeploy resources to assist taxpayers in need of more complex services. During its early planning, the Service on Demand Working Team identified 16 categories of services, called "service clusters." The team then prioritized the service clusters based on the Fiscal Year 2013 cost to provide the service and volume of taxpayers serviced. The team then

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[1] The IRS Oversight Board is an independent body charged with overseeing the IRS in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws and with providing experience, independence, and stability to the IRS so that it may move forward in a focused direction.
[2] *Internal Revenue Service Strategic Plan – FY 2014-2017* (IRS Publication 3744), pgs. 6-7 (June 2014).

identified the seven highest ranking service clusters and called those "opportunity areas." The task force estimates these opportunity areas are the major areas in which the IRS can realize efficiencies including reductions in notices, calls, walk-ins, and correspondence by improving or developing new online services. The seven opportunity areas include:

- Assistance to Individual Taxpayers - Make it easy for taxpayers to quickly get to the right place to get answers to their tax questions by providing links individually tailored to their tax account.

- Billings and Payments - Provide taxpayers with clear explanations of what they owe, how the balance was calculated, what caused the balance due, and what to do next by advising them of quick and easy payment options.

- Changes to Tax Return - Allow taxpayers to quickly and easily make necessary adjustments to their tax returns.

- Enforcement of Tax Laws - Quickly make taxpayers aware of their tax obligations and clearly explain what caused the issue(s) identified by the IRS. Advise taxpayers how to resolve their issue(s) and make it easier for them to share documents addressing their tax situation.

- Identity Theft Reduction - For identity theft cases, allow taxpayers to quickly and easily submit supporting documents to prove their identity.

- Improvements to the IRS's Ability to Maintain Taxpayer Records - Provide taxpayers and third parties with quick access to past tax return data.

- Refund Improvements - Provide accurate estimates of when taxpayers will receive their refunds with status updates throughout the process. When it takes longer than expected to process a refund, *e.g.*, due to error or identity theft, provide specific feedback about their account.

This review was performed at the IRS Headquarters in Washington, D.C., in the Office of Online Services during the period April through October 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

The IRS has made progress in providing taxpayers with online customer service options. In March 2011, the IRS created the Office of Online Services under the Office of the Deputy Commissioner for Services and Enforcement. The mission of the Office of Online Services is to provide enterprise-wide leadership for IRS online services by collaboratively developing solutions for taxpayer needs. Goals include developing products that will enable taxpayer interactions through a secure electronic channel, migrating taxpayer interactions to a self service channel, streamlining the filing and processing of tax forms, increasing the efficiency and effectiveness of notice delivery, and streamlining compliance interactions with taxpayers. For example, the Office of Online Services has modernized the IRS public website, including updating the technical infrastructure that supports it; improving website content and design; and optimizing search capabilities. The IRS also focused efforts on delivering taxpayers self-assisted interactive online tools that include the:

- *Earned Income Tax Credit Assistant* - allows taxpayers to determine their eligibility for the tax credit and the amount they are eligible to receive. The IRS launched this tool in October 2004.

- *Interactive Tax Assistant* - is a tax law resource that takes taxpayers through a series of questions and provides them with responses to basic tax law questions. This tool has been available to taxpayers since January 2008.

- *DirectPay* - is a secure service that allows taxpayers to pay their individual tax bills or estimated tax payments directly from their checking or savings accounts at no cost to them. This tool was launched in November 2013.

- *Where's My Refund* - allows taxpayers to check the status of their refunds using the most up-to-date information available to the IRS. The tool was updated in 2014 so that taxpayers can use a smartphone to check their refund status.

- *Get Transcript* - allows taxpayers to get a transcript of their tax returns. These transcripts are often used to validate income and tax filing status for mortgage applications, student and small business loan applications, and tax preparation. The Get Transcript tool was launched in January 2014.[3]

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[3] This tool does not provide taxpayers with online account access to make changes to their accounts, digitally communicate with the IRS, or view their tax account-specific information in real-time.

Completion of Key Projects Is Needed to Provide a Platform for Dynamic Online Account Access

The IRS Restructuring and Reform Act of 1998[4] mandated that the IRS, not later than December 31, 2006, develop procedures for taxpayers and their designees to review taxpayers' accounts electronically. The Service on Demand Initiative is the IRS's latest attempt to deliver such capabilty and contains specific projects that will provide online account access options. However, the projects intended to provide these online options ultimately cannot be delivered until the IRS commits to fully completing key "pillar" information technology projects that provide the platform needed to develop online account access applications.

In addition, although the IRS Commissioner noted that the IRS expects to deliver dynamic online account access capability in three to five years, additional funding needs to be committed to fully complete the key information technology projects. Consequently, the IRS will continue to miss opportunities to fully benefit from the cost savings and improved customer service that can be achieved by providing online account access, including reducing the reliance on traditional service channels such as telephones, paper correspondence, and face-to-face contact that are currently experiencing heavy traffic.

Stakeholders continue to stress taxpayers' demand for online account access

Providing taxpayers with online account access has been the topic of ongoing emphasis by IRS stakeholders. For example, most recently, the IRS Oversight Board's 2015 Budget Report concluded that the inability to provide a balanced portfolio of customer service options in an environment of a shrinking budget and workforce is one of the IRS's biggest challenges.[5] Similarly, the Electronic Tax Administration Advisory Committee[6] reported that a comprehensive, single online account, with tools and information customized to the taxpayer's situation and capabilities, would present a cohesive solution to the fragmented online experience taxpayers currently have with the IRS.[7]

Three information technology projects must be completed to provide the electronic platform[8] on which online account access capability can be developed

The IRS must complete three pillar information technology projects to establish the electronic platform for developing future projects that will provide taxpayers with dynamic online access

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[4] 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.).

[5] IRS Oversight Board, *FY2015 IRS Budget Recommendation Special Report* p.12 (May 2014).

[6] The Electronic Tax Administration Advisory Committee's primary charter is to provide input to the IRS on the development and implementation of the IRS strategic plan for electronic tax administration.

[7] Electronic Tax Administration Advisory Committee, *Annual Report to Congress* p. 9 (June 2014).

[8] The hardware, operating system, and computer programming make up the computer platform.

capabilities. These three projects are Online Account Activity, Taxpayer eAuthentication, and Taxpayer Digital Communications. The completion of these projects is needed to provide the account features to enable taxpayers to view their accounts online, to accurately authenticate their identities online, and to enable the IRS and taxpayers to communicate with secure electronic messages. The IRS stated that the three pillar projects will be developed in multiple releases. However, funding is needed for future releases to fully complete these projects. Figure 1 describes the pillar projects.

Figure 1: Pillar Projects for the Service on Demand Initiative

Pillar Project Name	Pillar Project Description
Online Account Activity	The Account project consists of two separate phases that: • Establish the computer platform that will allow the implementation of subsequent projects to provide taxpayers with dynamic online account access. • Give taxpayers the ability to create an online account to access balance due information, review payment status/history and existing tax transcripts, and use a link to make an online payment.
Taxpayer eAuthentication	The eAuthentication project will provide taxpayer identity authentication for IRS applications as well as provide identity authentication for tax professionals and other taxpayer designees. In addition, it will implement automated reporting of the identity authentication process as well as improve the user interface for taxpayers using mobile browsers and applications.
Taxpayer Digital Communication	The Taxpayer Digital Communication project consists of three separate phases that: • Develop an online web-based secure communications portal to enable the IRS and taxpayers to communicate by sending both one-way and two-way secure messages and give the IRS the ability to establish a basic inbox for taxpayers who opt to receive notices electronically. • Establish inboxes for account holders so the IRS can send electronic content to taxpayers.

Source: Program Recommendations Briefing from the Service on Demand Working Team.

In January 2015, the IRS Services and Enforcement Executive Steering Committee[9] approved the Online Account, Taxpayer eAuthentication, and Taxpayer Digital Communications projects as business priorities. IRS management indicated that this approval is only the first step with a significant amount of work and analysis of these projects needed to be completed before future budget decisions can be made. For example, the IRS must identify project funding options, evaluate the impact to business processes, and complete project testing.

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[9] The Services and Enforcement Executive Steering Committee approves and prioritizes information technology projects based on need and budget availability. The Committee is made up of IRS executives from various business units and functions under the Deputy Commissioner for Services and Enforcement.

Once analysis and testing are completed, the Committee will compare these pillar projects to other high-priority information technology projects when making funding recommendations. IRS executives will consider the prioritization for funding these projects along with the other significant priorities and obstacles facing the IRS. As of January 15, 2015, documentation provided by the IRS showed the pillar projects are not among the projects listed for proposed funding in Fiscal Years 2015 and 2016. It should be noted that once funding is approved, the IRS estimates it will take as long as three years to complete the pillar projects.

Prioritizing of Service on Demand Projects Did Not Sufficiently Focus on Delivering Dynamic Online Account Access

The Service on Demand Working Team developed 71 projects to improve customer service. We determined 12[10] of these projects directly address providing taxpayers with dynamic online account access or improved digital communication with the IRS. The remaining 59 projects would improve customer service in IRS business functions and improve existing online tools. Of the 71 projects, the Service on Demand Working Team recommended to the IRS Services and Enforcement Executive Steering Committee that the IRS should concentrate efforts on developing the 20 highest ranked projects. The purpose of the ranking was to identify the projects that it believes will provide the greatest benefit to taxpayers and should be completed first.

However, because the team's focus was on identifying IRS cross-functional needs, five of the 12 projects that would provide taxpayers with dynamic online account access capabilities were not ranked among the 20 highest-ranked projects. For example, three of the 12 projects focused on providing taxpayers with online account capabilities that would establish self-service options for taxpayers to report identity theft and lock their online tax account from potential abuse by identity thieves. These three projects directly relate to IRS efforts to combat tax-related identity theft which is a top IRS management challenge. However, despite the impact this crime has on tax administration and taxpayers, these three projects are ranked 25th, 30th, and 54th. Other projects that will establish IRS workload management practices and a unified case management system are ranked higher. Figure 2 lists the 12 projects that would provide online account access capabilities and digital communication capabilities and the rank assigned to each by the Service on Demand Working Team.

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[10] These 12 dynamic account access projects depend on implementation of the previously discussed pillar projects.

Figure 2: Projects That Will Focus on Providing Taxpayers Dynamic Account Access Capabilities or Better Digital Communication With the IRS

Project Name (by Ranking)	Project Description
Authorized Access to Third-Party Tax Records - Rank #1	Expand services to government agencies, tax preparation software, or tax preparation service providers by establishing authorized access to taxpayers' historical tax account data. This will allow preparer systems to perform real-time error detection of current returns prior to submission to the IRS.
Document Upload Digital Communication - Rank #3	Improve case management by giving taxpayers the ability to communicate with assistors and enable secure document submission via digital communications.
Taxpayer Digital Communication: Automated Underreporter Self-Correction - Rank #6	Allow taxpayers to upload documents or respond electronically to Automated Underreporter requests to self-correct and make updates to their tax return.
Electronic Third-Party Authorization - Rank #9	Electronic authorization tools permitting taxpayers to grant authorization to third parties, including Form 8821, *Tax Information Authorization*; Form 2848, *Power of Attorney and Declaration of Representative*; and a new type of authorization allowing software systems access to electronic data with taxpayer consent.
Electronic Update of Account Status - Rank #12	Provide the IRS with the ability to send digital communications regarding the status of a taxpayer's account via e-mail alerts or text messages.
Electronic Update of Account Profile - Rank #14	Enable taxpayers to update their account profile and communication preferences. Taxpayers can choose to receive digital IRS communications, enroll to receive status updates, and edit e-mail and mailing addresses and phone numbers.
Third-Party Electronic Status Notifications - Rank #19	Enable electronic status notifications to third parties including refund status, amended return status, and identity theft case processing status.
Online Access to Tax Records - Rank #21	Integrate tax records with online account features to allow taxpayers to access past tax records via self-service options. This will assist taxpayers in accessing their tax records from one online account.
Balance Due and Payment Digital Communication - Rank #23	Enable the IRS to send taxpayers and authorized third parties balance due and payment status digital notifications via e-mail or text messages.
Online Reporting of Identity Theft - Rank #25	Enable taxpayers to self-report an issue with identity theft, *i.e.*, unrelated to the IRS, through an online account tool/process, inviting increased scrutiny of his or her return and/or Identity Protection Personal Identification Number protection requirements.
Online Access to Identity Theft Case Status - Rank #30	Establish options for taxpayers to report identity theft and enable them to get updates regarding their case or issue, via the taxpayer's online account.
Online Ability to Lock Tax Account - Rank #54	Enable taxpayers to lock their online account when they suspect fraudulent activity.

Source: Service on Demand Working Team.

The Service on Demand Working Team avoided setting their project prioritization criteria to weigh projects relating to dynamic online account access and taxpayer digital communication more heavily. The team wanted to identify service needs across functions without specific emphasis on one type of service, based on the assumption there will be limited funding to complete the projects in the future. They also stated the Service on Demand Initiative started before the IRS Commissioner announced, in October 2014, his long-term vision for modernizing taxpayer service. The Commissioner's vision is to provide taxpayers and tax professionals with more robust online services, based on the idea of accessing Government services anywhere, anytime, on any device, in three to five years. The IRS Commissioner acknowledged that:

> *Millions of taxpayers and their representatives continue to wait on the phones, wait in lines outside IRS offices around the country, or wait for correspondence from us (the IRS) – simply because there is no good option online.*[11]

The Commissioner envisions a system in which taxpayers can log into their accounts online, read posted information, and make additions or corrections immediately – without waiting on telephones, going to IRS office appointments, or using the United States Postal Service. By not aligning project prioritization with the Commissioner's vision, the IRS may further delay providing taxpayers and tax professionals with more robust online service. Appendix IV lists each of the 71 proposed projects under consideration with a description, prioritization ranking, and the estimated development time for the top 20 projects.

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[11] IRS Commissioner's remarks to the 2014 Fall Meeting of the Council for Electronic Revenue Communication Advancement, October 30, 2014.

Recommendation

Recommendation 1: The Deputy Commissioner for Services and Enforcement should reprioritize the 71 Service on Demand projects to align with the IRS Commissioner's long-term vision for modernizing taxpayer service.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS will use its annual Services Approach reflection and refresh process to ensure that the projects proposed for implementation, including the Service on Demand projects, align with the IRS Commissioner's long-term vision for modernizing taxpayer service. Further development and implementation of the recommended Service on Demand pillar projects and their subsequent releases will provide requisite online account access. Accordingly, any reprioritization will focus on advancing projects that will make taxpayer service more robust and efficient for both taxpayers and the IRS, of which dynamic online account access is one, but not the sole consideration.

Leading Practices of Successful State Agencies Would Assist in Developing a Long-Term Online Strategy

Online account access is a service that taxpayers already receive from some State tax agencies. For example, the California and New York State tax authorities provide their taxpayers with online account access to all their tax account-specific information, allow them to make changes to their accounts, and give them the ability to communicate digitally with the tax agency. Figure 3 shows the dynamic online account access services offered by California and New York.

Figure 3: Online Account Access Services Provided by California and New York State Taxing Authorities

Service	Description
Access to Account Information	Individuals and authorized third parties are provided with access to a summary view of their tax account information, from a single, integrated online account, such as estimated tax payments, recent payments, and income reported in information returns.
Ability to Update Entity Information	Taxpayers can update their mailing address and contact information online.
Ability to Correspond Digitally	Taxpayers can respond online to a notice received or to correspondence, such as completing an online tax audit questionnaire.
Ability to Receive Reminders or Alerts via E-mail	Taxpayers can request that the taxing authority send reminders via e-mail, such as a reminder to file a tax return or receive account-specific e-mail alerts when there are issues needing taxpayers' attention.
Ability to Submit Tax Law Questions by E-mail	Taxpayers can submit tax law questions to the taxing authority and receive answers from them via e-mail.
Ability to Chat Online	Taxpayers can chat with experts online and ask general questions regarding personal and business income tax. They can also use this feature to get help with the website.

Source: TIGTA research of the States' websites.

Setting a clear long-term vision and commitment to develop dynamic online account access based on leading practices are important steps in strategic planning. The IRS's strategy includes some of the elements the States used in their strategies. For example, the IRS established pillar projects, created some successful online tools for taxpayers, and established the Service on Demand Initiative to support the development of online customer service. However, two leading practices used by the States are not used by the IRS in its development of a long-term online strategy:

- *Focused Strategy for Online Access* – It is important to have a clearly defined vision for online services focused on providing taxpayers with as much online access to their account information as possible, and keep it as the top priority. However, instead of developing a strategy specifically designed for providing taxpayers with dynamic online account access, the IRS developed dynamic online account access projects as part of the 71-project Service on Demand Initiative. The Service on Demand Initiative is designed to analyze many customer service areas and is not focused on providing online account access to taxpayers. As a result, five of the 12 projects that can provide taxpayers with dynamic online account access capabilities are not among the 20-highest ranked projects.

- *Monitor Online Service Trends* – Identifying emerging service trends and services that taxpayers might need and expect can improve customer service. However, the Service on Demand Working Team used in-house subject matter experts to help rank the importance

of the 71 Service on Demand Initiative projects. They did not perform a taxpayer burden risk assessment to identify the amount of taxpayer burden that could be reduced by each project or conduct surveys to identify the online services taxpayers need or prefer.

In April 2013,[12] the Government Accountability Office recommended that the IRS develop a long-term online strategy and recommended that the IRS study leading practices of other organizations to understand how they developed their long-term online strategies. The IRS agreed and commented:

> *We agree with your recommendation (to study best practices of other organizations) and we will continue to use industry best practices for web improvement. We will continue to review online private and public sector approaches in order to build upon the work already completed. We will use such information to make strategic decisions and help inform prioritization of services whenever practicable.*

In its response, the IRS stated that it will continue to use industry best practices for web improvement. In our discussions with IRS officials, they indicated that they previously reviewed the California and New York tax websites and concluded it was not necessary to study these States' practices to develop a long-term online strategy for dynamic online account access. The Service on Demand Working Team did interact with several State and International agencies to help improve the IRS website, but not to help create an IRS long-term online strategy. For example, the IRS reviewed State taxing authority websites to identify potential services that it can provide, attended meetings with officials from other agencies to determine how it can provide those services, and hired an outside consulting firm to help "understand the comprehensive landscape." The outside consulting firm reviewed and scored public and government financial websites and provided the IRS with ideas to improve its website. However, the firm did not study the leading practices of these organizations to understand how they developed their long-term online strategies. As such, we believe the IRS should take further steps to implement the Government Accountability Office's recommendation. Without identifying how agencies and companies developed their long-term strategies, the IRS may not be developing the best long-term online strategy.

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[12] Government Accountability Office, GAO-13-435, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services* (April 16, 2013).

Detailed Objective, Scope, and Methodology

Our overall objective was to assess IRS efforts to identify taxpayers' needs and preferences for online services and the actions planned or taken to deliver these online capabilities. To accomplish this objective, we:

I.   Assessed IRS efforts to identify taxpayers' needs and preferences for online services.

   A. Reviewed documentation relevant to the data analysis the Service on Demand Working Team conducted to identify the service clusters and focus areas.

   B. Determined if the Service on Demand Initiative included the required taxpayer burden assessments when making service changes.

   C. Determined how the Service on Demand Working Team used operational data about taxpayer services across its service channels when identifying taxpayer behaviors, needs, and preferences.

   D. Reviewed the current IRS Strategic Plan to determine the specific customer service goals established to address taxpayers' online service needs for individuals and tax professionals.

   E. Reviewed recent annual reports issued by oversight entities such as the IRS Oversight Board, National Taxpayer Advocate, Electronic Tax Administration Advisory Board, and the Taxpayer Advocacy Panel to identify the specific customer services identified by each entity to address taxpayers' online service needs and preferences.

   F. Determined the alignment of the online services identified by the Service on Demand Initiative by comparing the future mix of online customer services to the online services identified in the current IRS's Strategic Plan and by oversight entities.

   G. Evaluated the estimated benefits of the seven focus areas to be achieved via the elimination or reduction of services available through current service channels and development of additional online service options.

II. Assessed the actions planned or taken to ensure that the IRS online customer service strategy delivers the capabilities that taxpayers need.

   A. Evaluated the Service on Demand Working Team's actions on three foundational recommendations related to online services.

   B. Evaluated processes for identifying and assessing the high-level business impacts, sequencing, and dependencies.

C. Evaluated the reasons and implications of the development of the IRS's proprietary authentication system on the development of the online customer service strategy.

D. Assessed the adequacy of the Service on Demand Initiative's activities to complete the design and implementation plans.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective:

- Processes for assessing the high-level business impacts, sequencing, and dependencies.

- The process used by the Service on Demand Working Team to use operational data about taxpayer services across IRS service channels when identifying taxpayer behaviors, needs, and preferences.

- Processes used by the Service on Demand Working Team to identify key focus areas.

We evaluated these controls by interviewing IRS management, evaluating the Service on Demand Working Team's documentation of their work, and reviewing processes it used to gather and analyze operational data.

Major Contributors to This Report

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List of Service on Demand Initiative Proposed Projects
(Sorted by Assigned Priority)

Project Name Projected Time to Complete for Top 20	Brief Description
1) **Third Party: Records** 30-60 months	Expand services to government agencies, tax preparation software, or tax preparation service providers by establishing authorized access to taxpayers' historical tax account data. This will allow preparer systems to perform real-time error detection of current returns prior to submission to the IRS.
2) **Self-Service Return Changes: Minor corrections** 33-66 months	Streamline the process for IRS assistors to make minor return changes using their increased oral statement authority, including changes to income, exemptions, credits, and tax.
3) **Taxpayer Digital Communication: Document upload** 24-48 months	Improve case management by giving taxpayers the ability to communicate with assistors and enable secure document submission via digital communications.
4) **Online Content: Account** 9-18 months	Improve the IRS's existing website messaging and content to inform taxpayers of the online account functionality, and require that concise, clear, consistent, organized, and discoverable, *i.e.*, optimized for search, content be developed.
5) **Taxpayer Digital Communication: Workload** 30-60 months	Establish in-house workload management practices, business rules, and supporting procedures to deploy and balance staff activities to support new taxpayer digital communication.

Project Name Projected Time to Complete for Top 20	Brief Description
6) Taxpayer Digital Communication Linkage: Automated Underreporter self-correction 48-96 months	Allow taxpayers to upload documents or respond electronically to Automated Underreporter requests to self-correct and make updates to their tax return.
7) Account: Status 72-96 months	Establish functionality that enables proactive communications and cross-channel messaging about a taxpayer's account status.
8) Self-Service Return Changes: Electronic 1040X 72-96 months	Give taxpayers the ability to e-file amended returns to make complex return changes.
9) Third Party: Authorization 12-24 months	Electronic authorization tools permitting taxpayers to grant authorization to third parties, including Form 8821, *Tax Information Authorization*; Form 2848, *Power of Attorney and Declaration of Representative*; and a new type of authorization allowing software systems access to electronic data with taxpayer consent.
10) Account: Payments 30-60 months	Standardize payment criteria across all channels and coordinate payment options to create an integrated billing experience that features an online account and DirectPay application with improved content that informs the taxpayer of payment obligations and options.
11) Case Management: System 48+ months	Establish a unified case management system that triages and distributes cases from a central inventory and provides new tools and processes used to handle and close a case.

Project Name Projected Time to Complete for Top 20	Brief Description
12) Taxpayer Digital Communication Linkage: Account Status 30-60 months	Provide the IRS with the ability to send digital communications regarding the status of a taxpayer's account via e-mail alerts or text messages.
13) Online Content: Tax Records 9-18 months	Streamline the online pages related to transcripts and past tax records, as well as marketing self-service tools to increase adoption/deflection from full-service channels.
14) Account: Profile 18-36 months	Enable taxpayers to update their account profile and communication preferences. Taxpayers can choose to receive digital IRS communications, enroll to receive status updates, and edit e-mail and mailing addresses and phone numbers.
15) Payments: Mobile 21-42 months	Expand payment features by augmenting the online payment options (via mobile and third party). Focuses on providing access to DirectPay from mobile browsers and/or developing a DirectPay mobile app.
16) Online Content: Payments At least 15-30 months	Streamline the online pages and content, *e.g.*, forms, publications, and instructions, which relate to making a payment (or satisfying a balance due with an installment agreement or offer in compromise).
17) Call Management: Data Directed Routing 36-72 months	Simplify call routing for complex account issues to specialized Customer Service Representatives.
18) Analytics: Prevention 24-48 months	Enhance the IRS's analytical capabilities and strategies to better coordinate analytics efforts across the Service.

Project Name Projected Time to Complete for Top 20	Brief Description
19) Third Party: Status 24-51 months	Enable electronic status notifications to third parties including refund status, amended return status, and identity theft case processing status.
20) Online Content: Forms and Publications 12-24 months	Upgrade all IRS forms, publications, and accompanying instructions to be web-friendly, searchable/tagged, and written in plain language.
21) Account: Records	Integrate tax records with online account features to allow taxpayers to access past tax records via self-service options. This will assist taxpayers in accessing their tax records from one online account.
22) Payments: Public/Private Partner	Increase taxpayers' access to payment services by establishing payment services at public/private sector partners.
23) Taxpayer Digital Communication Linkage: Payments	Enable the IRS to send taxpayers and authorized third parties balance due and payment status digital notifications via e-mail or text messages.
24) Analytics: Contact History	Establish a Contact History Database that tracks, stores, and displays a consistent, integrated, cross-channel customer interaction history to all stakeholders, *e.g.*, taxpayers, front-line assistors, examiners, revenue officers, to provide a holistic view of the taxpayers' behavior and to improve online services.
25) Account: Identity Theft Status	Enable the taxpayer to self-report an issue with identity theft, *i.e.*, unrelated to the IRS, through an online account tool/process, inviting increased scrutiny of his or her return and/or Identity Protection Personal Identification Number protection requirements.
26) Self-Service Return Changes: Penalty Abatements	Establish ability to request online penalty abatements for select taxpayer scenarios, *e.g.*, for first-time late filing or late payment.

Project Name Projected Time to Complete for Top 20	Brief Description
27) Self-Service Return Changes: Where's My Amended Return Improvements	Expand the Where's My Amended Return tool – online, over a mobile device, and via third parties – to proactively communicate case status, next steps, and time frame for follow-up.
28) Face-to-Face: Co-location	Use partner relationships (government agencies or third parties) to deliver Taxpayer Assistance Center-like services from partner sites (including via partner kiosks).
29) Payments: Phone	Offer taxpayers electronic payment options over the telephone or through live assistance and train Customer Service Representatives to handle a higher volume of telephone payment transactions to enhance the payment process and overall taxpayer experience.
30) Account: Identity Theft Status	Establish options for taxpayers to report identity theft and enable them to get updates regarding their case or issue, via the taxpayer's online account.
31) Payments: Interactive Voice Response	Enhance payment options to include accepting payment over the telephone.
32) Authentication: Third-Party Registration	Enable third parties to register via electronic authentication and access a version of the online account tailored to them.
33) Analytics: Data Directed Routing	Specific analysis of call/routing data with the aim of reducing transfers and the number of telephone choices as well as promoting integration with Customer Service Representative forecasting and scheduling systems, all in conjunction with the call management capability to route calls based on specific matching data elements.
34) Call Management: Customer Callback	Institute customer callback system that allows a taxpayer to join a queue and receive a callback instead of waiting on hold.
35) Online Content: Amended Return Changes	Promote a shift in taxpayer behavior towards self-service by upgrading the online content and searchability related to filing activities and return changes as well as their associated apps and tools.

Project Name Projected Time to Complete for Top 20	Brief Description
36) Payments: Notice Redesign	Create a consistent, simple billing experience across paper and electronic notices that deemphasizes the telephone number and drives the call to action, *i.e.*, make a payment.
37) Authentication: Retention	Redesign the telephone authentication process, *e.g.*, automating initial routing/scripting, and the ability to retain authentication throughout a call to reduce the amount of time the taxpayer and Customer Service Representative spend on validating and improving the overall taxpayer experience.
38) Authentication: Enterprise eAuthentication	Align digital, telephone, and in-person customer services to enterprise-wide authentication standards and methods to achieve the optimal balance between reliable access for legitimate users and strong protection from bad actors.
39) Call Management: Centralized Queuing	Upgrade queuing technology to centrally manage call inventory across telephone lines.
40) Call Management: Graphic User Interface	Institute plain language telephone systems and improve Customer Service Representatives' ability to assist taxpayers during calls.
41) Third Party: Business Model	Develop guidelines for third-party access to IRS data services, *e.g.*, access to past return data or tax records.
42) Call Management: Interactive Voice Response	Improve telephone systems including redesign of routing/scripting to direct callers to preferred treatment path, either via telephone or alternative channel.
43) Self-Service Return Changes: Customer Service Representative Workflow	Build partial automation of the review and approval process of minor corrections to taxpayer returns.

Project Name Projected Time to Complete for Top 20	Brief Description
44) Call Management: Computer Telephone Integration	Based on caller characteristics, develop predictive analysis to accelerate and make more efficient taxpayer treatment.
45t) Online Content: Refunds	Improve online content and customize messaging based on the section of the site or application, *e.g.*, refunds landing page and application pages.
45t) Taxpayer Digital Communication Linkage: Notice Content Management System	Improve the technical ability to update notice language or business rules more quickly, either through a streamlined process or through direct business unit access to software tools.
47) Case Management: Digitize Paper Process	Shift from paper case files to digital case information to improve the ability to share work products including any information created or used during the treatment of a case including taxpayer documents, *e.g.*, returns, transcripts, as well as internal information used by employees to record formal actions taken.
48) Third Party: Virtual Partner Portal	Establish a registered or open information exchange portal between IRS relationship managers and tax administration partners and additional third parties.
49) Taxpayer Digital Communication Linkage: Third Party	Enable proactive electronic notifications and document upload via third parties, *e.g.*, software providers, preparers.
50) Taxpayer Digital Communication Linkage: Virtual Services for Mobile/Partner Locations	Expand virtual services to the web, mobile, and partner locations, *i.e.*, text chat or video chat with a live Customer Service Representative from any Internet-connected device.
51) Online Content: Enforcement	Improve online content to educate and inform taxpayers of tax responsibilities, definitions, actions, or next steps to resolve compliance, exam, collections, and appeals issues.

Project Name Projected Time to Complete for Top 20	Brief Description
52) Tax Law Tools: Interactive Tax Law Assistant	Make the Interactive Tax Law Assistant more flexible and easier to update for business users, *i.e.*, nontechnical staff.
53) Authentication: Identity Protection Personal Identification Number Expansion	Expand optional Identity Protection Personal Identification Number registration beyond pilot States (Florida, Georgia, and the District of Columbia).
54) Account: Online Lock	Enable taxpayers to lock their online account when they suspect fraudulent activity.
55) Call Management: Priority Queuing	Prioritize and efficiently route high-value taxpayers to Customer Service Representatives that can quickly resolve issues.
56) Call Management: Co-browsing	Enable Customer Service Representative co-browsing of online products so they can gain a better understanding of taxpayer inquiries and provide more tailored support to taxpayers using online products.
57) Case Management: Online Audit Appointment Scheduling	Create a new self-service, online appointment scheduling system for audits (and similar exam interactions).
58) Analytics: Authentication	Develop metrics and use analytics to measure and monitor the end-to-end effectiveness of authentication services/procedures, *e.g.*, usability, fraud prevention, across interaction channels.
59) Face-to-Face: Kiosk	Add self-service kiosks to additional Taxpayer Assistance Centers (and potentially partner locations) to alleviate wait times and enable taxpayers to conduct many transactions online.
60) Authentication: e-Filing E-mail Addresses	Add a field to capture an e-mail address with e-File submissions. Once the filing has been accepted, the e-mail address can be stored and used as an e-mail address of record for use in the eAuthentication registration process in place of a physical address of record.

Project Name Projected Time to Complete for Top 20	Brief Description
61) Tax Law Tools: Interactive Tax Assistant	Revamp the Interactive Tax Assistance tool to be more flexible and easier to update for internal IRS business users.
62) Payments: Online Offer in Compromise	Expand the functionality of the online offer in compromise pre-qualifier to include an actual request, with the ability to submit documentation and provide evidence of an inability to pay.
63) Fees: Installment Agreements	Make it more attractive for taxpayers to use streamlined, online installment agreements through the use of a tiered fee structure.
64) Authentication: Individual Taxpayer Identification Numbers	Modify the notice, eAuthentication, and Individual Taxpayer Identification Number system to permit the sharing of a secret code that can be used to register for authentication credentials registration.
65) Electronic Summons, Liens, Levies	Implement electronic summons, lien, and levy capability to improve enforcement activities.
66) Face-to-Face: Online Walk-in Appointment Scheduling	Enable online appointment scheduling for walk-in Taxpayer Assistance Center visits.
67) Payments: Revenue Officer Check Image	Enable workforce mobile solutions that expand payment options, including a solution that permits revenue officers to take payment via check images.
68) Face to Face: Identity Verification	Encourage identity theft victims to prove identity in-person by making the trip to an IRS facility to achieve a high enough level of assurance to allow the IRS to offer them the highest eAuthentication credentials supported by IRS systems.
69) Fees: Tax Records	Enable ability to charge taxpayers fees in real-time in exchange for paper-based transcripts requested over the telephone or walk-ins (instead of digital tools).
70) Fees: Paper Check	Charge taxpayers a fee to process paper checks that are mailed or submitted at a Taxpayer Assistance Center, and thus encourage self-service by providing a secure, digital means for taxpayers to submit payments.

Project Name Projected Time to Complete for Top 20	Brief Description
(Unranked) **Electronic Summons: Automated Levy Payment System**	No description available.

Management's Response to the Draft Report

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

MAY 1 3 2015

MEMORANDUM FOR MICHAEL E. MCKENNEY
                         ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Rajive Mathur
                    Director, Office of Online Services (OLS)

SUBJECT: Draft Audit Report – Taxpayer Online Account Access Is
                    Contingent On the Completion of Key Information Technology
                    Projects (Audit # 201440011)

Thank you for the opportunity to review and provide comments on the subject draft report. We appreciate your recognition of the IRS's progress in providing taxpayers with more digital self-service options, including modernizing the IRS public website, updating the technical infrastructure that supports it, improving website content and design, and optimizing search capabilities. The IRS' long-term vision for tax administration is to modernize taxpayer service, by providing taxpayers with more robust online services and providing more efficient service options. To that end, the IRS has focused on delivering a number of self-service online interactive tools to increase service to taxpayers while achieving cost savings by reducing traffic on traditional, more expensive channels. These tools include *Where's My Refund*, *Direct Pay*, *Get Transcript*, and *Online Payment Agreement*.

Chartered by the Deputy Commissioner for Services and Enforcement, Service-on-Demand (SOD) was initiated as a cross-functional team that conceptualized, developed, and socialized a Digital First Vision for customer service to help IRS leaders reimagine the future taxpayer experience. Guided by the IRS's strategic goal of delivering high quality and timely service to reduce taxpayer burden and encourage voluntary compliance, the SOD team aggregated data across platforms, products, and channels to develop the Vision based on a new service channel mix that prioritizes digital. In developing this Vision, which is integral to the Services Approach used to guide our service delivery, the IRS employed a number of industry best practices. For example, SOD began by analyzing service data to identify the major areas of taxpayer demand by service channel. SOD also used a taxpayer centric approach to better understand and identify their specific transaction needs and behaviors . Additionally, on multiple occasions, the IRS consulted with leading state agencies, such as New York and California, with respect to delivering online account access as well as other countries, including the Canadian Revenue Agency, that are at the forefront of these issues.

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The entire Vision for SOD was rooted in an enterprise-wide assessment to identify specific projects that could transform taxpayer service. During analysis, the IRS also evaluated how each project aligned with the IRS's strategic plan, its new concept of operations strategy, and direct feedback from taxpayers. The SOD team developed 71 projects, the prioritization of which was reviewed and approved by the IRS' senior executive team, including the Commissioner and the Deputy Commissioners.

The current SOD roadmap calls for executing the SOD pillar projects - *Online Account*, *Taxpayer eAuthentication*, and *Taxpayer Digital Communications*, as well as the programs informed by the top twenty projects and their dependencies, in parallel to a an annual services strategy refresh, including reprioritization. These pillar projects and programs will improve the online taxpayer experience, including establishing the electronic platform necessary to deliver dynamic online account access. Work has already commenced on projects within each program. It is important to note that the first iteration of online account access is already available in the form of the *Get Transcript* tool on IRS.gov, which allows taxpayers to immediately and instantly access a copy of their IRS account transcript. We plan to continue to evolve IRS online account access through greater capabilities.

SOD is integral to the larger enterprise Concept of Operations (CONOPS), which covers the complete end-to-end taxpayer experience. The IRS will continue to look for ways to improve the taxpayer experience through the Services Approach and CONOPS to provide more efficient service options, especially digital. As noted in the report, any proposed strategy still has to navigate obstacles presented by the limited funding and finite resources for high-priority information technology projects and other investments across the IRS.

Attached is our comment to your recommendation. If you have any questions, please contact me, or a member of your staff may contact me at 202-317-6741.

Attachment

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Attachment

RECOMMENDATION 1: The Deputy Commissioner for Services and Enforcement should reprioritize the 71 SOD projects to align with the Commissioner's long-term vision for modernizing taxpayer service.

CORRECTIVE ACTION:
The IRS will use its annual Services Approach reflection and refresh process to ensure that the projects proposed for implementation, including the SOD projects, align with the Commissioner's long-term vision for modernizing taxpayer service. Further development and implementation of the recommended SOD pillar projects and their subsequent releases will provide requisite online account access critical to the modernized. Accordingly, any reprioritization will focus on advancing projects that will make taxpayer service more robust and efficient for both taxpayers and the IRS, of which dynamic online account access is one, but not the sole consideration.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

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