094127

REPORT TO THE
APPROPRIATIONS COMMITTEES
UNITED STATES SENATE
HOUSE OF REPRESENTATIVES

Appropriations Committees Not Advised On Reprograming Of Funds By The Internal Revenue Service B-133373

Department of the Treasury

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

71095

094127

MAY 1, 1973

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-133373

Chairman, Senate Committee on Appropriations
Chairman, House Committee on Appropriations

This is our report entitled "Appropriations Committees Not Advised on Reprograming of Funds by the Internal Revenue Service."

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Commissioner of Internal Revenue.

Elmer B. Staats

Comptroller General
of the United States

Contents

APPENDIX | Page

ABBREVIATIONS

GAO General Accounting Office

IRS Internal Revenue Service

OMB Office of Management and Budget

COMPTROLLER GENERAL'S REPORT TO THE APPROPRIATIONS COMMITTEES UNITED STATES SENATE HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEES NOT ADVISED ON REPROGRAMING OF FUNDS BY THE INTERNAL REVENUE SERVICE
Department of the Treasury
B-133373

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) wanted to determine whether the funds requested by the Internal Revenue Service (IRS), and appropriated by the Congress, were being spent for purposes for which they were justified to the appropriations committees.

Background

During fiscal year 1966 appropriations hearings, the Secretary of the Treasury stated that it was the Department of the Treasury's practice to notify both House and Senate subcommittees when it desired a significant reprograming of funds that would result in use of funds for a purpose different from that justified originally to the subcommittees.

Reprograming involves the transfer of funds between such program activities as data processing operations and statistical reporting or between object classes which are such categories of expense as personnel compensation, travel, and equipment.

FINDINGS AND CONCLUSIONS

During fiscal years 1970, 1971, and 1972, IRS reprogramed $10.1 million, $13.7 million, and $18.9 million, respectively, between object classes without approval by the appropriations committees.

Although reprogramed funds were small in relation to total appropriations, they had a significant effect on expenditures for selected object classes.

During fiscal years 1971 and 1972 most reprogramed funds were from the personnel compensation object class. These funds became available for reprograming because:

--IRS did not fully use available man-years. For example, in fiscal years 1971 and 1972 IRS did not use 1,026 and 518 man-years, respectively, which the appropriations committees had approved for data processing operations.

--IRS requested and received supplemental appropriations for pay increases which were not fully used to finance personnel costs.

In fiscal years 1970, 1971, and 1972, the Office of Management and Budget advised all executive agencies that increased costs resulting from general pay increases were to be absorbed to the fullest extent possible. However, IRS requested and received supplemental appropriations of $26 million in 1972, $71 million in 1971, and $81 million in 1970 to meet its increased pay costs.

MAY 1, 1973

IRS financial records for fiscal year 1972 show that, of the $1.1 billion authorized by the Congress in regular and supplemental appropriations for IRS operations, $7.8 million was allowed to lapse and $18.9 million was reprogramed during March, April, and June without approval by the appropriations committees. The $18.9 million was reprogramed principally from unused personnel and travel funds which could have been used to absorb more of the increased pay costs.

IRS should inform the appropriations committees when it wants to spend substantially more for object classes and program activities than the amounts justified to the committees.

After discussion with the appropriations committees, IRS and Treasury should establish limitations on the amount of reprograming activity that IRS will be permitted without committee approval. These limitations could be expressed in dollars, percentages, or a combination of both.

In this manner the committees can be assured that appropriated funds not needed by IRS for certain object classes and/or program activities will be reprogramed in areas agreeable to the committees.

RECOMMENDATIONS

The Commissioner of Internal Revenue should:

--Consult with the Treasury and the appropriations committees to establish a limitation on the amount of reprograming activity that IRS will be allowed without approval of those committees.

--Advise the appropriations committees of any proposed reprograming of funds in excess of the agreed limitations and include explanations as to (1) why such funds are available for reprograming, (2) the actual need for reprograming, and (3) the effect that the reprograming will have on the following year's budget estimate.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Commissioner of Internal Revenue stated he favored these recommendations which would clarify what IRS could do on its own initiative and when the committees would expect to be consulted.

He said continually changing conditions always will require some adjusting of plans and program managers should have authority to shift funds for more effective use, but he agreed it would be useful to have a common understanding of the limits of this authority. (See app. V.)

The Commissioner stated that this report (1) does not recognize that IRS budgets on a program rather than an object class basis and that all expenditures were for programs that had been discussed with appropriations committees, (2) does not explain adequately the reasons for the shifting of funds, and (3) could lead to damaging and inaccurate conclusions.

IRS budget requests include information by program activities and by object classes. The program activities cover broad categories and budget increases are justified in terms of object classes for each activity. House and Senate Appropriations Committees' staffs advised GAO that the committees expect to be informed of substantial reprograming changes by object classes as well as by program activities.

According to the Commissioner, GAO does not explain adequately the reasons for the shifting of funds. This report is not directed to that end but deals with the principle that the appropriations committees should be assured that appropriated funds not needed by IRS for the purpose originally justified will be expended for purposes agreeable to the committees.

MATTERS FOR CONSIDERATION BY THE APPROPRIATIONS COMMITTEES

Matters discussed in this report may assist the appropriations committees in their consideration of IRS budget requests.

BLANK PAGE

CHAPTER 1

INTRODUCTION

We made a review to determine whether the Internal Revenue Service (IRS), Department of the Treasury, was expending appropriated funds for the purposes for which they were justified to the appropriations committees.

IRS receives three appropriations. The first appropriation, salaries and expenses, provides under two program activities--executive direction and internal audit and security--for the over-all planning and direction of IRS.

The second appropriation, accounts, collection, and taxpayer service, provides under three program activities--data processing operations, collection and taxpayer service, and statistical reporting--for actions associated with receiving and processing tax returns, collecting delinquent accounts, assisting taxpayers, accounting for tax revenues, compiling statistics on income based on tax return data, and making statistical studies of the tax system.

The third appropriation, compliance, provides for encouraging and maintaining compliance with the tax laws. The major activities are audit of tax returns, tax fraud and special investigations, taxpayer conferences and appeals, technical rulings and services, and legal services.

IRS accumulates financial data for each appropriation by activity and by object class. The object classes are personnel compensation and benefits; travel and transportation of persons; transportation of things; rent, communications, and utilities; printing and reproduction; other services; supplies and materials; equipment; and insurance claims and indemnities.

SCOPE OF REVIEW

We made our review at the IRS National Office, Washington, D.C. We examined IRS budget estimates submitted to the appropriations committees for fiscal years 1970, 1971, and 1972; regular and supplemental appropriations acts; IRS financial records; and IRS support for reprograming actions. Information was also obtained through discussions with IRS officials and operating personnel. Specific emphasis was placed on IRS reprograming of funds between object classes within the same appropriations which resulted in the use of funds for different purposes than those which were justified to the appropriations committees.

CHAPTER 2

FUNDS REPROGRAMED WITHOUT APPROVAL

BY THE APPROPRIATIONS COMMITTEES

Reprograming involves the transfer of funds between such program activities as data processing operations and statistical reporting or between object classes which are such categories of expense as personnel compensation, travel, and equipment. During fiscal years 1970, 1971, and 1972, IRS reprogramed $10.1 million, $13.7 million, and $18.9 million, respectively, between object classes within individual appropriations. IRS did not obtain approval from the appropriations committees before reprograming these funds.

Although reprogramed funds were small in relation to total appropriations, they had a significant effect on expenditures for selected object classes. For example, during fiscal year 1972, about 24 percent of the funds expended for equipment were reprogramed funds.

During fiscal years 1971 and 1972 most of the reprogramed funds were from the personnel compensation object class. During fiscal year 1970 the reprogramed funds were transferred in relatively equal proportions from the object classes: personnel compensation; travel and transportation of persons; and rent, communications, and utilities. In each year funds became available for reprograming from the personnel compensation object class because IRS (1) did not fully use available man-years and (2) requested and received supplemental appropriations for pay increases which were not fully used to finance personnel costs.

REPORTING OF IRS REPROGRAMING ACTIONS

IRS regulations provide that the programs presented in its budget estimates be treated as commitments to be fulfilled to the extent that they have been endorsed in the appropriations process. The regulations provide also that, although a degree of flexibility is permitted, any significant deviation from the scope of the functions and activities authorized by the Congress is to be submitted to the Department of the Treasury, the Office of Management and Budget (OMB), and the appropriations committees for approval. There are, however, no regulations requiring the reporting of reprograming between object classes.

Various IRS, Treasury, and OMB officials informed us that:

- --The Acting Director, Office of Budget and Finance, Department of the Treasury, was aware that IRS had funds available and was reprograming but was not advised of the specific reprograming actions taken.
- --IRS did not submit its fiscal years 1970, 1971, and 1972 reprograming actions to OMB or the appropriations committees for approval.
- --Neither IRS nor the Treasury has defined what a significant reprograming action is.
- --The Treasury has not established formal guidelines to govern IRS' reprograming of funds within an appropriation.

- - - -

In fiscal year 1966 appropriations hearings, the Secretary of the Treasury stated to both the House and Senate Subcommittees on Treasury-Post Office Departments and Executive Office Appropriations that it was the Department of the Treasury's practice to notify the respective subcommittees when it desired a significant reprograming of funds within the same appropriation that resulted in use of funds for a different purpose from that which was justified to the subcommittee. According to the Secretary, this procedure worked well and led to savings that could not otherwise have been accomplished.

EFFECT OF REPROGRAMING ON INDIVIDUAL OBJECT CLASSES

Through reprograming, IRS was able to expend considerably more in certain object classes than was justified to the appropriations committees. The following tabulation shows expenditures for certain object classes and the percentage of the expenditures made from reprogrammed funds.

Object class	1970 Expenditure	1970 Percent	1971 Expenditure	1971 Percent	1972 Expenditure	1972 Percent
Rent, communications, and utilities	$32,465,290	-	$ 39,088,616	4.6	$ 54,593,070	8.3
Printing and reproduction	18,887,944	14.9	17,533,421	3.1	20,014,984	1.8
Other services	17,252,018	35.3	19,256,113	30.8	27,767,828	16.8
Supplies and materials	9,187,459	11.3	9,901,941	19.4	12,607,802	22.6
Equipment	6,521,892	-	15,819,846	20.3	27,067,106	24.2
Total	$84,314,603		$101,599,937		$142,050,790	

Further information on funds appropriated, expended, and reprogramed by individual appropriation and object class for fiscal years 1970, 1971, and 1972 is set forth in appendixes I, II, and III.

As shown above, reprograming has had a significant effect on the other services and equipment object classes. Of the $42.7 million reprogramed during fiscal years 1970, 1971, and 1972, $16.7 million went to other services and $9.8 million went to equipment. The other services object class covers repairs and alterations to space, repairs and alterations to equipment, storage and maintenance of vehicles, data processing service, advertising, publication of notices, purchase of evidence, guard service, and other miscellaneous services.

AUTHORIZED MAN-YEARS NOT FULLY USED

In hearings before the appropriations committees in fiscal years 1970, 1971, and 1972, the Commissioner of Internal Revenue stressed the need for additional manpower to carry out IRS programs and consistently emphasized that any savings resulting from a reduction in an IRS request for additional manpower would be more than offset by a reduction in the Government's revenues. The appropriations committees authorized additional man-years in each of these fiscal years, and in each year IRS used less than the number of man-years authorized.

IRS attributes these man-year savings generally to hiring restrictions, delays in filling authorized positions, regional offices not using funds for early hires as fast as expected, underruns in support personnel, operating efficiencies in data processing, and an overestimate of the 1972 man-year requirements for the Economic Stabilization Program.[1]

The following table shows the number of unused man-years by appropriation and activity.

Appropriation and activity	Number of unused man-years (note a) 1970	1971	1972
Salaries and expenses:			
Executive direction	8	3	13
Internal audit and security	37	(9)	14
Total	45	(6)	27
Accounts, collection, and taxpayer service:			
Data processing operations	11	1,026	518
Collection and taxpayer service	-	-	(65)
Statistical reporting	(16)	(35)	17
District manual operations (note b)	439	(6)	(4)
Total	434	985	466
Compliance:			
Audit of tax returns	127	133	1
Collection of delinquent accounts and securing delinquent returns	(109)	(119)	-
Tax fraud and special investigations	(43)	3	20
Alcohol, tobacco, and firearms (note b)	244	136	203
Taxpayer conferences and appeals	84	77	8
Technical rulings and services	7	(2)	15
Legal services	84	8	(38)
Total	394	236	209
Total unused man-years	873	1,215	702

[a]A figure in parentheses indicates that more man-years were used than were authorized.

[b]The district manual operations and alcohol, tobacco, and firearms activities were deleted from the fiscal year 1974 budget request.

[1]On August 19, 1971, the Secretary of the Treasury was delegated authority to administer and enforce the President's 90-day stabilization of prices, rents, wages, and salaries. This was termed "Economic Stabilization Program." Under phase II of this program a price commission and pay board was established with responsibility for setting guidelines and criteria for wages and prices. The primary IRS responsibility in this program has been to answer the public's questions, investigate complaints from citizens about possible violation of stabilization guidelines, and make spot checks of compliance with program provisions.

Further information on the number of man-years requested by IRS, authorized by the appropriations committees, and used by IRS by appropriation and activity during fiscal years 1970, 1971, and 1972 is set forth in appendix IV.

SUPPLEMENTAL APPROPRIATIONS FOR PAY INCREASES NOT FULLY USED FOR REQUESTED PURPOSE

In fiscal years 1970, 1971, and 1972, IRS requested and received supplemental appropriations for pay increases which were not fully used for the requested purpose because a significant number of the man-years authorized by the appropriations committees were not used. In each of these years IRS knew that a significant number of man-years would not be used and therefore could have taken the necessary action to absorb a substantial part of the pay increases as directed by OMB. In March 1972 the Commissioner of Internal Revenue was informed by his Fiscal Management Officer that IRS had an estimated 234 unused man-years and that an estimated $3.9 million would be available for reprograming. Further, according to its records, IRS had an estimated 524 unused man-years and an estimated $7.8 million available for reprograming in April. This estimate was increased to 755 unused man-years and $8.9 million in May. The supplemental appropriation bill was enacted into law on May 27, 1972.

In fiscal years 1970, 1971, and 1972, OMB issued bulletins to all executive agencies stating that the increased costs resulting from general pay increases were to be absorbed to the fullest extent possible. The costs were to be absorbed through savings from reductions in civilian employment and control of grade escalation in fiscal year 1972 and through cost reduction, position management, and other management improvement programs in all 3 fiscal years. During this period IRS requested and received supplemental appropriations of $26 million in 1972, $71 million in 1971, and $81 million in 1970 to fund the increased pay costs.

IRS financial records for fiscal year 1972 show that, of the $1.1 billion authorized by the Congress in regular and supplemental appropriations for IRS operations, $7.8 million was allowed to lapse and $18.9 million was reprogramed during March, April, and June. The reprogramed $18.9 million was obtained principally from unused personnel and travel funds which could have been used to absorb more of the increased pay costs.

IRS informed Treasury that no funds were available to offset or reasonably absorb any 1971 pay increases other than those increases which would be covered through reimbursements. IRS stated that its employment plans were geared to full realization of the man-years authorized by the Congress in fiscal year 1971, that as of December 4, 1970, most of the hiring needed for full realization had already been done, and that it was apparent that for the rest of the year IRS was going to be hard pressed to meet these man-year costs with available funds.

On this basis, IRS requested supplemental appropriations for pay increases totaling $70.9 million; $70.7 million was appropriated on May 25, 1971. At yearend, IRS had not used 1,215 man-years representing $13.3 million in personnel costs. IRS reprogramed a total of $13.7 million during the year and allowed $1.8 million to lapse.

In fiscal year 1970 IRS requested and received a supplemental appropriation for pay increases totaling $81.2 million. However, IRS reprogramed $10.1 million during fiscal year 1970; it had 873 unused man-years at yearend and allowed $5,227 to lapse.

CHAPTER 3

CONCLUSIONS, RECOMMENDATIONS, IRS COMMENTS, AND GAO EVALUATION

CONCLUSIONS

IRS should inform the appropriations committees when it wants to expend substantially more than the amounts justified to the committees for selected object classes. However, IRS regulations are not sufficiently definitive to insure that proposed reprograming actions will be submitted to the appropriations committees for their approval. Thus, we believe that IRS, after consulting with the Treasury and the appropriations committees, should establish limitations on the amount of reprograming activity that IRS will be permitted without committee approval. These limitations could be expressed in dollars, percentages, or a combination of both. In this manner the committees can be assured that appropriated funds not needed by IRS for certain object classes and/or program activities will be reprogramed in areas agreeable to the committees.

RECOMMENDATION TO THE COMMISSIONER OF INTERNAL REVENUE

We recommend that the Commissioner of Internal Revenue:

--Consult with the Treasury and the appropriations committees to establish a limitation on the amount of reprograming activity IRS will be allowed without approval of those committees.

--Advise the appropriations committees of any proposed reprograming of funds in excess of the agreed limitations and include explanations as to (1) why such funds are available for reprograming, (2) the actual need for reprograming, and (3) the effect that the reprograming will have on the following year's budget estimate.

IRS COMMENTS AND GAO EVALUATION

The Commissioner of Internal Revenue by letter dated March 16, 1973 (see app. V), commented on a draft of this report. He said IRS favored our recommendations which would clarify what IRS could do on its own initiative and when the committees would expect to be consulted. He also stated that continually changing conditions always will require some adjusting of plans and that program managers should have authority to shift funds for more effective use, but he agreed that it would be useful to have a common understanding of the limits of this authority.

The Commissioner stated that this year IRS had planned to resume a past practice of reporting to the committees on the status of IRS programs and finances halfway through the year. He explained, however, that the requirement for IRS to absorb the cost of the recent classified pay increase had delayed the development of a detailed analysis of IRS's financial situation. He stated that IRS plans to present a status report in the impending appropriations hearings.

General reprograming comments

The Commissioner stated that the report (1) does not recognize that IRS budgets on a program rather than an object class basis and that all expenditures were for programs that had been discussed with the appropriations committees, (2) does not explain adequately the reasons for the shifting of funds, and (3) could lead to damaging and inaccurate conclusions.

The Commissioner explained that, although there may have been shifts from the way IRS planned to spend funds and the way IRS actually used them, the money was spent in furthering objectives and priorities clearly specified before the appropriations committees. He also explained that reprograming would not be necessary if, ideally, budget projections would be precisely accurate, costs would stay the same, and programs would be carried out as planned. He stated, however, in actuality none of this happens and IRS constantly is required to adjust resources.

The Commissioner stated that IRS prepares program budgets as required by the laws and regulations pertaining to Federal finances and, just as other agencies, is required to justify fund requests in terms of expected program accomplishments, not planned spending by object class. He stated also that object class schedules, which are a carryover from an earlier budgetary system, are merely indications of how an agency expects to spend its money by item of expense and are not controlling.

Our review of IRS fiscal year 1970, 1971, and 1972 budget requests showed that (1) the budget requests contained summaries of estimates by individual activities, (2) budget increases were explained and justified on an activity basis, and (3) the activities for each appropriation were summarized by object classes. It appears that IRS is using a budgetary system that combines data by both activity and object class.

We also observed that requests for budget increases over the previous year's authorization, although set forth by activity, were defined in terms related to object classes. For example, in its regular fiscal year 1972 budget, IRS requested 23,149 average positions and $261,914,000 for data processing operations. The program changes consisted of increases of 813 average positions and $35,114,000. The increases requested were identified as 39 man-years and related salaries and personnel benefits costs of $311,000 for supervision of exempt organizations; data processing equipment costs of $10,820,000; and 774 man-years and $23,983,000 for growth in population, economy, and workload. The $23,983,000 request consisted of the following object classes.

Personnel compensation and benefits	$ 8,834,000
Travel	328,000
Transportation of things	261,000
Rent, communications, and utilities	4,233,000
Printing and reproduction	105,000
Other services	1,341,000
Supplies and materials	497,000
Equipment (furniture, office, and misc.)	8,384,000
Total	$23,983,000

House and Senate Appropriations Committee staffs advised us that the committees expect to be informed of substantial reprograming changes by object classes as well as by program activities.

According to the Commissioner, GAO does not explain adequately the reasons for the shifting of funds. This report is not directed to whether the expenditure of reprogramed funds was justified but deals with the principle that the appropriations committees should be assured that appropriated funds not needed by IRS for the purpose originally justified will be expended in areas agreeable to the committees. We did not inquire into the justification for the reprograming of funds for specific items.

Comments on supplemental appropriation for pay increase

The Commissioner commented on the fiscal year 1972 supplemental appropriation for pay increases as follows:

> "* * * The draft report suggests that IRS could and should have absorbed more of it. At the time we developed the initial pay cost estimates, we were not in a position to volunteer a larger absorption. We were not then aware of the magnitude of the savings that later became apparent. Also, we were concerned with having money to finance the economic stabilization workload assigned to us. This, as you know, was a new and growing program, and we had no experience on which to base our cost estimates. Also, we were uncertain as to our postage costs. The Postal Service proposed to charge first class rates for delivering 1971 tax packages whereas we had budgeted on the basis of third class charges (a possible $8 million difference). Later, we realized that we could and should absorb more of the pay increase. Traditionally the Committees inquire informally before marking up supplemental appropriation requests whether the requirements can be reduced. We agreed with the Department's Acting Director of Budget and Finance that, upon receipt of the informal inquiry, we would offer as much as we could. However, we never received that inquiry."

We believe that the above statement supports our view that the appropriations committees should be advised of proposed reprograming. In the absence of such notification, there is no way of knowing whether the committees would have approved the reprograming actions taken by IRS in late fiscal year 1972 or would have required IRS to absorb more of the increased pay costs.

Comments on reprograming resulting from increased costs

The Commissioner indicated that increased costs, when possible, are covered by shifting funds not required as originally budgeted. He stated this has been a continuing problem and has been discussed with the committees. He referred to page 836 of the hearings on March 9, 1970, before the Subcommittee on Departments of Treasury and Post Office and Executive Office Appropriations of the House Appropriations Committee in which the following table on unanticipated increases of $9.9 million and $11.6 million for 1970 and 1971, respectively, was included.

	1970	1971
	(thousands)	
Printing	$1,300	$ 4,100
Telecommunications (tariff increases)	-	1,400
Higher rates of pay for revenue agents, special agents, and internal auditors	-	2,700
Grade structure changes	1,500	3,400
Per diem allowances	2,700	-
Employer's retirement contribution	1,600	-
Basic training for recruits	2,800	-
Total	$9,900	$11,600

The Commissioner's reference to the above table included in the hearings implies that the committee was informed of reprograming actions. However, an analysis of the individual items shows that for the most part the increased costs were absorbed within the individual object classes and did not result in reprograming. For example, the increased costs cited for grade structure changes and higher rates of pay were absorbed within the personnel compensation object class. (See app. II and III which show the actual reprograming actions for fiscal years 1971 and 1970, respectively.)

BLANK PAGE

APPENDIXES

INTERNAL REVENUE SERVICE

COMPARISON OF APPROPRIATIONS WITH EXPENDITURES BY OBJECT CLASS

FISCAL YEAR 1972

Object class	Salaries and Expenses		
	Appropriated (note a)	Expenditures	Difference or reprogramed (-)
	(000 omitted)		
PERSONNEL COMPENSATION:			
Permanent positions	$25,085	$23,887	$1,198
Positions other than permanent	404	616	-212
Other personnel compensation	519	618	-99
Special personnel payment	-	-	-
Personnel benefits	2,229	2,298	-69
Total personnel costs	28,237	27,419	818
TRAVEL AND TRANSPORTATION OF PERSONS	2,230	1,884	346
TRANSPORTATION OF THINGS	138	67	71
RENT, COMMUNICATIONS, AND UTILITIES	784	986	-202
PRINTING AND REPRODUCTION	236	252	-16
OTHER SERVICES	622	580	42
SUPPLIES AND MATERIALS	196	219	-23
EQUIPMENT	274	488	-214
INSURANCE CLAIMS AND INDEMNITIES	9	6	3
Total funds appropriated, expended, and lapsed	$32,726	$31,901	$ 825
Total funds reprogramed between object classes			$ -455

[a]The Congress approves appropriation requests on a lump-sum basis. The amounts cited beside each object class represent the manner in which IRS informed the Congress that it would expend the total amount appropriated.

Accounts, Collection, and Taxpayer Service			Compliance		
Appropriated (note a)	Expenditures	Difference or reprogramed (-)	Appropriated (note a)	Expenditures	Difference or reprogramed (-)
(000 omitted)					
$303,755	$296,547	$ 7,208	$489,308	$480,316	$ 8,992
40,892	42,177	-1,285	4,112	4,547	-435
9,255	7,766	1,489	9,601	8,469	1,132
-	-	-	-	380	-380
31,261	30,896	365	45,113	45,256	-143
385,163	377,386	7,777	548,134	538,968	9,166
10,642	9,312	1,330	29,127	22,899	6,228
2,304	1,950	354	2,232	1,722	510
32,243	33,548	-1,305	17,045	20,059	-3,014
9,809	9,819	-10	9,604	9,944	-340
15,537	17,711	-2,174	6,997	9,477	-2,480
4,839	6,243	-1,404	4,726	6,146	-1,420
14,645	16,647	-2,002	5,610	9,932	-4,322
40	20	20	116	29	87
$475,222	$472,636	$ 2,586	$623,591	$619,176	$ 4,415
		$-6,895			$-11,576

INTERNAL REVENUE SERVICE

COMPARISON OF APPROPRIATIONS WITH EXPENDITURES BY OBJECT CLASS

FISCAL YEAR 1971

Object class	Salaries and expenses: Appropriated (note a)	Expenditures	Difference or reprogramed (-)
	(000 omitted)		
PERSONNEL COMPENSATION:			
Permanent positions	$21,773	$21,697	$ 76
Positions other than permanent	312	431	-119
Other personnel compensation	263	397	-134
Special personnel payment	-	-	-
Personnel benefits	1,897	2,008	-111
Total personnel costs	24,245	24,533	-288
TRAVEL AND TRANSPORTATION OF PERSONS	1,686	1,698	-12
TRANSPORTATION OF THINGS	120	44	76
RENT, COMMUNICATIONS, AND UTILITIES	690	747	-57
PRINTING AND REPRODUCTION	474	181	293
OTHER SERVICES	592	380	212
SUPPLIES AND MATERIALS	153	181	-28
EQUIPMENT	127	190	-63
INSURANCE CLAIMS AND INDEMNITIES	9	5	4
Total funds appropriated, expended, and lapsed	$28,096	$27,959	$137
Total funds reprogramed between object classes			-$448

[a]The Congress approves appropriation requests on a lump-sum basis. The amounts cited beside each object class represent the manner in which IRS informed the Congress that it would expend the total amount appropriated.

Accounts, collection, and taxpayer service			Compliance		
Appropriated (note a)	Expenditures	Difference or reprogramed (-)	Appropriated (note a)	Expenditures	Difference or reprogramed (-)
(000 omitted)					
$138,774	$135,501	$3,273	$573,373	$566,858	$6,515
35,126	32,544	2,582	6,699	6,689	10
7,440	6,150	1,290	5,576	6,878	-1,302
-	-	-	622	-	622
14,858	14,337	521	51,100	51,021	79
196,198	188,532	7,666	637,370	631,446	5,924
2,230	1,795	435	24,376	24,190	186
1,009	919	90	2,356	1,825	531
17,815	18,795	-980	18,770	19,547	-777
5,517	5,910	-393	11,294	11,443	-149
5,778	8,836	-3,058	7,167	10,041	-2,874
3,156	3,692	-536	4,672	6,030	-1,358
6,575	9,057	-2,482	5,905	6,573	-668
40	31	9	116	50	66
$238,318	$237,567	$ 751	$712,026	$711,145	$ 881
		-$7,449			-$5,826

INTERNAL REVENUE SERVICE

COMPARISON OF APPROPRIATIONS WITH EXPENDITURES BY OBJECT CLASS

FISCAL YEAR 1970

Object class	Salaries and expenses		
	Appropriated (note a)	Expenditures	Difference or reprogramed (-)
	(000 omitted)		
PERSONNEL COMPENSATION:			
Permanent positions	$20,077	$19,761	$ 316
Positions other than permanent	296	348	-52
Other personnel compensation	280	322	-42
Special personnel payment	-	-	-
Personnel benefits	1,632	1,783	-151
Total personnel costs	22,285	22,214	71
TRAVEL AND TRANSPORTATION OF PERSONS	1,335	1,437	-102
TRANSPORTATION OF THINGS	110	15	95
RENT, COMMUNICATIONS, AND UTILITIES	683	667	16
PRINTING AND REPRODUCTION	442	538	-96
OTHER SERVICES	486	400	86
SUPPLIES AND MATERIALS	101	175	-74
EQUIPMENT	123	125	-2
INSURANCE CLAIMS AND INDEMNITIES	9	2	7
Total funds appropriated, expended, and lapsed	$25,574	$25,573	$ 1
Total funds reprogramed between object classes			$-274

[a]The Congress approves appropriation requests on a lump-sum basis. The amounts cited beside each object class represent the manner in which IRS informed the Congress that it would expend the total amount appropriated.

Accounts, collection, and taxpayer service			Compliance		
Appropriated (note a)	Expenditures	Difference or reprogramed (-)	Appropriated (note a)	Expenditures	Difference or reprogramed (-)
(000 omitted)					
$129,576	$126,170	$ 3,406	$518,466	$517,064	$ 1,402
32,034	32,179	-145	4,708	5,654	-946
6,087	6,911	-824	5,206	5,357	-151
-	-	-	622	406	216
12,785	12,596	189	43,410	43,975	-565
180,482	177,856	2,626	572,412	572,456	-44
1,475	1,190	285	20,215	18,632	1,583
920	743	177	2,304	1,638	666
17,727	15,256	2,471	17,754	16,543	1,211
4,997	5,976	-979	10,642	12,375	-1,733
4,053	8,190	-4,137	6,706	8,662	-1,956
3,465	4,038	-573	4,582	4,974	-392
2,318	2,227	91	4,771	4,170	601
40	-	40	116	49	67
$215,477	$215,476	$ 1	$639,502	$639,499	$ 3
		$-5,689			$-4,125

INTERNAL REVENUE SERVICE

COMPARATIVE DATA ON MAN-YEAR USE

BY APPROPRIATION AND ACTIVITY

FISCAL YEARS 1970, 1971, 1972

	1970			
	Requested	Authorized	Used	Over or under (-) authorized
SALARIES AND EXPENSES:				
Executive direction	702	716	708	-8
Internal audit and security	842	844	807	-37
Total	1,544	1,560	1,515	-45
ACCOUNTS, COLLECTION, AND TAXPAYER SERVICE:				
Data processing operations	21,682	21,899	21,888	-11
Collection and taxpayer service	-	-	-	-
Statistical reporting	593	605	621	16
District manual operations (note a)	679	895	456	-439
Total	22,954	23,399	22,965	-434
COMPLIANCE:				
Audit of tax returns	24,177	22,315	22,188	-127
Collection of delinquent accounts and securing delinquent returns	12,422	11,877	11,986	109
Tax fraud and special investigations	2,631	2,681	2,724	43
Alcohol, tobacco, and firearms (note a)	3,228	3,335	3,091	-244
Taxpayer conferences and appeals	1,724	1,640	1,556	-84
Technical rulings and services	779	810	803	-7
Legal services	1,345	1,351	1,267	-84
Total	46,306	44,009	43,615	-394
Grand Total	70,804	68,968	68,095	-873

[a]The district manual operations and alcohol, tobacco, and firearms activities were deleted from the fiscal year 1974 budget request.

1971				1972			
Requested	Authorized	Used	Over or under (-) authorized	Requested	Authorized	Used	Over or under (-) authorized
716	714	711	-3	717	749	736	-13
849	846	855	9	928	938	924	-14
1,565	1,560	1,566	6	1,645	1,687	1,660	-27
22,401	22,355	21,329	-1,026	23,149	22,867	22,349	-518
-	-	-	-	13,104	12,908	12,973	65
662	630	665	35	614	718	701	-17
191	125	131	6	56	62	66	4
23,254	23,110	22,125	-985	36,923	36,555	36,089	-466
23,916	22,474	22,341	-133	24,480	23,536	23,535	-1
12,876	12,637	12,756	119		-	-	-
2,803	2,880	2,877	-3	2,998	3,162	3,142	-20
3,478	3,517	3,381	-136	3,961	3,952	3,749	-203
1,640	1,587	1,510	-77	1,587	1,502	1,494	-8
839	840	842	2	891	891	876	-15
1,351	1,346	1,338	-8	1,364	1,364	1,402	38
46,903	45,281	45,045	-236	35,281	34,407	34,198	-209
71,722	69,951	68,736	-1,215	73,849	72,649	71,947	-702

Department of the Treasury

Internal Revenue Service
Washington, DC 20224

Date: MAR 16 1973 | In reply refer to:

Mr. Harry F. Coffman
Assistant Director, General
Government Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Coffman:

We acknowledge receipt of your March 8, 1973 letter transmitting to us copies of the GAO draft report to the appropriations committees of the Senate and House of Representatives entitled "Appropriations Committees Not Advised on Reprograming of Funds by the Internal Revenue Service". We appreciate and thank you for the opportunity to consider and comment on the draft report.

General Comments

Our overall reaction to the report is that, while the figures may be accurate, the explanatory narrative does not recognize that we budget on a program rather than an object class basis, does not explain adequately the reasons for the shifting of funds, and could lead to damaging and inaccurate conclusions.

We at the IRS are fully aware of the need to manage effectively the resources available to us. Program demands far in excess of available funds repeatedly emphasize this point. Further, we are very jealous of the close and open relationship between the Service and the appropriations committees and would not knowingly take any action that would jeopardize that fruitful relationship. We strive to manage our funds effectively, and we think the record indicates considerable success.

The first point we would make is that all our spending is for programs that have been discussed with the appropriations committees. While there may have been shifts from the way we planned to spend our funds and the way we actually applied them, we have spent the money in furtherance of objectives and priorities clearly specified before those committees.

Mr. Harry F. Coffman

As the draft report points out, the amount of reprogrammed funds was relatively small in relation to the overall IRS appropriation. Further, these shifts in large part have been required by increases in costs and changes in circumstances that could not have been foreseen at the time we developed our budget estimates. As you know, OMB regulations require that we budget in terms of current costs and prices. However, when the time comes to pay the bills, prices often have increased substantially. This consistently has been the case in the support cost area: postage, telecommunications, transportation, rents, and printing, to name a few. As an example, in FY 1972 our postage bill was $3.4 million higher than provided for in our budget justification and operating financial plan. Even though our budget does not cover completely these costs, we nevertheless must pay them. When we can, we cover the increases by shifting funds not required as originally budgeted. We do not consider this either irresponsible or misleading. This has been a continuing problem and one that we have discussed with the Committees. For example, at our 1971 House appropriation hearings there was an extensive discussion of unanticipated costs and we provided a table for the Committee showing unanticipated increases of $9.9 million in 1970 and $11.6 million in 1971, much of which was for the same support cost categories cited in the draft report (House hearings, 1971, part 2, p. 836).

As an example of changing circumstances, the Economic Stabilization Program was not contemplated when the budget for fiscal year 1972 was developed and justified to Congress. Nevertheless, the IRS role in the program was critical and urgent. Discharge of that role required extensive spending ($4.4 million) for forms and information documents, an extensive communications system, equipment, and for providing space for the new activity that had not been planned. There was little or no time to seek approval of the Committees in advance for our essential early expenditures. We did consult with the Committees later.

Ideally our budget projections would be precisely accurate, costs would stay the same, and programs would be carried out as planned. If this were the case, reprogramming would not be necessary. In actuality, as you know, none of this happens; and we constantly are required to adjust our resources to achieve the greatest goals with our limited resources.

Mr. Harry F. Coffman

We believe we have some flexibility to shift funds on our own initiative so long as this is done within the parameters of the programs justified to Congress. We prepare program budgets, as required by the laws and regulations pertaining to Federal finances. We, just as other agencies, are required to justify our fund requests in terms of expected program accomplishments, not planned spending by object class. In our opinion, a valid evaluation of our management of those funds should be on this same basis. The object class schedules, a carryover from an earlier budgetary system, are merely indicative of how an agency expects to spend its money by item of expense (personnel, travel, equipment, etc.) and are not controlling.

We also try to keep the Committees generally informed of developments in the IRS. There are telephone contacts at the staff level, and we submit written reports on significant developments from time to time. On matters of particular significance, the Commissioner contacts the Committee chairmen. We had planned this year to resume our past practice of a report to the Committees on the status of our programs and finances half way through the year. However, the requirement that we absorb the cost of the recent classified pay increase has delayed the development of a detailed analysis of our financial situation. We now plan to present a status report in connection with the impending appropriations hearings.

We consult with the Committees, formally or informally, when it seems appropriate to do so. Last year after the FY 1973 budget was sent to Congress, the Civil Service Commission eliminated the special salary rates for certain hard-to-hire employees. Our estimates provided for these higher rates. After discussions with the Department and OMB, we decided that this change in requirements should be submitted formally as a budget amendment rather than be volunteered as a reduction at the hearings. Similarly, late in FY 1970 we found we had sufficient funds available to buy a computer for which purchase funds had been requested in the FY 1971 budget. OMB required that we apply the surplus funds against pay increase costs; thus, we had no reason to go to the Committees.

Specific Comments

There are several specific points in the draft report to which we will respond. First, it points out that we tended in

Mr. Harry F. Coffman

the years studied to realize fewer average positions than we had planned and to spend more on support costs than planned. The report, however, does not make clear why we underrealized on manpower and spent more on support costs. As your appendices show, the bulk of the underrealization occurred in district manual operations and data processing.

Underrealization of planned manpower

	1970	1971	1972
Data processing operations	- 11	- 1,026	- 518
District manual operations	- 439	6	4
Other activities	- 423	- 205	- 188
Total	- 873	- 1,215	- 702

It occurred because productivity increases beyond expectation reduced our manpower needs for processing tax returns. Fewer returns processors were hired and we released seasonal employees when there was no longer productive work for them. We would emphasize that we used less manpower than planned because it was not needed--not because funds had been spent for other purposes.

The balance of the manpower underrun was largely in clerical and support personnel. Your appendices show that we consistently have come close to realizing, have realized, or have overrealized planned manpower in our front line activities of audit, collection, and tax fraud. The appendices are not in sufficient detail to show that, considering the professional manpower in these activities alone, we consistently have been able to meet or exceed our plans, yet such is the fact.

Overrealization of frontline professional manpower

	1970	1971	1972
Revenue agents	293	69	96
Tax auditors	88	- 16	35
Revenue officers	134	49	110
Special agents	69	- 11	- 27
	584	91	214

We have managed our funds to assure this would be the case.

Mr. Harry F. Coffman

Once congressional action is completed on our appropriations, we review our nonpersonnel requirements to assure that they are at a necessary minimum so that we can maximize front line personnel. In FY 1972 the operating financial plan included $6 million less for support costs than were proposed in our congressional submission. When budget cuts are necessary, we cut support costs such as equipment, space, training, and travel before personnel; and, when we must cut personnel, we make our cuts in clerical and support personnel before reducing the number of revenue agents, revenue officers, or special agents. This too, we think, is good management--and, further, in accord with what we think the Committees would have us do.

The present requirement that we absorb pay increase costs of $23.5 million by the end of FY 1973 illustrates this point. We are saving this money by reducing equipment purchases, eliminating uncommitted space alterations, reducing travel, eliminating all but mandatory training, curtailing spending for supplies and services. Originally, we planned to embargo most promotions and continue the freeze on hiring, but, having programmed the goal as indicated, we have relaxed these restrictions.

A second point concerns absorption of last year's pay increase. The draft report suggests that IRS could and should have absorbed more of it. At the time we developed the initial pay cost estimates, we were not in a position to volunteer a larger absorption. We were not then aware of the magnitude of the savings that later became apparent. Also, we were concerned with having money to finance the economic stabilization workload assigned to us. This, as you know, was a new and growing program, and we had no experience on which to base our cost estimates. Also, we were uncertain as to our postage costs. The Postal Service proposed to charge first class rates for delivering 1971 tax packages whereas we had budgeted on the basis of third class charges (a possible $8 million difference). Later, we realized that we could and should absorb more of the pay increase. Traditionally the Committees inquire informally before marking up supplemental appropriation requests whether the requirements can be reduced. We agreed with the Department's Acting Director of Budget and Finance that, upon receipt of the informal inquiry, we would offer as much as we could. However, we never received that inquiry.

Mr. Harry F. Coffman

[See GAO note.]

It might be useful to set out in more detail why spending for support programs in FY 1972 was greater than was anticipated in our Operating Financial Plan (OFP) by $18.9 million. It should be pointed out first that the OFP provided for spending $6 million less for these items than did the budget submission reviewed by Congress. The $18.9 million included $3.4 million for increased postage charges due to rate increases and recalculation of mail volumes and $4.4 million for costs of the stabilization program, as mentioned earlier. These are the larger items that we can identify. We believe a substantial amount also was spent for cost increases that we cannot document. It was made up of increases in the costs of thousands of procurements made by IRS offices throughout the country. These increases, while small taken individually, in the aggregate appear to be substantial. Yet the only evidence we have is that we are spending more each year in support costs and the complaint from our field offices that they are underfunded in this area.

For simplicity in presentation we included in our FY 1972 budget presentation in object class 22, travel, certain costs related to training which were actually charged when incurred to other object classes in the support area. This contributed $1.2 million of the increase cited in the draft report.

The balance of the $18.9 million was spent on items over which we had some control: $1.7 million was applied to purchase of vehicles, enabling us to buy all the cars authorized by the Congress; much of it was for items that had been included in

Mr. Harry F. Coffman

our FY 1972 congressional budget submission, but could not be covered in our initial operating financial plan; and the rest was for other pressing needs. We carefully reviewed each proposal to assure that there was a sound justification.

The situation in 1970 and 1971 was much the same. There were significant cost increases that had to be provided for (see House hearings, 1971, part 2, p. 836) and some shifting of funds to meet high priority needs where this seemed appropriate and within our authority.

Recommended Action

We favor the recommendation in the draft report that guidelines be established for reprogramming without clearance with the appropriations committees. This would clarify what we could do on our own initiative and when the Committees would expect to be consulted. At the same time, we suggest that any limitations established should permit an adequate degree of executive flexibility. Drawing the limits too tightly would hamper the effective use of funds and could result in an administrative burden on IRS, Treasury, OMB, and the Committees. Budgets are only plans based on the best estimates of future situations and requirements. Inevitably what actually happens differs from what was anticipated and those managing programs must adjust their plans accordingly.

In conclusion, we think the present arrangements work reasonably well. We manage our funds carefully, and we think we do a reasonably good job of it. Continually changing conditions always will require some adjusting of plans, and program managers should have authority to shift funds for more effective use. Nevertheless, we believe it would be useful to have a common understanding of the limits of this authority.

We request that you include a copy of this letter when you submit your report to the appropriations committees.

Sincerely yours,

Johnnie M. Walters

Commissioner

GAO note: The deleted comments relate to matters discussed in the draft report but omitted from this final report.

PRINCIPAL OFFICIALS

RESPONSIBLE FOR

ADMINISTRATION OF ACTIVITIES

DISCUSSED IN THIS REPORT

AGENCY OFFICIAL	Tenure of office	
	From	To
DEPARTMENT OF THE TREASURY		
SECRETARY OF THE TREASURY:		
George P. Shultz	June 1972	Present
John B. Connally	Feb. 1971	June 1972
David M. Kennedy	Jan. 1969	Feb. 1971
ASSISTANT SECRETARY FOR ADMINISTRATION:		
Warren F. Brecht	Apr. 1972	Present
J. Elton Greenlee (acting)	Jan. 1972	Apr. 1972
Ernest C. Betts, Jr.	Oct. 1970	Jan. 1972
A. E. Weatherbee	Sept. 1959	Oct. 1970
DIRECTOR, OFFICE OF BUDGET AND FINANCE:		
Edward J. Widmayer	Mar. 1972	Present
Norman E. Sims, Jr.	Apr. 1971	Mar. 1972
Norman E. Sims, Jr. (acting)	Aug. 1970	Apr. 1971
Ernest C. Betts, Jr.	Jan. 1963	Aug. 1970
INTERNAL REVENUE SERVICE		
COMMISSIONER OF INTERNAL REVENUE:		
Johnnie M. Walters	Aug. 1971	Present
Harold T. Swartz (acting)	June 1971	Aug. 1971
Randolph W. Thrower	Apr. 1969	June 1971
ASSISTANT COMMISSIONER (ADMINISTRATION):		
Julius H. Lauderdale (acting)	Feb. 1973	Present
Alvin M. Kelly (acting)	Oct. 1971	Feb. 1973
Edward F. Preston	Sept. 1960	Oct. 1971

	Tenure of office	
	From	To
INTERNAL REVENUE SERVICE (continued)		
FISCAL MANAGEMENT OFFICER:		
Alan A. Beck	Jan. 1970	Present
Roland Sanger (acting)	Nov. 1969	Jan. 1970
Gray W. Hume	July 1953	Oct. 1969