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MANAGING IRS: Actions Needed to Assure Quality Service in the Future

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U.S. Senate Committee on Finance

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MANAGING IRS: Actions Needed To Assure Quality Service in the Future

Summary of Statement by
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A well managed IRS is critical to the functioning of our government and reinforcing public confidence in our tax system. GAO and IRS embarked on a joint effort to find solutions to the critical challenges facing IRS in managing its massive, decentralized operations. The ensuing report (GAO/GGD-89-1, October 14, 1988) made numerous recommendations to strengthen IRS management and help the Service better prepare for the future. IRS has pledged to implement all the recommended actions.

IRS needs to take actions centering on four major areas.

Improving Management of Information Technology - IRS' most pressing overall challenge in ensuring quality service to the public is to modernize its outdated and inefficient tax processing system. This will require a large investment, take several years to accomplish, and require application of state-of-the-art technology. Providing full-time leadership for the complex endeavor and raising the level of executives' technical expertise are paramount actions needed.

Strengthening Financial Systems - Although IRS will soon collect a trillion dollars annually in taxpayers' money, its accounting systems do not produce reliable information and have serious control problems. IRS is taking action to address these deficiencies, but it historically has had difficulty resolving these problems. Its efforts would be enhanced if it had a Chief Financial Officer who has sufficient authority to direct financial management activities and if its financial statements were audited annually.

Addressing Quality Concerns - IRS has begun a good effort to better orient its workforce to customer service. To know if it is making progress in improving the quality of its services IRS needs to develop better performance measures. Also, IRS must be better postured to cope with problems in attracting and retaining quality people to work for IRS. Non-competitive pay is a factor hindering IRS in this regard.

Improving Field Oversight - IRS must provide adequate resources and assign high priority to the implementation of its planned new approach to reviewing field operations. This process is essential to providing adequate oversight over field operations and assessing performance in achieving critical program objectives.

GAO believes that IRS has made a good start but needs to diligently implement these actions. GAO plans to monitor IRS' progress and provide status reports to Congress.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss critical management challenges facing the Internal Revenue Service that must be addressed to assure high quality service to the Nation's taxpayers. I am accompanied today by Jennie S. Stathis, Director of Tax Policy and Administration Issues, General Government Division, James Watts, Associate Director of Central Financial Operations and Law Enforcement Systems Issues, Information Management and Technology Division, and Jeffrey C. Steinhoff, Director of Financial Management Systems Issues, Accounting and Financial Management Division.

It is vital that IRS effectively manage its massive operations and ensure uniform and fair implementation of an ever-changing set of complex tax laws. IRS routinely serves almost every household and business in the United States and soon will collect $1 trillion dollars annually in taxes. Moreover, its performance influences how Congress and the Administration make critical decisions to finance our government.

With this in mind, GAO and IRS embarked on a joint effort to find solutions to the major management issues confronting the Service, including replacing an aging computerized tax processing system and improving the quality of its services. The resulting report[1] made over 40 specific recommendations for improving IRS' management and helping it better prepare for the future. IRS fully supports these recommendations and has taken action to initiate a number of improvements; however, full implementation of many recommendations will require a sustained commitment from IRS. Support of the Department of the Treasury, the Office of Management and Budget, and Congress, also is important.

I want to focus my remarks today on IRS' four most critical management challenges. They are (1) improving the management of information technology, (2) strengthening financial management, (3) addressing service and workforce quality concerns, and (4) setting clear management direction and improving field oversight.

IMPROVING MANAGEMENT OF INFORMATION TECHNOLOGY

IRS' most critical need is to modernize its outdated computer-based tax processing system. Revamping this system, which is used to process hundreds of millions of taxpayer transactions each year, is central to improving service to taxpayers. IRS' present system is basically the same it started with almost 30 years ago; the input, storage and retrieval processes are paper-driven and labor-intensive.

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[1] Managing IRS: Actions Needed to Assure Quality Service in the Future (GAO/GGD-89-1, Oct. 14, 1988).

This modernization is a massive undertaking, even compared to many of the large systems we hear about in government and industry today. It will require a large investment of public funds and take several years to plan and implement. IRS has preliminary design concepts, but the real work of the modernization is still ahead. As a next step, IRS needs to identify alternative designs, evaluate their costs, and select a final design. These actions will require complex decisions about state-of-the-art technology before IRS can proceed.

IRS' progress in meeting this critical challenge has been slow, due in part to lack of effective management direction and leadership changes within IRS and Treasury. One key problem had been the lack of a clearly designated leader in IRS for information resources management. IRS in late 1987 took positive steps to clarify the leadership structure for its overall management of information technology, including its information systems modernization efforts.

The Deputy Commissioner designated as IRS' information resources management focal point, however, has other significant responsibilities that preclude him from devoting full-time attention to this important area. As a result, IRS needs to seriously consider establishing another Deputy Commissioner whose sole responsibility is the management of technology. We believe that a separate Deputy Commissioner, who has extensive technical expertise, could provide concerted attention and direction necessary for the modernization. Success of the modernization effort is absolutely critical, and IRS needs to be in the strongest possible position to manage this endeavor.

IRS also needs to develop a strategy for raising the level of technical expertise of its managers. IRS executives have extensive managerial experience, but far less experience in managing the application of state-of-the-art technology. Additional training is needed if these managers are to make informed decisions and set the direction for the modernization. In response to the management report, the Service is taking action to provide additional technical training to the senior management, and IRS expects to have an executive-level technical training program in place by July 1989. IRS top management needs to vigorously support this program.

In addition to strengthening training, IRS has initiated other actions to help put it in a better position to modernize its systems. For example, IRS has consolidated the management of critical telecommunication resources at the headquarters and regional office levels and is working to complete consolidation in the field. Additionally, IRS is making changes to improve its procurement of information technology. Progress in these areas needs to be monitored closely.

STRENGTHENING FINANCIAL MANAGEMENT

As the government's tax collector, IRS has unparalleled responsibility to maintain revenue accounting and administrative financial systems that are second to none. IRS accounts for 90 percent of the federal government's revenue and 60 percent of its delinquent receivables. Its visibility and contact with the public is equaled by very few federal agencies, and success in achieving its primary mission is highly dependent on voluntary compliance by the public. In this regard, taxpayers rightfully expect fair treatment by having records of their tax deposits, returns, and refunds accurately processed and maintained.

The GAO/IRS joint management review found that IRS' ability to satisfy its financial responsibilities and meet taxpayer expectations has been undermined by accounting processes with weak internal controls and old systems that produce inaccurate and untimely information. For example, on the revenue accounting side, a 1986 audit estimated that 721,000 tax deposits amounting to $6.5 billion would result in erroneous bills, penalties, and refunds to businesses because IRS' control systems were unable to promptly identify and resolve errors. Internal control problems also preclude IRS from reliably accounting for billions of dollars of taxes owed to the government.

IRS' financial structure is comprised of systems that are not compatible and involve labor-intensive operations. The biggest challenge facing IRS in the financial management area is developing modern systems that will fill its needs and operate effectively through the year 2000 and beyond. IRS has recognized its financial systems problems and has initiated a set of actions to correct them. A key part of this effort will be the timely implementation of the recommendations contained in our October 1988 report. Of particular importance will be the establishment of a Chief Financial Officer (CFO) position.

A CFO could provide a key source of institutional continuity needed to provide sustained attention to the long-term financial management challenges facing IRS. The CFO should have enough institutional power to ensure that agency-wide financial management issues are dealt with efficiently and effectively. For example, the CFO should be responsible for establishing accounting standards for all systems and devising a financial reporting plan that includes a complete set of audited financial statements. Audited financial statements would impose a much needed reporting discipline on IRS' financial activities. IRS currently is studying the CFO issue, and needs to make implementation of this approach a high priority.

ADDRESSING SERVICE AND WORKFORCE QUALITY CONCERNS

IRS' mission translates into a large and growing annual work load. Few, if any, federal agencies have more customers to serve. The quality of that service plays an important role in shaping taxpayers' views on how well the federal government functions.

A long tradition of solid IRS performance was shaken during the 1985 filing season when public confidence in the agency was reduced because of late refunds and incorrect taxpayer notices. These problems caused IRS management to give additional attention to improving the quality of its services to the public.

As a result, IRS began a major agencywide quality improvement effort, including providing training for all executives and managers and encouraging a cooperative effort with the National Treasury Employees Union. IRS also initiated a set of five new quality-oriented strategic initiatives, which include establishing program effectiveness measures, developing a greater concern for customers, identifying and reviewing barriers to quality, and developing a management information system to track progress in achieving quality goals and objectives.

These initiatives represent a solid beginning. Changing IRS' culture, however, from a production focus to a quality orientation represents a long-term management challenge. Continued employee involvement and support from IRS' leadership is essential in order to transform quality into a daily reality at the operating level.

Of particular importance will be the establishment and use of effective performance measures for all major IRS activities to assess whether or not it is making progress. For example, a 1988 study by Price Waterhouse recommended the use of nine new performance indicators to help manage the critical area of accounts receivable. These indicators included the average time taken to collect receivables and the percentage of tax assessment actually collected. However, IRS does not have the needed data to compile all of these indicators. Formulating key indicators for all critical areas and collecting the necessary data will help ingrain quality values within the IRS workplace and provide a valuable framework for top management and congressional oversight of IRS activities.

IRS' ability to serve the public, like other federal operations, also hinges greatly on having quality people. Annually, thousands of IRS employees deal with millions of citizens, businesses, or their tax representatives on sensitive tax matters. For IRS to be effective, these activities must be carried out by quality employees possessing a variety of job skills. IRS must attract top graduates in the accounting, legal, and computer science fields. However, the Service has grown increasingly concerned about its capacity to attract and retain quality employees.

One important factor in attracting and retaining quality employees is competitive pay. GAO believes that federal pay is not competitive for many occupations because federal salary adjustments have not been keeping pace with comparable jobs in the private sector. GAO and IRS agree that the pay issue has contributed to IRS' workforce quality problems. Until the pay issue is resolved, IRS and other federal agencies will not be able to offer sufficiently competitive salaries to attract quality talent to many critical occupational series.

This need is especially acute at IRS. If the agency cannot attract highly qualified people, it will find itself at a disadvantage in dealing with lawyers and accountants from private firms. IRS has initiated a number of important efforts aimed at strengthening its human resource capabilities. Many of these initiatives, however, are long-term in nature and will require a well-organized commitment on the part of IRS leadership. For example, IRS needs to collect better information on workforce quality to understand the full dimensions of the quality issue and to formulate effective solutions.

SETTING CLEAR MANAGEMENT DIRECTION AND IMPROVING FIELD OVERSIGHT

IRS must have an effective process for establishing a coherent strategic direction for the agency. Many challenges it confronts are interrelated and require long term action. Moreover, IRS needs to clearly communicate its priorities to people in its massive decentralized field structure and have a firm basis for measuring its performance.

IRS has initiated a new strategic management process to help set agencywide goals, establish mission priorities, guide budget decisions, and create a benchmark for measuring agency progress toward achieving objectives. This new process, which produces a five year strategic business plan, represents a sound conceptual approach, but certain implementation issues remain. The business planning process needs to be continued over the next several years in order for it to be firmly established as the agency's principal tool for setting management direction.

Another key implementation issue is the establishment of an adequate process to evaluate how well IRS field operations are achieving the objectives of the business plan. IRS is currently developing a new Business Review process for this purpose, and Internal Audit will also periodically evaluate the extent to which strategic objectives have been attained.

This new Business Review process, coupled with audited financial statements, has the potential to provide an effective annual nationwide assessment of IRS' performance in achieving critical strategic business goals. This is essential for IRS top management and would be useful to Congress in exercising its oversight responsibilities. IRS currently is testing the Business Review approach and developing critical success factors to measure its performance. We are concerned, however, that development and agencywide implementation of Business Reviews will not proceed as quickly as it needs to, unless IRS changes its approach by providing full-time leadership for the effort.

IRS' ability to provide management direction also was enhanced by a 1987 reorganization intended to improve communication and strengthen decisionmaking. This reorganization was a very positive change, particularly placing the Regional Commissioners under the Deputy Commissioner for Operations. To ensure that the 1987 changes continue to have managers' support and confidence, IRS and GAO will be evaluating the reorganization to ascertain to what extent it has accomplished its goals and whether refinements are needed. As we discussed earlier, additional modifications are desirable in the information technology and financial management areas.

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In closing, we would like to commend IRS officials for their willingness to take a candid look at IRS management to identify needed improvements and for their very cooperative approach in working with us. The recommendations set forth in the management report provide a blueprint for the future to help assure quality service to the public and a well managed IRS. The key now is to ensure that IRS effectively and diligently implements the recommendations over the coming years. In this regard, we intend to monitor IRS' progress, and continued Congressional oversight will be important. We commend the Subcommittee for holding these hearings and providing a framework for Congress and the IRS to work together to improve IRS' operations and thus better serve the American taxpayer.

This concludes my prepared remarks. We will be happy to respond to questions.