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TAX ADMINISTRATION

Achieving Business and Technical Goals In Tax Systems Modernization

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ACHIEVING BUSINESS AND TECHNICAL GOALS IN TAX SYSTEMS MODERNIZATION

SUMMARY STATEMENT OF
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Today, IRS is burdened with manual processes and inaccessible information. The result is that taxpayers who contact IRS by telephone cannot get problems resolved fast, nor can they get questions answered quickly. Tax Systems Modernization (TSM) has the potential to change this bleak picture by quickly transmitting account information to interactive workstations whenever needed. The key to modernization is (1) getting information to IRS employees when they need it and (2) allowing them to update the information immediately when changes are required.

TSM's capabilities are urgently needed. Such changes should free IRS to use resources more productively, speed up tax processing, and reduce costs. For example, IRS taxpayer assistors now provide tax account information for student-loan applications in 1 day through an interim TSM system called Corporate Files On-Line. Such a request used to take up to 45 days to research and reply to.

To change its operations, IRS is assessing its use of resources. On one front, it is attempting to increase the productivity of taxpayer assistors through automated call routing. Overall productivity may have increased this year, but the percentage of calls IRS is answering declined. On another front, IRS is struggling with the issue of how to collect more delinquent taxes. Redirecting resources from field collection activities to call sites would increase productivity and would offer IRS one option for increasing revenues without increasing collection staff levels.

The business and technical changes that IRS is undertaking are numerous and complex. Reconciling and satisfying multiple, cross-functional business demands will stretch the limits of the technicians' ability to deliver well-integrated systems. IRS must, therefore, have strong technical leadership at the executive level to provide the needed technical perspective so that IRS can make balanced and informed trade-offs in TSM's design and development. Thus, proper positioning of a chief systems architect is critical to the successful implementation of TSM.

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to be here today to continue the discussion of Tax Systems Modernization (TSM). In particular, you wanted information on how TSM (1) is changing the way IRS does business and (2) will be implemented and kept up to date. You also asked us to highlight issues related to IRS' management of TSM and discuss two current operational programs, taxpayer service and collection.

This year, Congress is being asked to make decisions about the fiscal year 1994 TSM budget in the midst of uncertainty created by IRS' business studies now underway. Because these studies are not complete, we do not know all we would like to about IRS' detailed business requirements for TSM. However, the limited, but tangible, benefits that have come from interim systems delivered so far and our ongoing studies of IRS programs reinforce our conclusion that TSM is badly needed.

One theme that is highlighted in our message is the need for an experienced chief systems architect at the executive level to concentrate on the technical aspects of TSM and provide technical leadership. This individual would be responsible for TSM's technical design and compatibility and help make critical decisions that balance business needs with technology. We illustrate the value of a chief architect with observations about IRS' design and implementation of interim TSM systems.

INTERIM SYSTEMS SHOW PROGRESS AND HIGHLIGHT LIMITATIONS

Today, IRS is burdened with manual processes and inaccessible information. The result is that taxpayers who contact IRS by telephone cannot get problems resolved fast, nor can they get questions answered quickly. TSM could change this bleak picture by quickly transmitting account information to interactive workstations whenever needed. The key to modernization is (1) getting information to IRS employees when they need it and (2) allowing them to update the information immediately when changes are required.

Over one-half of the $145 million increase requested for the TSM fiscal year 1994 budget is for interim system initiatives. IRS has experience with two such initiatives--automated filing and Corporate Files On-Line (CFOL). These initiatives represent attempts to (1) streamline the flow of information to IRS and (2) make taxpayers' account information available quickly to IRS employees. Systems in both initiatives are scheduled for expansion or enhancement as part of the requested budget increase.

Automated Filing

The goal for automating the filing process is to reduce the volume of paper that IRS handles and save money. In responding positively to automated filing initiatives, the tax-paying public is demonstrating that it is ready for faster and more convenient ways of filing. In 1993, about 12 million taxpayers filed returns electronically and generally received their refunds faster than with paper returns. IRS processed these returns at less cost than paper returns because they were received and processed by a computer instead of the contingent of employees necessary to handle and transcribe a paper return. The net result was faster processing and fewer errors.

While electronic filing has provided benefits, IRS' implementation of the system has limited its ability to market the service and further increase its cost savings. As we pointed out in a recent report,[1] the opportunity to expand the use of electronic filing is considerable, but only if the service is readily available to any taxpayer. It is unacceptable to charge taxpayers for the privilege of paying taxes, but the current form of electronic filing--which is done through third parties--does just that. We continue to raise this issue to IRS as one of several marketing issues in electronic filing that must be resolved with the help of modern technology and proactive business and technical planning.

Similarly, IRS' design of electronic filing has also limited its ability to detect and handle fraudulent electronic returns. Initially, IRS designed the system so that people screen electronic returns for fraud. As the number of electronic returns has climbed, more and more people have been needed to provide this labor-intensive interface. In contrast to IRS' objective of faster and cheaper processing, this approach slows the processing of returns and increases processing costs. Although IRS seems comfortable with the manual approach, we have urged it to automate this process by developing improved software to screen the returns as soon as they are received to ensure timely refunds in the future. Appropriate technical expertise could provide the direction and leadership to create such a capability.[2]

A final illustration comes from a product that IRS calls 1040PC, which allows taxpayers preparing taxes on a personal computer to print out a summary-sheet tax return and mail it to IRS, where it

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[1]Tax Administration: Opportunities to Increase the Use of Electronic Filing (GAO/GGD-93-40, Jan. 22, 1993).

[2]Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27, Dec 30, 1992).

is manually keyed into IRS' computers. Because the summary sheet is easier to read accurately, IRS can process the return faster and with fewer errors than the paper return prepared by hand. For taxpayers filing 1040PCs, this alternative is convenient and saves time, and its usage is increasing. As of April 16, 1993, over 3.6 million taxpayers had used this method of filing--a 187-percent increase over 1992.

The irony of 1040PC is that it effectively converts an automated filing system into a manual one. A better choice would be to give taxpayers who use personal computers access to electronic filing. Then taxpayers could use a modem to transmit returns directly to IRS, rather than printing and mailing it, saving both IRS and the taxpayer time and effort. In this case, automation could broaden electronic access to IRS by permitting electronically transmitted 1040PC returns.

The two examples of automated filing illustrate how IRS has in the past pursued good ideas in ways that have not resulted in complete and proactive automated solutions. These are instances in the early development of TSM where limited business concepts and insufficient attention to technical detail at the senior levels in IRS have resulted in lost opportunity. IRS' plans for the long-term TSM systems include many of the capabilities suggested above. However, a chief architect at the executive level could have helped IRS identify opportunities to employ technology in an integrated fashion sooner. Such an individual could also have encouraged the organization to pursue such solutions.

CFOL

CFOL has helped IRS streamline its returns processing operations. For example, at the Memphis Service Center, CFOL eliminated much of the need for 100-percent key verification of input data from tax returns by verifying critical name and address information electronically. This electronic verification saved the service center between 10,000 and 15,000 staff hours. CFOL is also allowing IRS to detect and correct return processing errors 2 to 4 weeks earlier than it could without CFOL. This capability makes IRS more efficient, and it benefits taxpayers because their accounts are posted quicker, eliminating delays in refunds and unnecessary and incorrect notices.

Taxpayers are seeing the effect of CFOL in their daily contacts with taxpayer assistors. For example, we talked to a taxpayer assistor in the Cincinnati Region who uses CFOL to help him respond to taxpayers requesting tax return information to apply for student loans and mortgages. Without CFOL, it took the assistor as long as 45 days to obtain the needed information from IRS' files of paper returns. This delayed taxpayers' applications and necessitated multiple contacts with IRS. With

CFOL, the assistor said he can immediately access return information for a 3-year period while talking to the taxpayer. He said this allows him to send the needed information to the taxpayer within a day. As a result, taxpayers are able to expedite their applications and minimize their contact with IRS.

Like IRS' automated filing approaches, CFOL has significant and far-reaching limitations. While CFOL quickly provides users with information on a taxpayer's account, it does not allow an assistor to update the record of a taxpayer. This limitation makes it difficult for IRS to consolidate resources and broaden the geographic coverage of field sites providing functions such as taxpayer assistance and collections.

Additionally, if IRS employees could update files anywhere in the IRS system, then taxpayer assistance calls could be routed to any call site with available staff to answer the call. A taxpayer in New York calling IRS at 7:00 p.m. would no longer get a message saying that IRS is closed because that call could be routed to a California call site and handled completely by the staff receiving the call. IRS' Collection and Examination functions could benefit from automation with similar strategies. The key point is that IRS' limited access to current on-line data constrains its operations. Eventually, TSM should remove these constraints. As pointed out in our transition report,[3] access to current and accurate information is a pivotal theme for TSM. This is one of the control areas where the guidance and direction of a chief systems architect could enable IRS to quickly address its needs for data.

THE TECHNICAL CHALLENGE: MAINTAINING TECHNICAL INTEGRITY AS SYSTEMS ARE INTRODUCED

New systems and new technology must fit into TSM regardless of when they are introduced during the 20 years of TSM's development. The necessity to integrate systems over time and provide for incremental enhancements has important technical implications for TSM. The many separate elements of TSM will fit into an integrated and coherent whole as they are implemented only if they are properly designed. These systems must have compatible hardware platforms at the user level, must be built to respond in the same way to user commands, must obtain data from a common source, and must pass data directly from system to system and location to location when needed.

Currently, IRS is not developing systems that will integrate. For example, we understand that the installation of the interim Automated Underreporter system at service centers is being

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[3]Transition Series: Internal Revenue Service Issues (GAO/OCG-93-24TR, Dec. 1992).

delayed, because IRS is unable to transfer the software from the equipment it was developed on to the Treasury Multiuser Acquisition Contract (TMAC)[4] equipment it will run on. Similarly, incremental changes to TSM systems will be possible only if TSM has been designed to meet a sound set of standards that change little over time. This will affect the long-term TSM projects for which development is now in progress. A key role of a chief systems architect is to ensure that standards are established and enforced to assure compatibility and integration of new systems and components.

THE IMPORTANCE OF ACHIEVING BALANCE IN TSM'S BUSINESS AND TECHNICAL FOCUS

As noted earlier, IRS is currently in a period of aggressive and intense business analysis to determine how it should operate and to refine TSM's business requirements. This step, although coming late in the planning for TSM, is one that we have recommended and one that is essential to getting full value from TSM. This is a top-to-bottom review of IRS--both headquarters and field operations. We expect that this effort will produce guidelines for IRS operations that are totally different from today's environment. For example, IRS may abandon its tradition of identical service center organizations, each doing the same thing. Instead, service centers may specialize in a function and serve taxpayers nationwide through telecommunications and electronic information exchange.

As sweeping as such changes may seem, it is important to note that they do not represent radical departures from the basic requirements upon which the TSM plan was based. Specifically, the operations for which TSM was designed--distributing information to employees on demand, receiving electronic returns, imaging paper returns and correspondence, and investigating cases--continue to be an element of IRS' vision. What will be different are the logistics through which work is performed and the nature and scope of work performed by individual employees. What this means for TSM is that the technical changes will be more in line with the business needs.

With this reassurance, however, a note of caution is necessary, because the current operational emphasis does not mean that IRS' technical challenges are over. Both the development of TSM and the transition to the modern environment will be difficult and complex, because IRS is completely overhauling its business processes as well as its information systems. Hence, IRS cannot afford to lose sight of the technical complexity of TSM. In addressing operational change in IRS, the issues will be

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[4]TMAC provides minicomputers, workstations and local area communications for networked computer systems.

difficult and the decisions far-reaching. Technical integration of TSM systems over time will not occur automatically. Therefore, the business and technical teams in IRS must work together throughout TSM's life. TSM will only be successful if IRS builds and maintains its technical credibility.

STRENGTHENING TECHNICAL ACCOUNTABILITY IS KEY

We believe that placing accountability for TSM's technical performance with a chief systems architect at the executive level in IRS is the key to achieving and maintaining technical credibility. The chief systems architect would be accountable for the technical design and performance of TSM. The chief architect would (1) advise in the defining of business requirements and systems, (2) define the technical infrastructure to ensure integration and interoperability over time, and (3) provide technical leadership in the design and implementation of TSM's information systems. To provide such leadership, this individual must have extensive technical experience in designing and delivering large complex systems. To have the necessary accountability, the chief systems architect should be comparable in stature and position with the TSM program manager.

Individually, some of the systems issues we have discussed may not seem to be insurmountable, but TSM solutions cannot be devised on a case-by-case basis. This point is vividly demonstrated by the existence of fragmented automated filing approaches and the problems with Automated Underreporter that we have outlined. TSM is intended to be an integrated solution to IRS' needs, requiring specialized and proactive technical leadership at the executive level.

TELEPHONE ACCESSIBILITY IS DECLINING

Taxpayers continue to have difficulty getting through to IRS at toll-free telephone sites to obtain information on the tax law or about their accounts. This filing season, we found that only 24 of every 100 calls placed to IRS were answered by IRS assistors. This was a decline from 1992 when 33 percent of the calls to IRS were answered.

This year's reduced performance is due in part to a reduction in staff assigned to the toll-free telephone call sites. Despite the decrease in staff, however, the number of calls answered remained nearly constant, suggesting that there was an overall productivity gain for the telephone call site function.

IRS is looking for opportunities to further increase productivity through the use of automated routing equipment to quickly pass incoming calls to available call assistors and through extended hours of operation. IRS is conducting analyses of telephone

traffic at call sites to determine if there are possibilities to move traffic to other call sites to balance day-time workload and provide extended-hour coverage to handle more callers. We encourage IRS to seek out ways to optimize the productivity of current resources through enhanced automation and extended-hour operations.

COLLECTING DELINQUENT TAXES

IRS is also assessing its use of collection resources. Although IRS has been placing increased emphasis on reducing its accounts receivable, collection results are not very encouraging. Collections of delinquent taxes over the past 5 years have not changed very much; they actually declined in 1991 and again in 1992.[5] Over the same 5 years, the gross accounts receivable inventory, adjusted to eliminate the increase caused by the change in the statutory collection period in fiscal year 1991 from 6 to 10 years, has been growing at a steady pace.

IRS' gross accounts receivable balance does not mean much in terms of potential revenue, but it does reflect the collection workload. Because of overstatements in the inventory and because of errors by IRS and taxpayers, much of the gross balance is invalid and does not reflect the amount of delinquent taxes actually owed. In addition, many of the valid accounts in the inventory are considered uncollectible because the delinquent taxpayers cannot pay or IRS cannot find them. After considering all of the above, IRS estimated that only $28.1 billion of the September 30, 1992, accounts receivable balance of more than $100 billion is collectible.

IRS' budget requests an additional 777 Collection full-time equivalents and $49.5 million. Most of these resources are to be directed toward reducing the accounts receivable inventory by

-- pilot testing the use of private collection agencies,

-- extending hours at Automated Collection System call sites,

-- expanding the role of the Service Center Collection Branch,

-- establishing call sites in service centers for pre-notice contact on large dollar cases,

-- extending telephone assistance hours for Taxpayer Service participation in installment agreements and other accounts receivable related work, and

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[5]Collection of delinquent accounts was $25.5 billion in 1990, $24.3 billion in 1991, and $24.2 billion in 1992.

-- increasing the number of revenue officers in the field to collect delinquent taxes and secure returns from nonfilers.

We fully support the approach that IRS is taking by moving up some of its collection activities to service centers and call sites and believe that even more needs to be done to redirect IRS' emphasis. However, we do not support the new positions for these activities. Redirecting current resources from the field to these locations may be a more efficient and effective approach.

As we said in February testimony on tax delinquencies before this subcommittee,[6] IRS needs to place more emphasis on collection activities at the service centers and call sites and less on field collection activities. Currently, it can take up to 6 months after a delinquency arises before IRS attempts telephone contact with the taxpayer. In the private sector, most delinquent accounts are closed within that time. If telephone contact is not successful in resolving the delinquencies, IRS sends the accounts to the field, where more experienced collection employees attempt face-to-face contact with the taxpayers. IRS has allocated almost two-thirds of its Collection staff to this field collection activity, while other government and private collection agencies are relying more heavily on early telephone contact.

Traditionally, the solution to collection problems has been to add more staff, but the results of these additions have been inconclusive. We believe that real long-term improvement will come only with improved collection operations and more emphasis on actions to prevent delinquencies from arising in the first place.

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This concludes my statement. I would be happy to respond to any questions.

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[6]Tax Administration: Status of Tax Systems Modernization, Tax Delinquencies, and the Tax Gap (GAO/T-GGD-93-04, Feb. 3, 1993).

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