GAO United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-276562

July 3, 1997

The Honorable John Glenn
United States Senate

Subject: IRS' Field Office Restructuring in Ohio

Dear Senator Glenn:

This letter responds to your request that we provide information on the Internal Revenue Service's (IRS) most recent field office restructuring effort, especially as it relates to Ohio. IRS announced in August 1996 that it would eliminate more than 1,000 positions in its field offices, including some in Ohio. As agreed with your office, we addressed the following questions: (1) How do IRS' field office restructuring plans affect Ohio? (2) What have been some of the operational impacts in Ohio as IRS transitions to its new structure and are they likely to continue after the consolidation is complete? (3) What savings, if any, will IRS achieve from its field office restructuring? On April 2, 1997, we briefed your staff on the results of our work, and they asked that we document our results in a letter.

BACKGROUND

Before 1995, IRS' organizational structure included a National Office and 82 field offices (7 regional offices, 63 district offices, 10 service centers, and 2 computing centers). In May 1995 IRS announced plans to consolidate its 63 district offices into 33 district offices.[1] IRS' objectives in consolidating the district offices were to (1) foster an integrated and consistent approach to compliance over a wider geographic area, (2) decrease taxpayer burden by

[1]IRS also announced plans to eliminate three of its seven regional offices. The regional offices that were eliminated were located in Cincinnati, OH; Philadelphia, PA; and Chicago, IL. The regional office consolidation became effective October 1, 1995.

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promoting consistency across wider geographic areas, and (3) provide managers greater flexibility to shift compliance staff within the district to respond to changing workload requirements.Under IRS' consolidation plan, the noncontinuing districts were to continue employing front-line compliance and customer service staff; but their management structure--district office director, assistant director, and chiefs of various functional areas, such as taxpayer service, collection, and examination--was to be eliminated. Front-line employees remaining in the noncontinuing districts were to report through their immediate managers to the management structure in the continuing districts. That reporting structure took effect in October 1996. IRS deferred decisions regarding other activities to be eliminated in the noncontinuing districts, such as compliance support functions, pending further study. These compliance support functions include processing paperwork that is required to (1) close out examinations so that taxpayers can be assessed taxes and (2) document that taxpayers have paid assessed taxes so that liens on their assets can be released.

In deciding which districts to merge, IRS attempted to create districts that were more uniform in size than was the case under the 63-district office structure. Accordingly, total staffing was a key criterion that IRS used to decide which district offices should retain a management structure and be designated as continuing districts. Generally, smaller districts were merged into larger ones. However, this was not the case in Ohio. Before the consolidation, Ohio had two districts that had relatively equal staffing--one headquartered in Cleveland and the other headquartered in Cincinnati. As part of the consolidation, the two districts were merged to form the Ohio District, headquartered in Cincinnati. The Ohio District has several suboffices, called posts-of-duty, located throughout the state.

At the time IRS announced its district office consolidation, other function-specific reorganizations were under way that affected regional office and district office responsibilities. For example, in 1993, IRS started to centralize various support activities, such as personnel, facilities management, and training (hereafter referred to as Support Services). Also, IRS had recently completed a pilot test of a proposed structure for managing and servicing regional and district office automation needs. The first phase of implementing this new structure, referred to as the field information systems organization (FISO), began in fiscal year 1996. Enclosure I has additional information on the various reorganizations that have affected IRS' regional and district offices.

To help transition to the new 33-district office structure, continuing districts were to develop plans showing how they would operate after the district office consolidation. These transition plans were approved by regional and National Office officials between September 1995 and January 1996. Subsequently, according to IRS National Office officials, Regional Commissioners and Chief Officers in the National Office agreed to assess the interactions of the various functional reorganizations such as Support Services and FISO on the district office consolidation plan. They considered, for example, whether IRS wanted a noncontinuing district office to function as a consolidated site for Support Services. Also, at that time, IRS faced the prospect of a flat or declining budget for fiscal year 1997; and IRS officials said that in addition to using voluntary methods to downsize, IRS may have to use involuntary methods, including a reduction in force (RIF). Accordingly, IRS officials said that they were attempting to achieve as many efficiencies as possible from the various reorganizations.

To help assess the interactions of the various functional reorganizations on district office responsibilities, IRS' Office of Workforce Transition convened a task force for each functional area affected by the consolidation. On the basis of input from these functional teams, the Office of Workforce Transition issued an Organizational Impact Analysis report on April 14, 1996, that outlined a standard approach for consolidation. For example, that report recommended that all district office compliance support functions be centralized in the continuing districts within 18 months after October 1, 1996.

In accordance with the Organizational Impact Analysis, IRS' National Director for Strategic Planning, in a May 23, 1996, memorandum to the Regional Commissioners, (1) provided guidance on how to identify the excess occupied positions expected as a result of the various reorganizations, as of October 1, 1997; (2) asked the regional functional chiefs to develop a standard set of criteria for any needed positions that resulted from the various reorganizations; and (3) asked that any requests for exceptions to the guidance on excess positions be received by June 4, 1996. The Regional Commissioners met and made consensus recommendations regarding the requests for exceptions to the Chief Management and Administration, the Chief Compliance Officer, and the Deputy Commissioner. As a result, requests for 93 positions were approved as exceptions Servicewide.[2] IRS' October 1996 final nationwide listing of excess and needed positions showed 2,371 excess positions and 1,312 needed positions--a potential net reduction of 1,059 positions.

IRS' fiscal year 1997 appropriation act prohibited IRS from implementing its field reorganization plan, including conducting a RIF, until it delivered a report to Congress on, among other things, the costs and benefits of its field office restructuring. In hopes of reducing the number of employees who would be subject to a RIF, IRS, from January 13 through February 5, 1997, offered buyouts to employees who occupied positions that (1) were targeted for elimination or (2) were potential placement opportunities for employees whose positions were targeted for elimination. As of June 18, 1997, IRS had processed 1,261 buyouts, 48 of which were for IRS employees in Ohio. IRS cannot conduct a RIF until it reaches a RIF agreement with the National Treasury Employees Union (NTEU). As of June 18, 1997, IRS and NTEU had not

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[2]IRS officials considered some of the following conditions in deciding whether to grant an exception: (1) the noncontinuing district had a business function that needed to be retained or preserved in its current location, (2) the staffing arrangement proposed in the exception request was expected to generate the same overhead savings as the consolidated approach, and (3) the proposed staffing arrangement was expected to produce additional revenue.

reached agreement on various issues surrounding IRS' RIF plans, including the scope of the agreement (e.g., whether it should be limited to only the current field reorganizations or those in the future) and various employee rights under a RIF. A hearing is scheduled before the Federal Services Impasse Panel from July 8 to 10, 1997, to resolve open issues. IRS officials said they are also negotiating the transfer of work from the noncontinuing districts to the continuing districts with local union representatives.

RESULTS IN BRIEF

As a result of field office restructuring, Ohio is expected to lose 98 positions–the net of 154 positions to be eliminated (all of which are to be in Cleveland) and 56 positions to be added (all but one of which is to be in Cincinnati). The district office consolidation accounts for most of the positions that are to be eliminated in Ohio. As a result of that consolidation, Cleveland is to lose 96 positions, most of which are in compliance support functions that are responsible for such tasks as closing examination cases, assessing the quality of audits, and processing liens. Cincinnati is to gain positions so that it can do the work that is to be transferred from Cleveland.

According to Ohio District officials, at the time of our visit in February 1997, the district was experiencing some backlogs–delays in processing work and increases in inventories– in some compliance support functions. According to Cleveland examination managers, delays were occurring in processing the paperwork to close certain audits. These managers said the backlogs stemmed from a decline in staff productivity resulting from low morale and attrition. Cleveland's collection support manager said that backlogs were occurring in processing the paperwork needed to substantiate that taxpayers had paid assessed taxes so that liens against their assets could be released. According to this manager, the backlogs stem from fewer staff available to do the work–the staff had dropped from 19 to 15 and 4 more employees planned to take buyouts.

Some Ohio District officials said that these backlogs could continue or increase if needed positions in Cincinnati are not staffed with trained employees. However, according to district officials, after all the work is transferred to Cincinnati and all needed positions are filled with fully trained staff, backlogs will diminish or disappear. According to a district official, as of May 2, 1997, the Regional Commissioner was reviewing their request to begin filling needed positions.

In its March 27, 1997, report to Congress on the restructuring of its field support functions, IRS said that it expects to save $138 million in personnel costs as a result of eliminating 1,059 field office jobs. For the most part, IRS' methodology for computing the savings is consistent with the methodology that we have used in computing personnel savings associated with buyouts versus RIFs.[3] Although IRS is projecting

[3]Federal Downsizing: The Costs and Savings of Buyouts Versus Reductions in Force (GAO/GGD-96-63, May 14, 1996).

savings in personnel costs, it does not intend to reduce its overall staffing by the net number of field positions it plans to eliminate. Instead, IRS plans to redirect the $138 million to fund additional front-line customer service and compliance positions.

We recognize that if (1) the redirection of resources allows IRS to process more front-line work (e.g., examine more tax returns, collect more delinquent taxes, and answer more telephone calls) than is currently the case and (2) staff in the headquarters of consolidated districts can handle all of the consolidated workload without adversely affecting cycle time or work quality, IRS could achieve some efficiencies from its field office restructuring. However, it is unclear whether the consolidation might also involve some operational costs, such as increases in cycle time and reductions in work quality that may offset some of those benefits. Because IRS' staffing levels are likely to fluctuate from their current levels, without a baseline ratio of front-line compliance and customer service staff to support staff before field office restructuring, it will be difficult to attribute changes in outputs to IRS' field office restructuring. Without information on the operational costs of restructuring and a baseline ratio of front-line staff to support staff, it will be difficult to fully assess the net costs and benefits of IRS' field office restructuring.

OHIO IS TO LOSE 98 POSITIONS AS A RESULT OF FIELD RESTRUCTURING

As a result of IRS' various restructuring efforts, Ohio is expected to lose 98 positions--a net of 154 positions being eliminated in Cleveland, 55 positions being added in Cincinnati, and 1 position being added in Columbus, an Ohio post-of-duty. The district office consolidation is the source of most of the job loss in Cleveland--96 positions. Of these 96 positions, 81 are compliance support positions. Ohio also is losing positions as a result of FISO, Support Services, and other reorganizations.

According to IRS' Chief Management and Administration, and a member of the working group that evaluated restructuring alternatives, because of IRS' desire to create districts that are similar in size and workload, the geographic locations for the continuing district offices, for the most part, were obvious to the working group. Consolidations generally led to mergers of smaller districts into larger ones. However, this was not the case in Ohio. Before those offices were consolidated, Cincinnati had 1,107 full-time equivalent staff and Cleveland had 1,113 full-time equivalent staff.[4] According to an IRS official, the selection of Cincinnati (rather than Cleveland) as headquarters for the consolidated Ohio District Office was largely a management decision, given that the staffing levels for the former Cincinnati and Cleveland district offices were essentially equal.

In applying the guidance for identifying excess positions, the Ohio District Director asked for many exceptions. As shown in enclosure I, those exceptions covered 90 of

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[4]These numbers, which exclude Support Services and FISO staff, are as of April 16, 1994, and include 1995 hiring projections.

the positions to be eliminated in Cleveland, 5 of which were approved.[5] Compliance support activities accounted for most of the positions for which the Ohio District Director requested exceptions. Essentially, the exception requests were based on the Ohio District Director's concerns over disruptions that could be caused by consolidating compliance support activities in Cincinnati. He expressed concern that this consolidation would cause severe work backlogs and significantly decrease IRS' enforcement presence. However, when we met with Ohio District officials in early February 1997 (8 months after their exception requests were written), they said that these outcomes were not likely and that Cincinnati compliance support groups would be able to absorb Cleveland's work with little long-term disruption. In that regard, the Ohio District Director said that the district had submitted many of its exception requests in an attempt to retain trained employees and reduce the impact on Cincinnati's resources as Ohio transitioned to its new structure.

In addition to the compliance support positions previously discussed, FISO staffing in Ohio is to be reduced by about 44 percent–from 27 to 7 in Cleveland and from 30 to 25 in Cincinnati.[6] Cleveland also is to lose 31 Support Services positions because when Cleveland was designated as a noncontinuing district office, IRS decided not to retain Cleveland as one of the its centralized Support Services sites.

SOME WORK BACKLOGS ARE OCCURRING IN OHIO'S COMPLIANCE SUPPORT FUNCTIONS

According to Cleveland managers, some work backlogs--delays in processing work and increases in inventories--were occurring in compliance support functions at the time we did our audit work. However, it is too early to tell whether they will continue after the work is transferred to Cincinnati and needed positions are filled. Cleveland examination managers attributed the backlogs to a drop in productivity resulting from low staff morale, attrition, and the inability to transfer work to Cincinnati. Cleveland collection managers attributed the backlogs to attrition–4 of the 19 staff in one of the support groups had left since the district office consolidation began and 4 more were expected to take buyouts. Ohio District officials were also concerned that these backlogs could continue or increase even after the work is transferred to Cincinnati, depending on how quickly IRS could hire and train staff to fill needed positions in Cincinnati. However, these officials said that after new staff were in place and trained

[5]The five requests that were approved were for taxpayer service and the Federal/State Program. IRS is consolidating its customer service operations into 23 centers. Because Cleveland, rather than Cincinnati, is to be the location of one of the 23 centers, IRS decided to locate the district's Chief of Taxpayer Service, Assistant Chief and two staff in Cleveland. IRS also decided that Ohio's Federal/State Coordinator should be in Columbus, the state capital, rather than in Cleveland or Cincinnati.

[6]Cleveland is to retain some FISO staff because it is the site of one of IRS' 23 proposed customer service sites, and IRS wanted to have FISO staff available locally to service those sites.

they would be able to handle the consolidated workloads. According to an Ohio District official, as of May 2, 1997, the Regional Commissioner was reviewing the District's request to begin filling needed positions. According to Ohio District officials, the three areas being adversely affected during the transition, and possibly after the work is transferred to Cincinnati, are the Examination Support and Processing (ESP) unit, Collection Support, and FISO.

The ESP unit is primarily responsible for closing completed examinations so that IRS can assess taxes. After an examination of a tax return is completed, an IRS revenue agent sends the case file to a centralized ESP unit where it is processed and various information about the examination is keyed into a management information system. These data are used to generate a notice to the taxpayer about taxes owed. IRS generally continues to charge the taxpayer interest and penalties until the bill is paid, including the amount of time it takes IRS to process the completed exam. However, on cases in which the taxpayer agrees with the assessment, IRS cannot charge interest past 30 days from the date of the agreement. ESP's two priorities are to close cases (1) approaching the statutory limit for an assessment--generally, 3 years from the date a return is filed and (2) involving agreed assessments of over $10,000.

According to managers in Cleveland, their ESP unit was not experiencing a backlog in high priority examination cases. However, they said backlogs were occurring in closing lower priority cases. As an indication of the potential impact of these backlogs, the Cleveland ESP unit had 533 cases (about 28 percent of the total active inventory) over 30 days old, as of February 3, 1997, compared with 58 cases (about 8 percent) in Cincinnati. Cleveland managers attributed the backlog to low staff morale and attrition that began when employees realized their jobs were in jeopardy.[7]

Additionally, managers in the Cleveland office were concerned about Cincinnati's ability to absorb Cleveland's workload when the transfer of compliance support work finally occurs because Cleveland's ESP unit was larger than Cincinnati's unit and had a larger workload. Cleveland's ESP unit had about 41 cases per employee as of February 1997 compared with 25 cases per employee in Cincinnati. Ohio District officials said that, while they are concerned about backlogs increasing, they have alternatives that will lessen the impact if backlogs continue after the work is transferred and needed positions are filled. Specifically, they plan to detail tax examiners to field exam groups to close simple cases--decreasing the workload of the centralized ESP unit. Also, district officials in Cincinnati said that if backlogs increase they could temporarily detail front-line examination staff to the Cincinnati ESP unit to help close cases.

Cleveland managers also expressed concern, to a somewhat lesser degree, about the impact of the consolidation on the collection support group. That unit is responsible

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[7]We recognize that there could be other explanations for this large disparity. We could not compare Cleveland's current backlog to its backlog, if any, at a comparable point in time before the restructuring began because of a change in reporting systems.

for various activities that support front-line collection personnel, including issuing and releasing liens and processing payments from taxpayers. These positions are to be eliminated in noncontinuing districts. When we visited Cleveland in February, the collection support manager told us that one of the offices in the collection support group was experiencing delays in preparing documents evidencing the full or partial payment of assessed taxes so that liens could be released. The collection support manager attributed these delays to a loss of staff–the staff in this group decreased from 19 to 15, and 4 more were expected to take buyouts.

As of May 2, 1997, according to the Chief of the Collection Division, these backlogs were continuing, and the district could not transfer workload to Cincinnati because the Ohio District had not yet negotiated with NTEU a process for transferring the work. Consequently, the district was considering detailing revenue officers into the collection support group until work can be transferred.

Managers in the Cleveland office were also concerned that after the consolidation it may take longer for IRS to file liens against Cleveland taxpayers because Cleveland used a procedure that the managers felt was more efficient than the centralized approach used by Cincinnati. However, according to the Chief of Ohio's Collection Division, the district in March 1997 decided to adopt Cleveland's procedure.

Managers in Cleveland and Cincinnati as well as the Ohio District Director expressed concern over the potential impact of the FISO consolidation. FISO managers expressed concern over their ability to fully service the district's computer and telecommunications resources with a staffing reduction of about 44 percent. The managers said that downtime on some information systems that are used for customer service activities could increase as a result of the FISO staffing reduction. However, they were not tracking downtime at the time of our visit, so it will be difficult for the managers to measure the impact of the staffing reduction after it takes effect.

DETERMINING THE AMOUNT OF NET SAVINGS FROM IRS' FIELD OFFICE RESTRUCTURING WILL BE DIFFICULT

Congress directed IRS, in its fiscal year 1997 appropriation act, to report to the House and Senate Committees on Appropriations, no earlier than March 1, 1997, on the impact of its reorganization including, among other things, the overall costs and benefits of the proposed field office restructuring. In its report, which was delivered on March 27, 1997, IRS said that the restructuring would generate personnel cost savings of $138 million from fiscal years 1997 through 2001. As shown in table 1, the reported savings are the net of (1) salary savings from eliminating 2,371 positions; (2) costs associated with filling 1,312 needed positions; and (3) transition costs, such as buyouts, associated with the reorganization.

Table 1: IRS' Estimate of Savings From Field Office Restructuring

(Dollars in millions)

Fiscal year	Transition costs[a]	Costs of filling 1,312 new positions[b]	Salary savings from eliminating 2,371 positions	Net savings
1997	($33.8)	($24.0)	$38.3	($19.5)
1998	(10.2)	(49.9)	90.8	30.7
1999	0	(53.6)	97.0	43.4
2000	0	(54.7)	97.0	42.3
2001	0	(55.9)	97.0	41.1
Total	($44.0)	($238.1)	$420.1	$138.0

[a]Transition costs include the costs of buyouts, moves, and RIFs.

[b]The cost of new positions includes salaries and training costs.

Source: Report On the Internal Revenue Service Field Support Reorganization, March 27, 1997.

IRS' methodology for estimating the costs and benefits of its field office restructuring was generally consistent with methodology that we have used in estimating the costs and savings of buyouts versus RIFs.[8] In cases where IRS' methodology differed from our methodology, we determined that those differences would tend to overstate the costs of IRS' restructuring and thus understate potential savings.

Although IRS is projecting savings in personnel costs, it does not intend to reduce its overall staffing by the net number of field positions it plans to eliminate. Instead, as noted in its report, IRS plans to redirect these resources to front-line customer service and compliance operations in the field offices. Therefore, IRS will not be achieving any personnel cost savings as a result of field office restructuring. IRS' report states that the redirection of resources will enable it to maintain stable levels of service and compliance in fiscal year 1998 and help compensate for out-year budget projections through 2002 that are essentially flat.

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[8]GAO/GGD-96-63.

IRS' Chief Management and Administration said IRS fully expects to achieve operational efficiencies as a result of IRS' field office restructuring. Specifically, he said by redirecting resources from support positions to front-line customer service and compliance positions, there will be a higher ratio of front-line staff to support staff than is currently the case. As a result, he expects that IRS will be able to answer more calls from taxpayers and collect more revenue than would have been the case without the reorganization. He said that IRS did not develop any estimates about these expected benefits for its report to Congress because the appropriation language did not require IRS to do so.

We recognize that if (1) the redirection of resources allows IRS to process more front-line work (e.g., examine more tax returns, collect more delinquent taxes, and answer more telephone calls) than is currently the case; and (2) staff in the headquarters of consolidated districts can handle all of the consolidated workload without adversely affecting cycle time or work quality, IRS could achieve some efficiencies from its field office restructuring. However, it is unclear whether the consolidation might also involve some operational costs, such as increases in cycle time and reductions in work quality, that may offset some of those benefits. Given that IRS' staffing levels are likely to fluctuate from their current levels, without a baseline ratio of front-line compliance and customer service staff to support staff before field office restructuring, it will be difficult to attribute changes in outputs to IRS' field office restructuring. Without information on the operational costs of restructuring and a baseline ratio of front-line staff to support staff, it will be difficult to fully assess the net costs and benefits of IRS' field office restructuring.

AGENCY COMMENTS AND OUR EVALUATION

We requested comments on a draft of this letter from the Acting Commissioner of Internal Revenue or his designee. On June 18, 1997, we obtained comments from the Chief Management and Administration. He generally agreed with the facts and provided some technical clarifications and updated information, which we considered and made changes where appropriate. However, he expressed two areas of concern about the letter. First, he said the letter focused on some of the adverse impacts of various reorganizations at the local level, without mentioning some of the potential benefits at other organizational levels within IRS. Second, he said he disagreed with our assessment of the likelihood of savings from IRS' field office restructuring.

With respect to his first concern, he said that our conclusions regarding the impact of consolidations at the local level and some of the causes of those impacts were based on speculations from local managers. We believe that the local managers we interviewed were in the best position to assess the impact of the various organizational restructuring at the local level, although we recognize that they may not have had adequate data to fully assess these issues. The Chief Management and Administration also said that while local managers might observe some negative impacts during the transition period of consolidation, our letter did not include a discussion of some of the benefits IRS expects to achieve as a result of its various reorganizations. While we recognize that the reorganizations may have some benefit beyond the local level, the scope of our audit did not include an assessment of those benefits at locations other than at the district offices we visited.

His second concern focused on our characterization of the likelihood of achieving savings. Our letter states that IRS may achieve some efficiencies, whereas he believes IRS will in fact achieve savings from field office restructuring. We revised the letter in an attempt to recognize IRS' overall expectations, but, as we note in that revision, there are factors that will make it difficult to quantify the net savings from restructuring.

The Chief Management and Administration also asked that we point out that IRS' total staffing has declined from 112,069 full-time equivalents in fiscal year 1995 to an estimated 102,926 full-time equivalents in fiscal year 1997. During this time, while IRS base-level staffing has declined, IRS has been redirecting resources that were doing non-front-line work to front-line compliance and customer service work. One example he cited was the elimination of regional office positions in the three regional offices that IRS closed. According to the Chief Management and Administration, some of those staff have been redirected to front-line compliance or customer service work.

SCOPE AND METHODOLOGY

To determine how IRS' field office restructuring plans affected Ohio, we reviewed various IRS studies and analyses used to support decisions to (1) reduce the number of district offices from 63 to 33 and (2) eliminate various field positions in concert with the reduction in the number of district offices. Using an IRS listing of jobs that were to be eliminated and to be added, we identified those functional areas that were most affected and we met with the highest ranking officials or managers of those areas in Cincinnati and Cleveland in February 1997. We had subsequent conversations with various district officials by telephone. We also met with IRS' Chief Management and Administration, other IRS National Office and regional office officials, the President of NTEU and union representatives in Cincinnati and Cleveland.

Although IRS offices in Ohio are losing some positions from several reorganizations (e.g., district office consolidation, FISO, and Support Services), we focused our audit work on the district office consolidation. We took that approach because the district office consolidation accounted for most of the noncontinuing positions in Ohio, and because we believe that the loss of those positions is more likely to adversely affect Ohio taxpayers than the loss of positions from the other reorganizations. Conclusions regarding operational impacts are based primarily on interviews with managers in Cincinnati and Cleveland. For the most part, we could not use existing performance measures to assess operational impacts because they either did not exist or an appropriate baseline would have been difficult to determine.

To evaluate the methodology IRS used to calculate the costs and benefits of its field restructuring, we compared that methodology to one we have used to assess the cost and benefits of buyouts versus RIFs.[9]

We did our work from January 1997 to April 1997, in accordance with generally accepted government auditing standards.

We are sending copies of this letter to other members of the Ohio congressional delegation, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. We will make copies available to others on request. Major contributors to this letter are listed in enclosure II. If you or your staff have any questions about the information in this letter, please contact me on (202) 512-9110 or David Attianese of my staff on (202) 512-9029.

Sincerely yours,

Lynda D Willis

Lynda D. Willis
Director, Tax Policy and
Administration Issues

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[9]GAO/GGD-96-63.

SUMMARY OF THE FUNCTIONAL AREAS AFFECTED BY IRS' FIELD OFFICE RESTRUCTURING AND OHIO'S REQUESTED EXCEPTIONS

As a result of an April 14, 1996, Organizational Impact Analysis, IRS officials developed a list of 1,059 field office positions that were to be eliminated–the net of 2,371 noncontinuing positions and 1,312 positions that were needed as a result of various organizational restructuring plans. Those positions encompassed the following functional areas in field offices: Examination, Collection, Taxpayer Service, the Problem Resolution Program, Field Information Systems Organization (FISO), Support Services, Employee Plans and Exempt Organizations, Appeals, the Controller's office, Field Executive Direction, Inspection, and Procurement. With the exception of the Problem Resolution Program, Ohio was targeted to lose positions in all of these functional areas.

District offices could request exceptions to the positions that were identified as noncontinuing. Their requests were first reviewed by the Regional Commissioner with oversight responsibility for the district requesting the exception. Then, the Regional Commissioners met, as a group, and made consensus recommendations to the Chief Management and Administration, Chief Compliance Officer, and the Deputy Commissioner for final approval. As a result, requests for 93 positions were approved as exceptions Servicewide.

In a June 4, 1996, memorandum to the responsible Regional Commissioner, the Ohio District requested exceptions for 90 positions, of which 5 positions were ultimately approved for exception. Table I.1 shows the net expected change in the number of positions for Cleveland and Cincinnati, by functional area, (after the exceptions were approved) and the number of exceptions requested and approved.

Table I.1: Net Expected Change as of October 2, 1996, in the Number of Positions by Functional Area in Cincinnati and Cleveland and the Number of Positions for Which Ohio Requested Exceptions and Received Approval

Functional area	**Net change for Cincinnati**	**Net change for Cleveland**	**Number of exceptions requested**	**Number of exceptions approved**
Examination	41[a]	-64	68	1[a]
Collection	7	-17	16	0
Taxpayer Service	-8	-6	4	4
Problem Resolution Program	0	0	0	0
FISO	2[b]	-27[b]	0	0
Support Services	1	-31	0	0
Employee Plans and Exempt Organizations	49[c]	0	0	0
Regional Office[d]	-30	0	0	0
Other[e]	-6	-9	2	0
Total	56	-154[b]	90	5

[a]Includes Federal/State Coordinator position to be established in Columbus.

[b]Although, on paper, Cleveland is to lose 27 FISO positions, only 20 positions may actually be lost because 7 of Cincinnati's FISO positions are to be located in Cleveland. Likewise, although Cincinnati is to gain two positions on paper, Cincinnati is scheduled to lose five positions because seven of its FISO positions are to be located in Cleveland. Therefore, the net loss for Cleveland may be only 147, and the net gain for Cincinnati may be only 49.

[c]This increase results from the consolidation of all of IRS' exempt organization determination work in Cincinnati.

[d]Although the Cincinnati Regional Office closed October 1, 1995, 30 regional office positions were still occupied when IRS prepared its October 1996 listing of noncontinuing positions. Employees occupying those positions were to report to the Southeast Region in Atlanta.

[e]Includes Appeals, the Controller's office, Inspection, Field Executive Direction, and Procurement.

Sources: GAO computed the net change in the number of positions using data from IRS' October 2, 1996, listings of excess and need positions. The number of exception requests are from Ohio's June 4, 1996, memo to the Northeast Regional Commissioner. The number of approved exceptions is from IRS' listing of approved exceptions as of July 25, 1996.

Descriptions of (1) the functional areas that are affected by field office restructuring and (2) the Ohio District's requests for exceptions in those areas are discussed in the following sections.

Examination

Of the 90 exceptions requested by the Ohio District, 68 were in the examination area. All but 2 of these 68 exception requests were for examination support positions–42 positions in the Examination Support Processing Unit (ESP), 10 positions in the Planning and Special Programs (PSP) unit, and 14 positions in Quality Measurement Staff (QMS). ESP is primarily responsible for closing completed examinations so that taxpayers may be assessed taxes and penalties owed. PSP is responsible for classifying and screening returns prior to examination and for conducting special programs to identify potentially noncompliant taxpayers. QMS is responsible for reviewing completed examinations to ensure that they were properly done. Ohio's exception request was made on the basis of concerns that Cincinnati would not be able to absorb the work of the Cleveland examination support groups. The entire exception request for examination support was denied.

The other two requests for exceptions in the examination area involved the Disclosure Specialist and a Federal/State Coordinator. Disclosure Specialists are responsible for administering IRS' program to ensure that taxpayer information is protected. Federal/State Coordinators are responsible for coordinating activities between IRS and state agencies. The Ohio District requested that (1) a Disclosure Specialist be retained in Cleveland because of a concern about the District's ability to absorb Cleveland's workload in Cincinnati, and (2) the Federal/State Coordinator be located in Columbus, the state capital and a site of one of the district's posts-of-duty, where he could better serve the state. Only the exception for locating the Federal/State Coordinator in Columbus was granted.

Collection Support

The Ohio District requested an exception covering all 16 collection support positions that were targeted for elimination. Collection support is responsible for various activities, including issuing liens and lien releases and processing taxpayer payments, that support front-line collection personnel. The Ohio District Director requested that all 16 positions be retained in Cleveland because it would be difficult for Cincinnati's group to absorb Cleveland's workload. The entire request was denied.

Taxpayer Service

Ohio requested an exception to locate its Chief of Taxpayer Service, Assistant Chief, and two support staff in Cleveland rather than Cincinnati because Cleveland is scheduled to continue as a customer service site. IRS is consolidating its telephone-based customer service activities from 70 sites to 23 sites, including Cleveland. Cincinnati's call site is scheduled to close in 1999.[10] The 23 customer service sites are to absorb the functions of (1) toll-free taxpayer service (TPS) sites, which answer calls about tax law and procedures, taxpayer accounts, and notices that taxpayers receive from IRS; (2) automated collection system (ACS) sites, which contact taxpayers to secure delinquent tax returns and payments and answer calls from taxpayers who are the subject of collection actions; and (3) forms distribution centers, which handle requests for tax forms and publications. The request to have a Chief of Taxpayer Service, an Assistant Chief, and two support staff in Cleveland was approved.

The Ohio District Director did not request exceptions for two other types of taxpayer service positions that are scheduled to be eliminated in Cleveland–a taxpayer education coordinator and an electronic filing coordinator. Their workload is to be transferred to Cincinnati. Taxpayer education coordinators are responsible for administering district taxpayer education activities, focusing especially on business groups. Electronic filing coordinators are responsible for promoting electronic filing and monitoring tax preparers who participate in the program.

Problem Resolution Program

Ohio did not request an exception for its Problem Resolution Program. Under the district office consolidation, Problem Resolution Officers (PROs) are to remain in noncontinuing districts as Associate PROs, but their staffs were designated as noncontinuing. The PRO is responsible for helping taxpayers who feel that they have not been treated fairly by IRS and/or are experiencing a personal hardship as a result of some IRS action. PROs make use of functional staff, such as taxpayer service representatives or revenue agents, to "work" the cases. These case workers are not scheduled to be eliminated by the consolidation. Also, noncontinuing districts with continuing call sites, such as Cleveland, are to retain their full PRO staff, primarily because most taxpayer complaints requiring PRO attention are received by IRS through customer service sites.

[10]According to an IRS official, IRS plans to offer employees at the Cincinnati call site the opportunity to transfer to the customer service site located at the service center in Covington, KY.

FISO

Ohio did not request an exception for the 27 FISO positions that were identified as excess in Cleveland. Under the FISO concept, oversight responsibility is being transferred from district directors to Regional Directors of Information Services. All FISO positions are to be eliminated in noncontinuing district offices unless the office is also a customer service site. Because Cleveland is a customer service site a few FISO staff will remain.
The major goal of this reorganization is to manage field information systems resources as a corporate asset by aligning them under the Chief Information Officer. IRS expects that doing so will enable it to more consistently employ information technology throughout its field operations and to leverage resources across district boundaries. FISO is responsible for providing customer and technical support for district computer and telecommunications resources and for administering IRS' computer security program and related budgetary and procurement programs.

Support Services

Ohio did not request any exceptions for the 31 Support Services positions Cleveland was scheduled to lose. In 1993, IRS developed a strategy to make more efficient use of IRS staff who provide various support services, such as personnel, training, and facilities management. By May 1995, IRS had consolidated these services from 84 sites into 23 sites, including Cleveland. However, when Cleveland was designated as a noncontinuing district, IRS decided that it would not continue as a consolidated Support Service site and Cleveland's work was to be transferred to Detroit. IRS also eliminated another consolidated site, reducing the number to 21.

Employee Plans and Exempt Organizations (EP/EO)

Ohio did not request any exceptions for EP/EO because it is gaining, not losing EP/EO staff. EP/EO monitors employee benefit plans to ensure compliance with the Employee Retirement Income Security Act of 1974 and monitors organizations that are exempt from federal income tax to ensure compliance with statutory requirements. Cincinnati has been designated as one of five key EP/EO districts nationwide. All work associated with making determinations about whether an organization meets the requirements for a tax exempt organization is being centralized in Cincinnati.

Other

Ohio requested an exception for two positions that were to eliminated in the "other" category. The "other" category includes the Office of Field Executive Direction, Appeals, the Controllers office, Inspection, and Procurement. Ohio requested exceptions for two positions under the Office of Field Executive Direction. That office supports the District Director and generally includes a Public Affairs Officer, an Equal Employment Opportunity Specialist, and a Quality Coordinator. The Quality Office oversees various initiatives to improve work processes. Since noncontinuing offices will no longer have a district director, IRS determined that these positions were no longer needed in noncontinuing sites. The Ohio District requested, and was denied, exceptions for its Equal Employment Opportunity and Quality Offices in Cleveland.

Ohio did not request exceptions for appeals (one position in Cincinnati and two positions in Cleveland), inspection (two positions in Cincinnati), the controller's office (five positions in Cleveland), and procurement (three positions in Cincinnati). The appeals function provides an impartial review process for cases in which a taxpayer does not agree with IRS' determination about taxes owed. Inspection includes IRS' Internal Audit and Internal Security functions. The Controllers office is responsible for budget and accounting work for field offices.

MAJOR CONTRIBUTORS TO THIS REPORT

GENERAL GOVERNMENT DIVISION, WASHINGTON, D.C.

David Attianese, Assistant Director, Tax Policy and Administration Issues
Sherrie Russ, Senior Evaluator
Bryon Gordon, Senior Evaluator

ATLANTA FIELD OFFICE

Robert V. Arcenia, Evaluator-in-Charge
Ronald J. Heisterkamp, Evaluator

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