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TAX ADMINISTRATION

IRS' Fiscal Year 1999 Budget Request and Fiscal Year 1998 Filing Season

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Tax Administration: IRS' Fiscal Year 1999 Budget Request and 1998 Filing Season

The administration is requesting about $8.3 billion and 102,000 full-time equivalent (FTE) staff years for IRS in fiscal year 1999. This is an increase of about $500 million and 1,500 FTEs over IRS' proposed operating level for fiscal year 1998. The most critical issue IRS faces this year and next is the need to make its computer systems century date compliant. The goal is to implement all Year 2000 efforts by January 1999 to allow time for testing. IRS' latest estimates indicate that additional funds will be needed for fiscal year 1998 beyond the amount already available. IRS is also refining its budget estimates for fiscal year 1999 in light of more current information.

For fiscal year 1999, the administration is requesting $323 million for IRS' "Information Technology Investments Account." When combined with the $325 million appropriated for this account last year, that request would increase the account's total to $648 million. Because $246.5 million of the request has not been justified on the basis of analytical data or derived using a verifiable estimating method, GAO believes that Congress should consider reducing the administration's request by that amount.

The administration's request also includes $103 million to enhance customer service. IRS plans, among other things, to provide better telephone service, improve customer service training, strengthen the Taxpayer Advocate's Office, make it easier to get answers in person, and improve the clarity of forms and notices—all areas that are critical to good customer service and that need improvement.

Each year, IRS submits detailed budget estimates to support the administration's budget request. In GAO's opinion, several factors limit the utility of those budget estimates for oversight purposes. For example, the estimates do not provide the kind of information needed to determine how much of the administration's request is for taxpayer assistance as opposed to enforcement. One aspect of IRS' budget estimates that has improved over the years involves the use of performance measures. However, there is still much work to be done in that area and many challenges to overcome.

Interim data on the 1998 filing season indicate that IRS is continuing to make progress in two important areas—the use of electronic filing and the ability of taxpayers to reach IRS by telephone. Although it is too soon to assess the results of IRS' new initiative to reduce Earned Income Credit noncompliance, GAO does have some observations on two aspects of that initiative.

Tax Administration: IRS' Fiscal Year 1999 Budget Request and 1998 Filing Season

Madam Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in the Subcommittee's inquiry into the administration's fiscal year 1999 budget request for the Internal Revenue Service (IRS) and the status of the 1998 tax return filing season.

This statement is based on (1) our review of the administration's fiscal year 1999 budget request for IRS and supporting documentation, including IRS' February 2, 1998, budget estimates, which provide details behind the administration's request; (2) interim results of our review of the 1998 tax return filing season; (3) our past work on IRS information systems and performance measures; and (4) our ongoing reviews of the Taxpayer Advocate's Office, IRS' efforts to reduce noncompliance associated with the Earned Income Credit (EIC), and IRS' efforts to make its information systems Year 2000 compliant.

Our statement makes the following points:

- The most critical issue facing IRS this year and next is the need to make its computer systems century-date compliant. IRS received $376.7 million for that effort in fiscal year 1998 and is seeking another $234 million for fiscal year 1999. However, IRS' latest estimates indicate that additional funds will be needed for fiscal year 1998. IRS officials are also refining their budget estimates for fiscal year 1999 in light of more current information.
- As shown in appendix I, the administration's fiscal year 1999 budget request for IRS totals $8.339 billion and 102,013 full-time equivalent (FTE) staff years, which are increases of $534 million (6.8 percent) and 1,462 FTEs (1.5 percent) over IRS' proposed operating level for fiscal year 1998.[1] Included in the fiscal year 1999 request is $323 million for the information technology investments account. Because $246.5 million of that request has not been justified on the basis of analytical data or derived using a verifiable estimating method, we believe that Congress should consider reducing the administration's request by that amount. We also believe that Congress should consider precluding IRS from obligating funds from the investments account to develop or acquire modernized systems until IRS has defined and implemented mature systems life cycle processes.[2]

[1]The fiscal year 1999 amounts include the second year of an IRS initiative to improve compliance with the EIC. Like the first year, the second year is to be funded outside the spending caps.

[2]A systems life cycle defines the policies, processes, and products for managing information technology investments from conception, development, and deployment through maintenance and support.

- Also included in the fiscal year 1999 budget request is $103 million and 1,024 FTEs to enhance customer service. Most of the $103 million is to go toward providing better telephone service and improving customer service training; smaller amounts are for such things as improving walk-in service, strengthening the Taxpayer Advocate's Office, and clarifying forms and notices. Each of these areas are important to good customer service and are in need of improvement.
- Each year, IRS submits detailed budget estimates to support the administration's budget request. The utility of this information for oversight purposes is limited because (1) the intermingling of enforcement and assistance resources within various budget activities precludes an assessment of the balance between those two areas; (2) periodic restructuring of IRS' appropriations and the budget activities within those appropriations hinders long-term trend analyses; and (3) the estimates provide inadequate information on the resources being devoted to critical areas, such as the Year 2000 effort and the Taxpayer Advocate's Office.
- One aspect of IRS' budget estimates that has improved over the years involves the use of performance measures. However, there is still much work to be done and many challenges to overcome. These challenges include (1) developing a reliable measure of taxpayer burden, including the portion that IRS can influence; (2) developing measures that can be used to compare the effectiveness of IRS' various customer service programs; and (3) refining or developing new measures that gauge the quality of the services provided.
- Data on the first 2 1/2 months of the 1998 filing season indicate that IRS is continuing to make progress in two important areas—the use of electronic filing and the ability of taxpayers to reach IRS by telephone. This is also the first year of a planned 5-year initiative to reduce EIC noncompliance. Although it is too soon to assess the results of this initiative, we do have some observations on two aspects of the initiative—special assistance being provided to EIC claimants and IRS efforts to develop a baseline measure of EIC compliance.

Year 2000: Fiscal Year 1998 Funding Increases Identified; Fiscal Year 1999 Needs Being Refined

IRS, like other federal agencies, has to make its computer systems "century-date compliant." Because IRS' systems, like many others in government and the private sector, use two-digit date fields, they cannot distinguish, for example, between 1900 and 2000 (both years would be shown as "00"). IRS estimates that failure to correct this situation before 2000 could result in millions of erroneous tax notices, refunds, and bills. Accordingly, the Commissioner of Internal Revenue has designated this effort a top priority.

To make its systems Year 2000 compliant, IRS plans to (1) convert existing systems by modifying application software and data and upgrading hardware and system software where needed; (2) replace systems if correcting them is not cost-beneficial or technically feasible; and (3) retire other systems if they will not be needed after the year 2000. IRS' Year 2000 effort includes the following two major system replacement efforts:

- IRS is replacing its primary tax return and remittance input processing systems (i.e., the Distributed Input Processing System and the Remittance Processing System) with a single system, the Integrated Submission and Remittance Processing System (ISRP). This new system is being piloted at the Austin Service Center. If the pilot is successful, IRS expects to begin rolling the system out to other service centers later this year.
- IRS is consolidating its mainframe computer processing operations from 10 service centers to 2 computing centers. This consolidation is to replace the computer hardware, systems software, and telecommunications infrastructure for most of IRS' primary tax processing systems.[3]

IRS' goal is to implement all Year 2000 efforts by January 1999. IRS established this goal so that (1) Year 2000 changes would be implemented before the start of the 1999 filing season and (2) IRS could conduct an extensive systemic test of tax data transactions through IRS' mission critical systems in a Year 2000 environment to simulate how systems are likely to function and interact on or after January 1, 2000.[4]

As of March 1998, IRS estimated that the cost of its Year 2000 effort for fiscal years 1997 through 2001 would be about $925 million. IRS received $376.7 million for this effort in fiscal year 1998 and is seeking another $234 million for fiscal year 1999. IRS' latest estimates indicate that additional funds will be needed for fiscal year 1998. IRS officials are also refining their estimates for fiscal year 1999 in light of more current information.

[3]Two parts of mainframe consolidation are critical to Year 2000 compliance: (1) replacing the Communication Replacement System, which provides communications and security management and oversight for on-line account databases, and (2) replacing 16,000 terminals that support front-line customer service and compliance operations. IRS decided to undertake a larger consolidation effort because it concluded that consolidation would (1) satisfy Office of Management and Budget (OMB) Bulletin 96-02, which directs agencies to consolidate information processing centers; (2) be consistent with IRS' planned modernization architecture; and (3) save an estimated $356 million from fiscal year 1997 through fiscal year 2003.

[4]A Year 2000 environment means that system date clocks and tax data being used in the test are given dates of January 1, 2000, or later.

Additional Needs Identified for Fiscal Year 1998

Table 1 shows how the $376.7 million IRS received for Year 2000 efforts in fiscal year 1998 was allocated among various spending categories.

Table 1: IRS' Fiscal Year 1998 Appropriation for Year 2000 Efforts

Spending category	Amount (in millions)
Conversion of existing systems	
Conversion and testing	79.0
Telecommunications	23.0
ADP equipment	13.0
Operating systems software	17.0
Year 2000 project office	9.0
Certification	7.0
Contingency amount	42.0
Offset within IRS' budget[a]	–20.0
Subtotal	**170.0**
Mainframe consolidation	157.7[b]
ISRP	49.0
Total	**$376.7**

Note: Of the $376.7 million, Congress appropriated $289 million and authorized IRS to reprogram the rest from fiscal year 1997 and 1996 Tax Systems Modernization funds.

[a]IRS was to identify $20 million from other programs to cover Year 2000 costs.

[b]This amount includes the costs for all aspects of consolidation, not just the portion that is necessary for Year 2000 compliance. Congress provided an additional $7 million to relocate and retrain employees who might be affected by the mainframe consolidation project.

Source: Except for ISRP, the information in table 1 is from House Conference Report 105-284, September 29, 1997. ISRP information is from IRS' report to Congress on the status of its Year 2000 effort as of October 1, 1997.

As table 1 shows, most of the $376.7 million is to convert existing systems and consolidate mainframes. As discussed below, IRS officials have identified additional funding needs for fiscal year 1998 for the conversion of existing systems and are pursuing options for meeting those needs. Funding needs for mainframe consolidation will be more definite when IRS completes contract negotiations for this project.

Conversion of Existing Systems

IRS' fiscal year 1998 appropriation provided $170 million to convert existing systems. However, IRS officials estimate that an additional $60 to $70 million will be needed for this purpose in 1998. In part, that increase reflects the approach IRS used to assess the scope of its Year 2000 conversion work.

IRS has three tiers of computing operations—mainframe computers, minicomputers and file servers, and personal computers. IRS focused its initial Year 2000 efforts on assessing and converting its mainframe computer operations that are largely controlled by IRS' Chief Information Officer and encompass most of IRS' key tax processing systems. Assessments for the two other tiers and telecommunications systems, not all of which are under the control of the Chief Information Officer, started late and were delayed, in part, because IRS did not have a complete inventory for these areas. Since receiving its fiscal year 1998 appropriation, IRS has been trying to complete its inventory and refine its cost estimates for these information systems areas as well as for non-information systems, such as building facilities and security. Thus far in fiscal year 1998, IRS has (1) reallocated funds among the spending categories identified in the fiscal year 1998 appropriation, (2) identified specific needs for the $42 million initially set aside for contingencies, and (3) identified additional needs of about $60 to $70 million that are not yet funded. IRS notified the Appropriations Committees of these additional needs in its Year 2000 status report for the first quarter of fiscal year 1998.

According to IRS budget officials, IRS anticipates that it can meet most of the $60 to $70 million shortfall from two sources. First, the Department of the Treasury plans to submit a reprogramming letter to Congress, which will include a transfer request for IRS, in accordance with the President's February 20, 1998, supplemental budget request for fiscal year 1998.[5] According to IRS budget officials, IRS' request will call for transferring up to $50 million from unobligated balances from prior fiscal years' expired accounts. Second, according to IRS and Treasury officials, Treasury plans to fund up to $29 million in Treasury-wide telecommunications costs that IRS had previously factored into its base funding of $170 million. As a result, part of the base funding that was allocated to telecommunications costs will be available for other Year 2000 conversion work.

Mainframe Consolidation

IRS' fiscal year 1998 appropriation for mainframe consolidation was $157.7 million. Congress also provided $7 million to relocate and retrain

[5]The President's February 20, 1998, supplemental budget request covers several departments. For the Department of the Treasury, the request asks for authority to transfer up to $250 million among Department accounts as well as authority to extend the availability of unobligated balances existing at the end of fiscal year 1998 to address the challenges associated with the Year 2000 effort. According to IRS and Treasury budget officials, IRS, unlike other Treasury bureaus, already has authority to extend the availability of unobligated balances.

IRS employees who might be affected by the consolidation. According to officials from IRS' mainframe consolidation project office, the contractor's latest cost proposal for fiscal year 1998 is $195.2 million—$37.5 million more than the amount appropriated. However, project office officials said that they do not consider the $37.5 million a funding shortfall because some of the work that is included in the contractor's fiscal year 1998 proposal was started in 1997 and funded with fiscal year 1997 funds. According to documents prepared for the Commissioner's Executive Committee on Century Date Change and the 1999 Filing Season, the fiscal year 1998 budget for mainframe consolidation will remain uncertain until the completion of (1) contract negotiations and (2) the project office's validation of fiscal year 1998 budget requirements.

Fiscal Year 1999 Request Is Being Refined

The budget request for fiscal year 1999 includes $1.42 billion for operational information systems. According to IRS, $234 million of that request is for Year 2000 efforts—about $143 million less than the 1998 appropriation. Most of the $234 million is for Year 2000 work on existing systems ($140 million) and mainframe consolidation ($76 million). The rest ($18 million) is for ISRP. On the basis of information we obtained in mid-March 1998, IRS is refining its allocations of the $140 million for the conversion of existing systems. The funding requirements for mainframe consolidation could increase in light of expanded business requirements and schedule changes.

Conversion of Existing Systems

At the time we prepared this statement, Year 2000 project office officials were refining their allocations of the $140 million included in the fiscal year 1999 budget request for the conversion of existing systems. According to information we obtained in mid-March, the largest spending categories for fiscal year 1999 are testing ($58 million); contractor support to the Year 2000 project office ($20 million); and IRS salary costs ($24 million). Although we cannot comment on the adequacy of these amounts, IRS has allocated a large portion of its request to testing, which is what we would have expected based on IRS' conversion plans and schedule. However, we are concerned that IRS has not fully assessed the impact of not including all mission critical systems in a major test it is to conduct in fiscal year 1999.

IRS' plans call for completing all hardware and software upgrades and the conversion and testing of individual applications by January 1999. Beginning in January 1999, IRS plans to start what it refers to as systemic testing at Year 2000 test facilities. This test is to simulate how various tax data transactions will move through mission critical systems in a Year 2000 environment.

At the time we prepared this statement, IRS officials said that they had received a contractor's cost proposal of about $30 million for a systemic test and that the contractor's proposal is reflected in IRS' budget request for fiscal year 1999. Under this proposal, the test is to include 39 of the 126 mission critical systems IRS has identified. Officials responsible for overseeing this test said that they believe these 39 systems affect the vast majority of taxpayers. IRS officials said that although they are still negotiating with the contractor to increase the number of mission critical systems that will be included in the systemic test, not all 126 will be included.

The century date change project office Director said that those systems that are not included in the systemic test will undergo testing individually in a Year 2000 environment. We did not assess whether in fact the 39 systems that are included in the contractor's proposal affect the vast majority of taxpayers and thus may be more important to include in the test than other mission critical systems. We are concerned, however, that IRS has not fully assessed the impact of not including the other mission critical systems and the associated risks. We are also concerned that IRS has not identified the total resources needed for testing mission critical systems that are not included in the systemic test. The century date change project office Director said total resource requirements for such testing may not be known for another 6 months.

Mainframe Consolidation

The fiscal year 1999 budget request also includes $76 million for mainframe consolidation—about $89 million less than in fiscal year 1998. According to mainframe consolidation project office officials, the $76 million represents IRS' estimate of contractor costs at the time the budget request was prepared. According to the officials, several factors (final contract negotiations, an expanded set of business requirements, ergonomic furniture requirements, and a slippage in the original completion schedule) could increase the fiscal year 1999 funding requirements for mainframe consolidation.

According to mainframe consolidation project officials, IRS has received the contractor's cost proposal, which is about $7.3 million higher than IRS' initial estimate. In addition, IRS has asked the contractor to provide cost estimates for an expanded set of business requirements relating to security, disaster recovery, and testing in response to an ongoing initiative within IRS' Information Systems organization. Those estimates were not available to us when we prepared this statement. Project office officials also said that additional funds will be needed for ergonomic furniture as a result of IRS' February 19, 1998, agreement with the National Treasury Employees Union. The officials estimated that this furniture will cost about $8 million in fiscal year 1999.

In addition to expanded business requirements, additional contractor costs may arise if IRS does not meet its original completion schedule for mainframe consolidation. According to IRS' plans, all 10 service centers were to be consolidated by December 1998. The Memphis Service Center was consolidated in December 1997. However, because of field office concerns about the ambitious consolidation schedule and pending expanded business requirements, IRS is reassessing its schedule for the other nine centers. IRS is considering the following three consolidation options: (1) three centers in 1998 and six in 1999, (2) four centers in 1998 and five in 1999, or (3) five centers in 1998 and four in 1999. Because IRS has decided not to consolidate any service center during the filing season, consolidations would not start until June. Under this scenario, it is likely that IRS would incur additional costs by having to retain the contractor through most of calendar year 1999.

Thus, the budget for mainframe consolidation will remain uncertain until IRS (1) makes final decisions on which expanded business requirements will be implemented, (2) identifies the number of service centers that will be consolidated in 1998 and 1999, and (3) completes contract negotiations. IRS' goal is to complete negotiations by May 1, 1998.

Congress Should Consider Reducing and Restricting Funds Requested for Information Technology

The administration's fiscal year 1999 budget request includes $1.54 billion and 7,493 FTEs for IRS' Information Systems appropriation. Of this $1.54 billion, $1.42 billion is to fund "Operational Systems" (i.e., the operation and maintenance of existing systems), and $125 million is to fund "Developmental Systems" (i.e., new systems that are intended to sustain IRS' operations until modernization plans are implemented). IRS' proposed categories of spending under this appropriation request are consistent with our recent recommendations and related congressional actions.

In addition to the $1.54 billion, the administration is requesting $323 million for IRS' multiyear capital account for systems modernization investments, referred to as the "Information Technology Investments Account." IRS has not adequately justified $246.5 million of this request. We also question IRS' readiness to obligate funds in this investment account for the purpose of building or acquiring modernized systems because IRS has yet to complete and implement mature systems life cycle processes.

GAO Recommendations and Legislation Have Successfully Restricted IRS' Spending and Funding Requests for Information Systems

In June 1996, we reported that although IRS had initiated a number of actions to respond to our recommendations for correcting pervasive management and technical weaknesses in its Tax Systems Modernization (TSM) program, many of these actions were incomplete, and none, either individually or collectively, responded fully to any of our recommendations.[6] Accordingly, we suggested that Congress consider limiting TSM spending to cost-effective efforts that (1) support ongoing operations and maintenance (e.g., Year 2000 efforts); (2) correct pervasive management and technical weaknesses, such as a lack of requisite systems life cycle discipline; (3) are small, represent low technical risk, and can be delivered in a relatively short time frame; or (4) involve deploying already developed systems that have been fully tested, are not premature given the lack of a complete systems architecture, and produce a proven, verifiable business value. The act providing IRS' fiscal year 1997 appropriations[7] and the related conference report limited IRS' information technology spending to efforts consistent with these categories.

In September 1997, we briefed IRS' appropriations and authorizing committees on the results of our assessment of IRS' modernization blueprint. In those briefings and in a subsequent report,[8] we concluded that the blueprint represented a good start but was not sufficiently complete to use as the basis for building or acquiring systems. As a result, the conference report accompanying IRS' fiscal year 1998 appropriations act[9] limited IRS' 1998 spending to efforts that were consistent with the aforementioned spending categories.

IRS' fiscal year 1999 request of $1.54 billion for the Information Systems appropriation appears consistent with the spending/funding conditions discussed previously. For example, over 90 percent of the request is for such things as (1) ongoing systems operations and maintenance (e.g., Year

[6]Tax Systems Modernization: Actions Underway But IRS Has Not Yet Corrected Management and Technical Weaknesses (GAO/AIMD-96-106, June 7, 1996).

[7]P.L. 104-208, Sept. 30, 1996.

[8]Tax Systems Modernization: Blueprint Is a Good Start But Not Yet Sufficiently Complete to Build or Acquire Systems (GAO/AIMD/GGD-98-54, Feb. 24, 1998).

[9]H.R. Conf. Rep. No. 105-284 (1997).

2000 conversion efforts, service center mainframe consolidation, and implementation of recent tax law changes); (2) institutionalization of systems life cycle rigor and discipline; (3) establishment of an organization to manage the modernization contractor; and (4) establishment of an organization to independently ensure system quality. The remainder ($125 million) is for new systems that are either generally small, low risk, near-term projects (e.g., $33.3 million for replacement of 7-year-old laptop computers used by revenue agents) or projects that involve deployment of already developed systems, such as $60.7 million for the Integrated Collection System, for which IRS has analyzed the system's actual performance at pilot locations to validate its expected cost effectiveness.

IRS Has Not Adequately Justified $246.5 Million of the "Information Technology Investments Account" Request

Key provisions of the Clinger-Cohen Act, the Government Performance and Results Act (Results Act), and OMB Circular No. A-11 and supporting memoranda, require that, before requesting multiyear funding for capital asset acquisitions, agencies develop accurate, complete cost data and perform thorough analyses to justify the business need for the investment. For example, agencies must show that needed investments (1) support a critical agency mission; (2) are justified by a life cycle cost/benefit analysis; and (3) have cost, schedule, and performance goals.

In its fiscal year 1998 budget request for IRS, the administration had proposed an "Information Technology Investments Account" and requested $1 billion to fund it—$500 million in fiscal year 1998 and $500 million in fiscal year 1999. In our testimony last year before this Subcommittee, we questioned the need for this funding because the amounts requested were not based on analytical data or derived using formal cost estimating techniques, as required by OMB.[10] Subsequently, in IRS' fiscal year 1998 appropriations act,[11] Congress provided only $325 million for the investments account and made these funds available through fiscal year 2000. Additionally, Congress conditioned obligation of these funds on completion of the modernization blueprint and prohibited IRS from obligating any of the $325 million until September 1998.

For fiscal year 1999, the administration is requesting $323 million for the investments account. When combined with the $325 million already appropriated, this request would increase the account's total to $648 million. According to IRS, these funds are needed to develop and

[10]Tax Administration: IRS' Fiscal Year 1997 Spending, 1997 Filing Season, and Fiscal Year 1998 Budget Request (GAO/T-GGD/AIMD-97-66, Mar. 18, 1997).

[11]P.L. 105-61, Oct. 10, 1997.

deploy systems under phase 1/release 1 of its modernization blueprint. However, IRS' validated and approved business case justification and associated documentation for phase 1/release 1 specify development costs (derived using a formal cost estimating technique) of $401.5 million.

IRS has not justified the remaining $246.5 million of this $648 million on the basis of analytical data or derived the $246.5 million using a verifiable estimating method. IRS' budget estimates indicate that the $246.5 million will be used to develop business cases for subreleases 1.3 and 1.5 of phase 1/release 1 and to develop plans for releases 2 through 5 of phase 1. IRS officials could not explain how the additional $246.5 million was derived or what it was based on, other than to state that the funds will be used to develop IRS' systems life cycle methodology and future modernization business cases. Additionally, IRS budget documents state that $20 million of this amount would be earmarked for development and integration of the systems life cycle methodology. However, this request for funding lacks analytical support and is contradicted by other information. For example, the phase 1/release 1 business case used to justify the $401.5 million in this account already covers all phase 1/release 1 subreleases. Moreover, the "Information Systems" appropriation request already includes $15 million for systems life cycle development.

For these reasons, we suggest that Congress consider reducing the fiscal year 1999 request for the "Information Technology Investments Account" by $246.5 million.

Congress Should Consider Precluding Obligation of Investment Account Funds Until Systems Life Cycle Is Completed and Implemented

In our recent report on IRS' modernization blueprint, we recommended that IRS limit future requests for information technology appropriations to the four categories we mentioned earlier until IRS has implemented mature systems life cycle processes for developing and acquiring systems across the agency.[12] IRS has not yet implemented such processes. The fiscal year 1999 budget request includes funding for accomplishing just this, which we strongly support. However, until this implementation is accomplished, we suggest that Congress consider precluding IRS from obligating "Information Technology Investments Account" funds for the purpose of developing or acquiring systems under its modernization blueprint.

[12]GAO/AIMD/GGD-98-54.

Customer Service Initiative Addresses Many Problem Areas

The fiscal year 1999 budget request includes a new initiative that, if approved, will provide $103 million to enhance IRS' customer service. This initiative is the result of findings and recommendations by a Customer Service Task Force formed in May 1997.

Although the task force did not issue its report until March 1998,[13] its findings and recommendations were available to IRS several months earlier. In that regard, IRS' operating functions were told to develop cost estimates for implementing numerous changes proposed by the task force. The original estimate of $212.5 million was eventually reduced during the budget review and approval process to the $103 million in the administration's budget request. According to IRS, some of the $109.5 million reduction represented more accurate costing of parts of the proposed initiative, such as the plan to provide better telephone services, while the rest of the reduction was accommodated by either deleting parts of the proposed initiative, such as plans to enhance the appeals process, or revising the scope of other parts, such as plans to strengthen support for small businesses (see app. II).

Under the revised proposal, the greatest shares of the $103 million are to go toward providing better telephone service and improving customer service training ($50.4 million and $22.5 million, respectively). Smaller amounts are to be used to, among other things, strengthen the Taxpayer Advocate's Office; create citizen advocacy panels; make it easier for taxpayers to get answers in person; and improve the clarity of notices, forms, and publications. The need for improvement in many of these areas has been apparent for some time, and certain of IRS' proposed actions (such as providing better telephone service, creating citizen advocacy panels, and strengthening the Taxpayer Advocate's Office) are attempts to address some of the problems recently highlighted by Congress and the Commission on Restructuring IRS. Whether the $103 million is a reasonable estimate of the funds needed in fiscal year 1999 to implement this initiative will not be known until more details are available on the various parts of the initiative. Another unknown is how, if at all, the revised organizational concept proposed by the Commissioner earlier this year will affect IRS' plans for improving customer service in fiscal year 1999 or beyond.

[13]Reinventing Service at the IRS, IRS Publication 2197 (March 1998).

Various Factors Diminish the Value of IRS' Budget Estimates for Oversight Purposes

Each year, IRS submits detailed budget estimates to support the administration's budget request. We have found recent years' budget estimates to be more useful for oversight purposes, primarily because of the inclusion of better performance measures and more narrative information on actual and planned performance. Nevertheless, the utility of IRS' budget estimates for oversight purposes is limited because (1) the intermingling of enforcement and assistance resources within various budget activities precludes an assessment of the balance between those two areas; (2) periodic restructuring of IRS' appropriations and budget activities hinders long-term trend analyses; and (3) the budget estimates provide inadequate information on the resources being devoted to such critical areas as the Year 2000 effort and the Taxpayer Advocate's Office.

Mix Between Assistance and Enforcement Is Not Clear

Achieving IRS' strategic objectives of improving customer service and increasing compliance requires a mix of assistance and enforcement. Finding the appropriate mix is not easy, and we do not claim to have the answer. However, we do think that it is important for effective oversight that Congress know what mix IRS is achieving and what mix it plans to achieve. That information cannot be derived from IRS' budget estimates.

For example, IRS is requesting $891.6 million and 21,147 FTEs for the "Telephone and Correspondence" budget activity within the Processing, Assistance, and Management appropriation. That activity covers all non face-to-face contacts between IRS and taxpayers. Such contacts include typical forms of assistance, such as answering telephone calls and correspondence, as well as several enforcement activities, such as correspondence audits and attempts to collect overdue taxes via the telephone.

Last year, IRS was able to provide a breakdown of the FTEs included in the fiscal year 1998 budget request for Telephone and Correspondence. As table 2 shows, 44 percent of those FTEs were for enforcement-related operations.

Table 2: Breakdown of Fiscal Year 1998 Budget Request for the Telephone and Correspondence Budget Activity

Component	FTEs
Toll-free operations	6,459
Adjustments/Taxpayer Relations	4,722
Problem Resolution Program	438
Subtotal—assistance-related operations	**11,619 (56 percent of total)**
Service Center Examination	3,473
Service Center Collection Branch	2,844
Automated Collection System	2,839
Subtotal—enforcement-related operations	**9,156 (44 percent of total)**
Total	**20,775**

Source: IRS response to a question from the Senate Appropriations Committee in conjunction with hearings on IRS' fiscal year 1998 budget request.

This year, because of a change in its accounting structure, IRS could not give us a breakdown of the Telephone and Correspondence budget activity for fiscal year 1999. Thus, we do not know how much of this request IRS expects to devote to assistance as opposed to enforcement.

Similarly, despite its name, the Tax Law Enforcement appropriation is not exclusively for enforcement. The $3.2 billion and 46,130 FTEs being requested for that appropriation include an unspecified amount of money and FTEs for various forms of assistance, including walk-in service, taxpayer education efforts, and problem resolution. The $143 million and 2,184 FTEs being requested for the EIC compliance initiative, which we discuss in more detail later, also involve a mix of assistance and enforcement, but, again, that mix is not apparent in IRS' budget estimates.

Budget Restructuring Hinders Trend Analyses

It is often useful, in assessing agency operations, to analyze trends over several years. IRS' annual budget estimates are not conducive to such analyses because IRS periodically restructures its appropriations and the budget activities within those appropriations.

The most recent restructuring, done in conjunction with the administration's budget request for fiscal year 1998, involved the merging of various budget activities and the movement of activities between appropriations. According to IRS, that restructuring was done to, (1) match the way IRS manages its programs, (2) facilitate a clean opinion on its financial statements by simplifying account reconciliation and providing an easier audit trail, (3) distinguish capital investments from operations, and (4) provide maximum resource flexibility. Another restructuring seems likely if and when the Commissioner's proposed reorganization becomes reality.

We are not taking issue with the changes IRS made for fiscal year 1998 or with the need to restructure in general. Our intent is to point out how restructuring can hinder the ability to conduct long-term trend analyses. For example, IRS established a new budget activity in fiscal year 1998 called Telephone and Correspondence, which was formed by merging pieces from the Taxpayer Services budget activity, which was discontinued, and the Examination and Collection budget activities, which were retained in reconfigured forms. When IRS restructured its budget activities for fiscal year 1998, it recalculated its fiscal year 1997 accounts to be compatible with the new structure. However, years before 1997 are not compatible with the new structure, making long-term analyses difficult. For example, it would be of little value to compare IRS' request for the Examination budget activity in fiscal year 1999 with the actual figures for that activity in fiscal year 1996 because the 1999 version of that activity includes certain programs (such as Taxpayer Education) that were not part of the 1996 version and excludes programs (such as Service Center Correspondence) that were part of the 1996 version.

Even with restructuring, long-term analysis could still be possible if there was adequate detail behind the various budget activities. However, some key details are no longer available. As discussed earlier, IRS no longer has the level of detail behind the Telephone and Correspondence activity that it had when it first restructured that budget activity in 1998.

Budget Estimates Provide Inadequate Information on the Resources Devoted to Certain Critical Areas

Two IRS activities that are of considerable interest to Congress in the current environment are the Year 2000 effort and IRS' efforts to identify and resolve taxpayer problems. IRS' budget estimates for fiscal year 1999 provide inadequate information on both of those activities.

Year 2000 Effort

As discussed earlier, IRS' Year 2000 effort involves significant resources to convert existing systems, consolidate mainframes, and replace the primary tax and remittance input processing systems. Also, as discussed earlier, IRS has identified additional funding needs for fiscal year 1998 that go well beyond the amount appropriated. Despite the significance of this effort, IRS' fiscal year 1999 budget estimates do not discuss IRS' revised funding needs for fiscal year 1998 or specify how much of the $1.5 billion being requested for information systems in fiscal year 1999 is for Year 2000 activities.

Problem Resolution

During the past year, Congress questioned the independence of IRS' Taxpayer Advocate and the adequacy of resources devoted to the resolution of taxpayers' problems through the Problem Resolution Program (PRP). IRS' budget estimates do not accurately reflect the level of resources being devoted to problem resolution. In addition, concerns about independence may be exacerbated by the way IRS funds the work of the Taxpayer Advocate's Office.

According to IRS, the fiscal year 1999 budget request includes about $38 million and 628 FTEs for the Taxpayer Advocate's Office, an increase of about $14 million and 191 FTEs over the proposed operating level in fiscal year 1998.[14] Those resources are not separately identified in IRS' budget estimates but are included within the Telephone and Correspondence budget activity. Even if those resources were separately identified, they would significantly understate the level of resources IRS has been allocating and plans to allocate to activities of the Taxpayer Advocate's Office. That is because many of the staff who work PRP cases and who participate in Problem Solving Days are funded by other functions, such as Examination and Collection. In that regard, according to a January 1998 report by the Taxpayer Advocate, his resources for fiscal year 1998 are being supplemented by more than 1,000 other field employees, on either a full or part-time basis. We believe that oversight of the operations of the Taxpayer Advocate's Office would be enhanced if (1) the Office were given more visibility in IRS' budget structure and (2) IRS' budget estimates provided complete information on the amount of resources being devoted to those operations.

A more fundamental question, however, is whether the Taxpayer Advocate's independence is compromised in any way by the need to rely on other functions for needed staff. While working PRP cases, these employees receive program direction and guidance from the Taxpayer Advocate's Office but are administratively responsible to their functional organizations—oftentimes the same organizations responsible for the problems that led taxpayers to seek the Advocate's help. We are pursuing this and other issues in an ongoing study of the Taxpayer Advocate's Office for this Subcommittee.

[14]Among other things, the increase in resources for the Taxpayer Advocate's Office is intended to help that office handle a growing workload generated, at least in part, by the Problem Solving Days IRS has been holding monthly across the country.

IRS Faces Many Challenges in Developing Useful Performance Measures

As mentioned earlier, one aspect of IRS' budget estimates that has improved over the years involves the use of performance measures. The performance measures shown in IRS' budget have become more useful as IRS strives to develop and implement a results-oriented performance measurement system that will meet the requirements of the Results Act. As IRS acknowledges, there is still much work to be done in that area.

IRS' budget estimates for fiscal year 1999 include numerous performance measures, some of which have yet to be developed. The budget estimates include a brief description of each measure and, for those that have been developed, provide such information as the source and reliability of data used to compile the measure. Tracking performance measures over time is not always possible because some are added or dropped each year and others are revised. These kinds of changes are to be expected as IRS gets input from Congress and other stakeholders and learns more about how to measure its performance. In its fiscal year 1999 budget estimates, for example, IRS lists 16 discontinued performance measures, some of which were dropped in response to congressional concern about an undue emphasis on enforcement results.

IRS has a three-tiered system of performance measures. At the highest (mission) level, IRS has a mission effectiveness indicator intended to measure the agency's overall performance in collecting the proper amount of tax revenue at the least cost or burden to the government and the taxpayer. The second (strategic) level of indicators is intended to gauge IRS' progress in meeting its strategic objectives to improve customer service, increase taxpayer compliance, and increase productivity. According to IRS' fiscal year 1999 budget estimates, for example, IRS has four indicators and plans to develop two others to gauge its progress in improving customer service. The four existing indicators are (1) taxpayer burden cost for IRS to collect $100, (2) initial contact resolution rate for taxpayer inquiries, (3) toll-free telephone level of access, and (4) tax law accuracy rate for taxpayer inquiries. The two indicators IRS plans to develop are (1) customer satisfaction rates and (2) employee satisfaction rate. The third (program) level of indicators is intended to measure the accomplishments of specific IRS programs or operations. For example, IRS' fiscal year 1999 budget estimates include 18 program-level customer service measures, covering such things as refund timeliness, number of telephone calls answered, the quality of PRP cases, and the number of walk-in service contacts. (See app. III for a list of all of the performance measures in IRS' fiscal year 1999 budget estimates and a comparison of those measures for fiscal years 1997, 1998, and 1999.)

IRS faces some difficult challenges as it strives to improve its performance measurement system. We discussed some of those challenges in a recent report to the Subcommittee on measuring customer service.[15] As noted in that report, key challenges facing IRS include (1) developing a reliable measure of taxpayer burden, including the portion that IRS can influence; (2) developing measures that can be used to compare the effectiveness of the various customer service programs; and (3) refining or developing new measures that gauge the quality of the services provided. Measuring burden is especially difficult. IRS currently measures burden by using a model that estimates the time taxpayers spend on each tax form. As such, the measure excludes the burden taxpayers face after they file their tax returns, such as the time and costs incurred in responding to IRS notices and audits. Flaws in the burden measure also limit the usefulness of IRS' mission effectiveness indicator, because burden is a key component of that indicator. IRS recognizes the limitations of its burden measure and is looking for alternatives.

Devising ways to measure the burden that IRS influences and overcoming the other challenges our report identified will not be easy. IRS is faced with devising reliable measures that are useful in improving agency and program performance, improving accountability, and supporting policy decisionmaking. At the same time, IRS is faced with making decisions on how to minimize the costs of collecting data and measuring results over time.

Interim Data on the 1998 Filing Season Show Continued Improvement in Two Important Areas

Despite some problems (e.g., envelopes that were printed with incorrect bar codes and an apparent programming error that caused some incorrect notices), IRS appears to be headed toward another generally successful filing season. Two areas that we have looked at in assessing recent filing seasons for the Subcommittee are the extent to which returns are being filed electronically and the ability of taxpayers to reach IRS by telephone. In a report to the Subcommittee on the 1997 filing season, we said that IRS had made substantial improvements in both of those areas.[16] Data from the first 2 1/2 months of the 1998 filing season indicate continuing improvement. Besides electronic filing and telephone accessibility, another area of IRS emphasis this filing season is EIC noncompliance. This is the first year of a planned 5-year initiative aimed at reducing noncompliance through assistance, enforcement, and research. Although

[15] Tax Administration: IRS Faces Challenges in Measuring Customer Service (GAO/GGD-98-59, Feb. 23, 1998).

[16] Tax Administration: IRS' 1997 Tax Filing Season (GAO/GGD-98-33, Dec. 29, 1997).

it is too early to assess the results of this year's efforts, we do have some preliminary observations on two parts of the initiative.

Use of Electronic Filing Continues to Increase

As shown in table 3, as of March 13, 1998, IRS had received 23.4 percent more electronic returns than at the same time last year. This increase is even more significant considering that the total number of individual income tax returns filed as of March 13, 1998, was up less than 1 percent from the same time last year.

Table 3: Individual Income Tax Returns Received

Type of filing	1/1/96 to 3/15/96	1/1/97 to 3/14/97	Percent change 1996 to 1997	1/1/98 to 3/13/98	Percent change 1997 to 1998
Traditional paper	36,258	32,250	–11.1%	29,528	–8.4%
1040PC[a]	2,767	3,195	15.5	2,408	–24.6
Total paper	**39,025**	**35,445**	**–9.2**	**31,936**	**–9.9**
Traditional electronic[b]	9,811	11,570	17.9	14,199	22.7
TeleFile[c]	2,379	3,663	54.0	4,597	25.5
Total electronic	**12,190**	**15,233**	**25.0**	**18,796**	**23.4**
Total	**51,215**	**50,678**	**–1.1%**	**50,732**	**0.1%**

[a]Under the Form 1040PC method of filing, a taxpayer or tax return preparer uses personal computer software that produces a paper tax return in an answer-sheet format. The Form 1040PC shows the tax return line number and the data for that line number. Only numbers for those lines on which the taxpayer has made an entry are included on the Form 1040PC.

[b]Traditional electronic returns are those that are filed through third parties, such as tax return preparers.

[c]Under TeleFile, certain taxpayers who are eligible to file a Form 1040EZ are allowed to file using a toll-free number on touch-tone telephones.

Source: IRS' Management Information System for Top Level Executives.

As table 3 shows, the largest percentage increase last year and again this year is in the number of returns filed through TeleFile. The increase for 1997 was largely attributed to IRS' decision not to include a Form 1040EZ in the tax package sent to taxpayers who appeared to be eligible to use TeleFile—thus encouraging them to use TeleFile. The increase in use of TeleFile for 1998 may be due to a combination of last year's tax package change and a change in IRS' procedures this year. Until this year, persons who had a different address from the one they used on their prior year's return were ineligible to use TeleFile. For 1998, however, IRS updated the address information in its records through use of the Postal Service's

National Change of Address File and is now able to accept TeleFile returns from some persons who moved after they filed last year. According to IRS, this new procedure allowed it to mail TeleFile tax packages to about 1.6 million potentially eligible TeleFilers who would not have been given the opportunity to file via TeleFile under the old procedure.

The use of traditional electronic filing had also increased as of March 13—by about 23 percent over the same period last year. There have been a few changes in the program this year that may have contributed to this increase. For example, two more states (Alabama and Arizona) joined the Fed/State electronic filing program, and IRS added two more forms to the list of forms that can be filed electronically. We have insufficient information at this time to determine how much of the increase might be due to those changes rather than to a general growth in the willingness of taxpayers and tax return preparers to use this alternative way of filing.

Telephone Accessibility Continues to Improve

Another continuing positive trend this filing season is an increase in the ability of taxpayers who need assistance to reach IRS by telephone. In our report on the 1997 filing season, we noted that the accessibility of IRS' telephone assistance had increased from 20 percent during the 1996 filing season to 51 percent during the 1997 filing season. As shown in table 4, IRS data for the first 2 1/2 months of the 1998 filing season indicate that the level of access to IRS' toll-free telephone assistance has continued to increase. One clear indicator of that increased access is the significant drop in the number of calls receiving busy signals.

Table 4: Toll-Free Telephone Level of Access[a] for the First 2 1/2 Months of the 1998 and 1997 Filing Seasons[b]

	1998[c]	1997
(a) Calls answered	23.2	23.2
(b) Calls abandoned	4.9	5.0
(c) Subtotal - Calls that got into IRS' system	**28.1**	**28.2**
(d) Busy signals	2.9	13.5
(e) Total call attempts	**31.0**	**41.7**
Percent Level of Access[d]	91%	68%
Percent of calls that got into IRS' system but were abandoned[e]	17%	18%

Note: Numbers are in millions.

[a]We recently reached agreement with IRS on measuring accessibility to IRS' toll-free telephone system. The measure, called Toll-Free Telephone Level of Access, reflects the combined level of access for six toll-free numbers that taxpayers can call to, among other things, get answers to tax law questions or get information on their account. Level of Access is computed by dividing the number of calls received by total call attempts. A call is considered received if it reaches IRS' automated call system, whether it is answered by IRS or abandoned by the caller. (In 1998, 17 percent of the calls received were abandoned by the caller before making contact with an assistor.) Total call attempts are all calls received plus any calls that got a busy signal. We calculated the information for both years in table 4 using this methodology except as noted in note "c" below.

[b]Data are for January 1 through March 14, 1998, and January 1 through March 15, 1997.

[c]Although IRS' methodology combines data for six toll-free numbers, we backed out data for one of the numbers (the one for the Automated Collection System) in calculating the results for 1998 because IRS did not include data for that number in computing its results for 1997. With that deletion, data for 1997 and 1998 in table 4 should be comparable.

[d]Computed by dividing subtotal (c) by total (e).

[e]Computed by dividing calls abandoned (b) by subtotal (c).

Source: IRS' Weekly Customer Service Report.

IRS took some steps this year to improve accessibility. For example, it (1) increased the hours assistors are available to answer telephone calls from 10 hours a day, 5 days a week in 1997, to 16 hours a day, 6 days a week in 1998, and (2) increased the number of complex tax topics that are to be handled through a voice messaging system.[17] However, despite these changes, the data in table 4 indicate that the number of calls answered by IRS has remained constant compared to the number for 1997 and that the increase in level of access is due to a decrease in call attempts.

[17]Taxpayers calling with questions about these topics are asked to leave their name, telephone number, address, and best time for IRS to call them back. Staff detailed from IRS' Examination function are to call the taxpayers back within 3 business days.

Our Test Confirms Improved Accessibility

To independently check whether the level of access to IRS' toll-free assistance had increased, we conducted a test from February 9 through 26, 1998. Our results, which are not projectable, showed that the level of access we achieved during our test was close to the 91-percent level of access reported by IRS for the first 2 1/2 months of this filing season. We made 384 total calls to IRS and gained access to the telephone system 333 times, a level of access of 86.7 percent. On the other 51 calls, we received busy signals.

Of the 333 times we gained access to the telephone system, we were routed to lines that were to be answered by IRS' assistors 263 times and to lines that were to be answered by a voice messaging system 70 times. Of the 263 times we were routed to an assistor, we made contact with an assistor 239 times (90.9 percent). We abandoned the other 24 calls (9.1 percent) without making contact with an assistor after remaining on hold for 7 minutes. For each of the 70 calls that were routed to the voice messaging system, we left a message. In 57 of those cases, (81.4 percent), we received a call back from IRS within 3 business days.

Some Preliminary Observations on the EIC Compliance Initiative

IRS' fiscal year 1998 appropriation included $138 million for the first year of what is to be a 5-year EIC compliance initiative. IRS' budget request for fiscal year 1999 includes $143 million for the second year of that initiative. IRS has developed a plan for using these appropriated funds that calls for various efforts directed at reducing EIC noncompliance, including expanded assistance, increased enforcement, and enhanced research.

We are gathering data on IRS' efforts as part of two reviews for the Subcommittee: a review of EIC noncompliance and a review of the 1998 filing season. We are unable to comment at this time on the impact of any efforts undertaken this filing season because not enough time has elapsed for us to assess results.

However, we do have some comments on two aspects of IRS' plans for this filing season. First, some of the expanded assistance IRS has planned will probably be too late to help many EIC claimants. In particular, IRS designated March 28 as EIC Awareness Day, and designated April 4 and April 11 as Problem Prevention Days. On those days, IRS staff are to be available at over 150 walk-in sites to help EIC claimants prepare their returns. Although that kind of assistance is commendable, it will come too late to help many EIC claimants, if last year's filing trends hold constant. Of about 19.5 million returns filed last year with EIC claims, about 11.9 million (61 percent) were received by IRS before the end of March.

We also have questions about IRS' baseline measure of EIC compliance. IRS did a study in 1995 involving a sample of taxpayers who claimed an EIC on their tax year 1994 returns. The study showed that EIC claimants were not entitled to about 26 percent of the EIC dollars they were claiming—a noncompliance rate that generated considerable congressional concern, eventually leading to the EIC compliance initiative. However, in response to our questions about the current EIC initiative, IRS officials told us that the results of the 1995 study could not be used as a baseline measure of EIC compliance, although they were unable to satisfactorily explain why. IRS' assertion that the 1995 study cannot be used as a baseline measure of compliance raises the question whether decisions to develop and fund the 5-year EIC initiative were founded on reliable compliance data.

If IRS does a new baseline study, we question whether the results will be available soon enough to be of any value to Congress. Our concern stems from IRS' history in conducting past EIC compliance studies. For example, IRS did not release the results of its 1995 study until April 1997. If data from a new baseline study are not available until 2000, IRS will already be in the third year of the initiative and will have finalized its funding request for the fourth year.

That concludes my statement. We welcome any questions that you may have.

IRS' Fiscal Year 1999 Budget Request Compared With Proposed Fiscal Year 1998 Operating Level

Dollars in thousands

	Fiscal year 1998		Fiscal year 1999		Percent change	
Budget activity	**Dollars**	**FTEs**	**Dollars**	**FTEs**	**Dollars**	**FTEs**
Submission Processing	$850,787	15,105	$888,408	15,113	4.42%	0.05%
Telephone & Correspondence	827,176	20,255	891,648	21,147	7.79	4.40
Document Matching	61,110	1,682	62,629	1,682	2.49	0.00
Inspection	100,963	1,168	106,518	1,179	5.50	0.94
Management Services	511,046	6,850	556,005	6,950	8.80	1.46
Rent & Utilities	574,792	135	657,222	135	14.34	0.00
Subtotal: Processing, Assistance, and Management Appropriation	**2,925,874**	**45,195**	**3,162,430**	**46,206**	**8.08**	**2.24**
Criminal Investigation	367,867	4,103	373,407	4,103	1.51	0.00
Examination	1,726,132	24,934	1,714,520	24,934	–0.67	0.00
Collection	667,356	11,938	692,847	11,995	3.82	0.48
Employee Plans and Exempt Organizations	134,315	2,045	133,520	2,045	–0.59	0.00
Statistics of Income	25,787	471	26,766	471	3.80	0.00
Chief Counsel	222,011	2,582	228,479	2,582	2.91	0.00
Subtotal: Tax Law Enforcement Appropriation	**3,143,468**	**46,073**	**3,169,539**	**46,130**	**0.83**	**0.12**
Operational Information Systems	1,272,487	7,329	1,415,884	7,284	11.27	–0.61
Developmental Information Systems	0	0	125,000	209	NA	NA
Subtotal:Information Systems Appropriation	**1,272,487**	**7,329**	**1,540,884**	**7,493**	**21.09**	**2.24**
Information Technology Investments	**325,000**	**0**	**323,000**	**0**	**–0.62**	**NA**
Earned Income Credit (outside caps)	**138,000**	**1,954**	**143,000**	**2,184**	**3.62**	**11.77**
Total	**7,804,829**	**100,551**	**8,338,853**	**102,013**	**6.84**	**1.45**

Source: IRS' February 2, 1998, budget estimates for fiscal year 1999.

Impact of Reduction in Customer Service Initiative From $212.5 Million to $103 Million

Dollars in millions

Initiative	Original estimate	Revised request	Impact of reduction according to IRS
Improve clarity of notices, forms and publications	$27.7	$5.0	Original plans called for rewriting all tax packages to make them more customer friendly and easier to read; also called for publications for “lifetime events,” such as adoptions. Revised plans call for phasing in the rewriting of tax packages; IRS intends to focus in FY 1999 on selected publications for lifetime events.
Provide better telephone services	65.2	50.4	Reductions reflect a more accurate recosting. All original plans can be achieved with the $50.4 million, including increasing service to 24 hours, increasing access rates to 86%, expanding customized services through Voice Response Units, and expanding hours of forms distribution centers.
Make it easier to get answers in person	23.0	5.6	Original plans called for providing funds to conduct problem solving days, expand office hours, and open more convenient locations. Revised plans fully fund problem solving days. However, there will need to be some scaling back on plans to expand office hours, and IRS will not be able to open additional locations.
Expand electronic filing	6.0	2.5	Reductions reflect a more accurate recosting. IRS will aggressively pursue efforts to expand TeleFile and enable paperless filing through electronic signature alternative.
Strengthen customized support for small business	7.0	1.0	Original plans were staff intensive and provided 83 FTEs for both taxpayer outreach and telephone assistance. Revised plans eliminate additional FTEs for the taxpayer outreach programs and handle telephone assistance more efficiently.

(continued)

Dollars in millions

Initiative	Original estimate	Revised request	Impact of reduction according to IRS
Upgrade technology to improve customer service	$1.7	$0	The costs for Electronic Federal Tax Payment System, if needed, will be absorbed within the total resource levels for information systems.
Shift how performance is measured	2.1	1.0	Reductions reflect a more accurate recosting. Funding is sufficient for a contract to measure customer satisfaction.
Improve customer service training	32.0	22.5	These resources fund cross training of employees so that the peak workload periods for account and assistance work can be more efficiently handled. Reduction reflects a scaled back version of the original plan and more accurate costing.
Strengthen Taxpayer Advocate's Office	21.0	10.0	Reduction will necessitate scaling back plans to provide greater assistance through the Advocate's office. However, this level of funding increases current staffing levels by about one third. Because of the priority of this program, there may be some need to divert resources from other programs if enhanced service levels cannot be achieved with these resources.
Create citizen advocacy panels	15.0	5.0	Original plans called for providing funds for panels in all 33 districts. Revised plans fund pilots in four test sites, one for each region.
Enhance appeals process	11.8	0	Original plans called for establishing customer service representatives for the Appeals function in each district and speeding case processing to enhance customer service and reduce taxpayer burden. Because of other funding priorities, this initiative was eliminated.

Source: IRS' Office of Budget Formulation.

IRS Performance Measures

Tables III.1 and III.2 show the mission, strategic, and program-level performance measures included in IRS' February 2, 1998, budget estimates for fiscal year 1999. The strategic and program-level measures are categorized by IRS' three strategic objectives of improving customer service, increasing compliance, and increasing productivity.

Table III.1: IRS' Mission and Strategic-Level Performance Measures

Performance Measure	1997 actual	1998 estimate	1999 estimate
Mission-level measure			
Mission Effectiveness Indicator (percent)	79.5%	79.5%	79.5%
Strategic-level measures			
Improve customer service			
Taxpayer burden cost (in dollars) for IRS to collect $100	$8.52	$8.53	$8.55
Initial contact resolution rate (percent)[a]	78.8%	73%	73%
Toll-free telephone level of access (percent)	65.1%	70%	86%
Tax law accuracy rate for taxpayer inquiries (online) (percent)	96.1%	96%	96%
Customer satisfaction rates: all business lines	NA	NA	TBD
Employee satisfaction rate	NA	NA	TBD
Increase compliance			
Total collection percentage	87.3%	87.4%	87.4%
Total net revenue collected (trillions of dollars)	$1.504	$1.575	$1.642
Increase productivity			
Budget cost to collect $100	$0.48	$0.47	$0.49
Customers successfully served per dollars expended	NA	NA	TBD

Legend: NA = not available; TBD = to be determined.

[a]For 1998 and 1999, this measure includes telephone contacts only; correspondence contacts were included for 1997.

Source: IRS' February 2, 1998, budget estimates for fiscal year 1999.

Table III.2: IRS' Program-Level Performance Measures

Performance measure	1997 actual	1998 estimate	1999 estimate
Improve customer service			
Refund timeliness—paper filing (days)	38	40	40
Refund timeliness—electronic filing (days)	14.5	21	21
Processing accuracy-paper filing (percent)	95.2%	95%	95%
Processing accuracy—electronic filing (percent)	99.3%	99%	99%
Notice accuracy (percent)	98.6%	98.5%	98.5%
Number of TeleFile returns (millions)	4.7	5.5	5.9
Taxpayers gaining access as a percent of demand	NA	NA	TBD
Customer complaint analysis	NA	NA	TBD
Number of calls answered—includes automated (millions)	103.9	120.6	126.6
Correspondence answered	NA	NA	TBD
Problem Resolution Program average processing time (days)			
District office	36.1	35.4	35.4
Service center	31.6	30.3	30.3
Problem Resolution Program quality customer service rate (percent)			
District office	88.8%	89.4%	90.5%
Service center	80.7%	81.6%	83.4%
Currency of Problem Resolution Program inventory (days)			
District office	94	87	87
Service center	96	86	86
Walk-in customer service contacts—includes requests for forms (millions)	NA	9.9	9.9
Technical advice and service assistance per FTE	64	64	64
Private letter rulings and advance pricing agreements per FTE	66	66	66
Regulations, revenue rulings and procedures, and legislation per FTE	9	9	9

(continued)

Performance measure	1997 actual	1998 estimate	1999 estimate
Weekend Taxpayer Information File update completion time (percent of timely updates of taxpayers' accounts)	89.6%	85.6%	85.6%
Increase compliance			
Service center examination dollars recommended (billions)[a]	$2.635	$2.141	$2.223
Automated Collection System dollars collected (billions)	$4.1	$4.1	$4.1
Document matching dollars assessed (billions)[a]	$1.5	$1.218	$1.218
Internal Audit corrective actions completed (percent)	76.7%	66.3%	69.5%
Internal Security investigations effectiveness (percent)	62.9%	58.3%	61.1%
Background investigations completed timely (percent)	76.3%	81.0%	82.6%
Inspection efficiency (products divided by FTEs realized)	8.91	8.33	8.50
Usefulness of Inspection products to customers[b]	NA	3.06	3.12
Narcotics conviction rate (percent)	90%	88%	88%
Fraud conviction rate (percent)	94%	90%	90%
Field examination dollars recommended (billions)[a]	$26.18	$26.10	$26.40
Alternative treatment revenue	NA	NA	TBD
Appeals nondocketed cycle time (days)	223	217	221
Collection dollars (in billions) collected—includes Collection Field, Special Procedures, and Collection Support functions	$5.99	$6.04	$6.33
Collection average cycles per taxpayer delinquent account or taxpayer delinquency investigation disposition (weeks)	34.1	34.7	34.7
Employee plans determination letter cycle time (days)	132	140	140
Exempt organizations determination letter cycle time (days)	84	87	87
Employee plans examination cycle time (days)	NA	210	210
Exempt organizations cycle time (days)	NA	314	314

(continued)

Performance measure	1997 actual	1998 estimate	1999 estimate
Docketed Tax Court closures per FTE	65	65	65
Bankruptcy closures per FTE	228	228	228
Litigation support completions per FTE	87	87	87
Corporate Files On-Line availability to front line personnel (percent)	99.3%	99.0%	99.0%
EIC overclaim rate	NA	NA	TBD
Increase productivity			
Individual returns filed electronically (percent)	15.9%	17%	19.5%
Dollars received electronically (percent)	40.6%	48.4%	78.2%
Percent of dollars received via 3rd party processors (lockbox)	70.9%	70.9%	70.9%
Dollars collected per $100 dollars expended	NA	NA	TBD
Service center examination dollars recommended per $100 of cost[a]	NA	NA	TBD
Average dollars collected through Automated Collection System per $100 of cost	NA	NA	TBD
Support services performance index	100	103	104.5
Space utilization rate (square feet)	213	196	180
Field examination dollars recommended per $100 of cost[a]	NA	NA	TBD
Alternative treatment revenue per $100 of cost	NA	NA	TBD
Appeals staff days per disposal	2.04	2.03	2.00
Collection dollars collected per $100 of cost	NA	NA	TBD
Statistics of Income projects delivered on time (percent)	NA	90%	90%
Statistics of Income quality customer service rate (percent)	NA	90%	90%
Integrated Data Retrieval System real time availability (percent)	99%	99%	99%

(Table notes on next page)

Legend: NA = not available; TBD = to be determined.

[a]IRS plans to adjust these amounts to remove the portion attributable to penalties.

[b]According to IRS, this measure is computed by dividing the weighted sum of all customer responses to questions on the usefulness of Inspection products by the number of customer responses to Inspection requests for feedback on usefulness.

Source: IRS' February 2, 1998, budget estimates for fiscal year 1999.

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