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INTERNAL REVENUE SERVICE

Changes Needed in the Role of Regional Offices

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The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

In response to your request, this report discusses the results of our assessment of the role and responsibilities of the Internal Revenue Service's regional offices.

We are sending copies of this report to other congressional committees; the Secretary of the Treasury; the Commissioner of Internal Revenue; the Director, Office of Management and Budget; and other interested parties.

The major contributors to this report are listed in appendix III. Please contact me on (202) 512-5407 if you or your staff have any questions concerning the report.

Sincerely yours,

Jennie S. Stathis

Jennie S. Stathis
Director, Tax Policy and
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Executive Summary

Purpose

In a time of expanding telecommunications and persistent budget pressures, some large federal organizations are reducing their field structures. The Internal Revenue Service (IRS) has a three-tiered organizational structure that includes a National Office, 7 regional offices, and 73 field offices (63 district offices and 10 service centers). Questions have been raised about the value of the seven regional offices and whether they could operate more efficiently. This report, prepared in response to a request from the Chairman of the Oversight Subcommittee of the House Committee on Ways and Means, addresses those questions.

Background

IRS did not always have regional offices. Before 1952, the National Office exercised direct control over field offices, each of which was headed by a politically appointed official. Then, after congressional investigations into alleged fraud by IRS employees, IRS underwent a sweeping reorganization that, among other things, brought regional offices into IRS' organization and left only one employee, the Commissioner, as a political appointee.

Regional offices account for a small piece of IRS' overall costs and staffing. According to IRS data, regional offices (1) accounted for about 3 percent of the $6.7 billion in costs IRS incurred in fiscal year 1992 and (2) had about 2 percent of the approximately 137,000 IRS staff on board as of March 6, 1993. Most regional office staff are analysts who, among other things, monitor and evaluate field office performance; persons working in the resources management area or as computer specialists; and administrative personnel.

Results in Brief

Past studies of IRS' organization have concluded that IRS needs regional offices. In this study, GAO reached the same conclusion after surveying the internal customers of regional offices—executives in IRS' National Office and field offices—and after reviewing regional office involvement in IRS' new initiative aimed at bringing nonfilers back into the tax system.

IRS has about 96,000 field office employees spread over about 700 work locations. Evidence indicates that regional offices are needed for effective management of such a large and widespread organization. The need for regional offices could change, however, if IRS were to significantly reduce the number of field offices or if future changes to IRS' business processes and the technology supporting those processes enabled IRS to broaden its span of control (ratio of supervisors to employees).

Even though regional offices are needed, it is clear from GAO's analysis and from executives' responses to GAO's survey (see app. I) that those offices are not operating in a way that provides the most value to internal customers. Many customers, while acknowledging the need for regional offices, often responded negatively to questions about how helpful regional offices have been.

With that in mind and in conjunction with upcoming changes that will reduce the number and size of regional offices, IRS needs to rethink the role of those offices. For example, regional staff should not spend valuable time funneling information between National and field offices or doing unproductive reviews of field office activities. It is also unproductive, in GAO's opinion, for regional offices to be involved in managing activities, such as returns processing, where the number of sites involved is small enough for the National Office to manage directly.

Principal Findings

IRS Needs Regional Offices, at Least in the Near Term

IRS' past studies of its organization concluded that the National Office could not directly oversee field activities. In 1970, for example, one study group said that the National Office could effectively manage 20 field offices. Since IRS then had 68 field offices, the group concluded that regional offices were needed for effective supervision of field operations. (See pp. 18 and 19.)

Responses to GAO's 1993 survey indicated that most field office executives felt that some regional offices were needed. Of the 258 field office executives who expressed an opinion, 75 percent said that regional offices should not be eliminated, although 64 percent thought the number of regional offices could be reduced. As with past studies, span of control seemed to be an important factor in the executives' responses. About 61 percent of the 262 responding executives said that the current number of field offices was too great for the National Office to oversee without regional offices. More than half of the field office executives stated that the access to assistance, the timeliness of decisions, and/or the resolution of taxpayer issues unique to their geographic area would be worse if their office reported directly to the National Office. (See pp. 19 and 20.)

GAO also reviewed the regional offices' role in implementing an initiative IRS began in 1993 to deal with an estimated 10 million nonfilers. Regional offices played a crucial role in providing nonfiler information and guidelines to field offices and helping solve problems. Regional offices also resolved unclear guidance issued by the National Office and stepped in when the National Office did not meet field office needs for direction, support, and coordination. (See pp. 20 to 22.)

Over the next several years, IRS will be implementing significant organizational change (including the dissolution of two regional offices), introducing new technology, and revising its business processes. Those changes may eventually allow IRS to further reduce the number of regional offices or even consider eliminating that layer of management. If technology, for example, provides managers with more timely, reliable, and relevant information than currently available, IRS may be able to broaden its span of control and effectively monitor field office activities with fewer, if any, regional offices. (See pp. 22 and 23.)

Changes Needed in How Regional Offices Operate

Separate from the question of whether regional offices are needed is the question of how well they provide needed service to their internal customers. The answer to that question, based on customers responses to GAO's survey, is "not very well."

GAO asked National and field office executives several broad questions to assess their overall satisfaction with regional office services. Each of those questions generated mostly negative responses from field executives; National Office executives were more positive. In response to GAO's question on the extent to which regional offices contributed to IRS' mission, for example, only 19 percent of the 260 field office respondents said that regional offices contributed to a great or very great extent. Of the 13 National Office executives who answered the same question, however, about half (6) said "great" or "very great." (See pp. 25 to 27 .)

GAO also asked field office executives for examples of needs the regional offices had not met. Of the 100 executives who responded, 42 commented on matters that GAO categorized as "limited guidance or assistance." Other unmet needs mentioned most often by the executives involved (1) support for or advocacy of field offices, (2) use of or allowing use of creativity, and (3) good communications or feedback. (See pp. 27 and 28.)

Besides inquiring about overall assistance, GAO asked National and field office executives whether regional offices were more of a help or a hindrance in providing specific services. Responses diverged significantly among executives at different organizational levels. For example, while 84 percent of the National Office executives said that regional office assistance in providing training was much more or somewhat more of a help than a hindrance, only 42 percent and 17 percent of the district office and service center respondents, respectively, felt the same way. (See pp. 28 and 29.)

IRS has embarked on a major reorganization that will affect all of its operations. If IRS follows through on its plans, regional office staffing will be reduced significantly. It was unclear at the time GAO completed its work how that cutback will affect regional office operations. It is clear, however, that regional offices will be unable to do everything they now do. In that regard, GAO identified some regional office activities that it believes are unnecessary or need to be changed to be of more value. (See pp. 30 to 34.)

For example, as a byproduct of IRS' three-tiered organization, many National Office communications going to or from field offices are funneled through regional offices. The regional office's role is often that of a conduit, passing the communication on to the ultimate addressee without adding anything of value. When GAO asked field office executives to what extent their regional office duplicated activities of other offices without adding value, 30 percent of the 250 respondents said "to a great or very great extent." When GAO asked for examples, the activity most often mentioned (by 64 respondents) was the region's role as an information conduit. (See pp. 35 and 36.)

GAO asked field office executives to list the two least helpful things provided by their regional offices. Unproductive reviews of field office activities was the most frequently listed item, cited by 36 percent of the 228 respondents. Field office executives said that regional offices often identify problems without helping to resolve them. They said, too, that some reviews are done simply because they are required, that they duplicate reviews of other organizations, and that reports on reviews do not tell local managers anything they do not already know. (See pp. 36 and 37.)

As noted earlier, regional offices help to reduce the National Office's span of control. There are some field office activities, however, where the number of sites involved is, or will be, small enough to allow the National Office to manage those activities directly, without regional office involvement. These activities include processing returns, distributing forms and publications, and providing telephone service. (See pp. 38 and 39.)

Recommendations

The Commissioner of Internal Revenue should ensure that regional office roles and responsibilities are defined in a way that clearly supports field office needs and contributes to accomplishing IRS' mission. In defining those roles and responsibilities, IRS should (1) allow field offices to exchange information directly with the National Office, when appropriate, rather than having to funnel everything through a regional office; (2) ensure that reviews done by regional offices do not duplicate those done by other offices and that the reviews focus on helping to solve problems; and (3) remove regional offices from the chain of command in those situations where span of control is not an issue.

Agency Comments

In commenting on a draft of this report, the Commissioner of Internal Revenue said that IRS generally concurred with GAO's findings and recommendations and planned to implement them as efforts to reinvent IRS continued. GAO believes, however, that some of the actions contemplated by its recommendations could be implemented now rather than later as suggested by the Commissioner's comments. IRS' comments are presented and evaluated in chapter 3. (See pp. 41 and 42.)

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Abbreviations

GSA	General Services Administration
IRS	Internal Revenue Service
TSM	Tax Systems Modernization

Introduction

In response to a request from the Chairman of the Subcommittee on Oversight, House Committee on Ways and Means, we assessed the roles and responsibilities of the Internal Revenue Service's (IRS) regional offices. This report presents our views and those of IRS executives on the need for and value of regional offices, information on certain organizational changes planned by IRS, and our views on various inefficiencies IRS needs to address as it makes those changes.

History of IRS' Regional Offices

Before 1952, IRS operated with an organizational structure that had remained essentially unchanged since World War I. The National Office consisted of several tightly compartmented units having direct control of their own field offices. The field offices, called "collection districts," were headed by Collectors of Internal Revenue. These and other top positions were filled with politically appointed officials. In the early 1950s, a corruption and embezzlement scandal that implicated 167 IRS employees precipitated a sweeping reorganization that changed the structure of IRS and left only one IRS executive, the Commissioner, as a political appointee.[1] The reorganization resulted in a three-tiered structure—a National Office, 17 regional offices, and 64 district offices—and redistributed field activities, formerly performed in the collection districts, into the new district offices.

As noted in a 1988 report on our management review of IRS,[2] the establishment of a regional office structure added two important features to IRS operations: (1) a lower span of control[3] over field operations, thereby enhancing the supervisory review of the field offices' tax administration activities and (2) a shield for field operations against possible political interference from the National Office on specific taxpayer cases.

Since 1952, IRS has reduced the number of regional offices three times—from 17 to 9 in 1953, to 8 in 1964, and to the current 7 in 1965. IRS has also completed several organizational studies, each of which addressed the continuing need for regional offices.

[1]The IRS' Chief Counsel is also a political appointee, but that person is organizationally part of the Treasury's Office of General Counsel, not IRS.

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

[3]"Span of control" is the ratio of supervisors to employees.

In November 1961, for example, the President issued a memorandum calling for improved economy, efficiency, and effectiveness in the federal government. Responding to the memorandum, the Commissioner of Internal Revenue appointed a committee to systematically search for all types of improvements and assess a decade's experience with the 1952 reorganization. The committee was asked to investigate every aspect of organization, program, procedure, and staffing that significantly affected the use of resources.

In its 1962 report, the committee concluded that regions have a vital role in management and operations and are necessary to effectively supervise and control local operations. They said regional offices translate National Office programs and policies into operational plans, supervise district operations, provide administrative and technical services, directly conduct some operations, and provide operational viewpoints and information to assist the National Office in its responsibilities. The committee believed, however, that the number of regions, which was then nine, could be reduced by combining the New York and Boston regions. IRS did that in 1965, by making New York the headquarters for its new North-Atlantic Region. Before that, in 1964, IRS abolished the Omaha Region. Those two changes brought IRS to the seven regions that now exist.

In 1969, the Commissioner appointed another study group, whose objective was to anticipate future demands and structure IRS to best contribute to marshaling staff and resources to meet those demands. In its 1970 report, the study group concluded that an intermediate level of supervision (i.e., regional offices) was required but recommended that the number of regions be reduced to six by eliminating the Central Region. The group also recommended that the number of districts be reduced to 38 by abandoning the concept of at least 1 district per state. Neither of those recommendations was adopted.

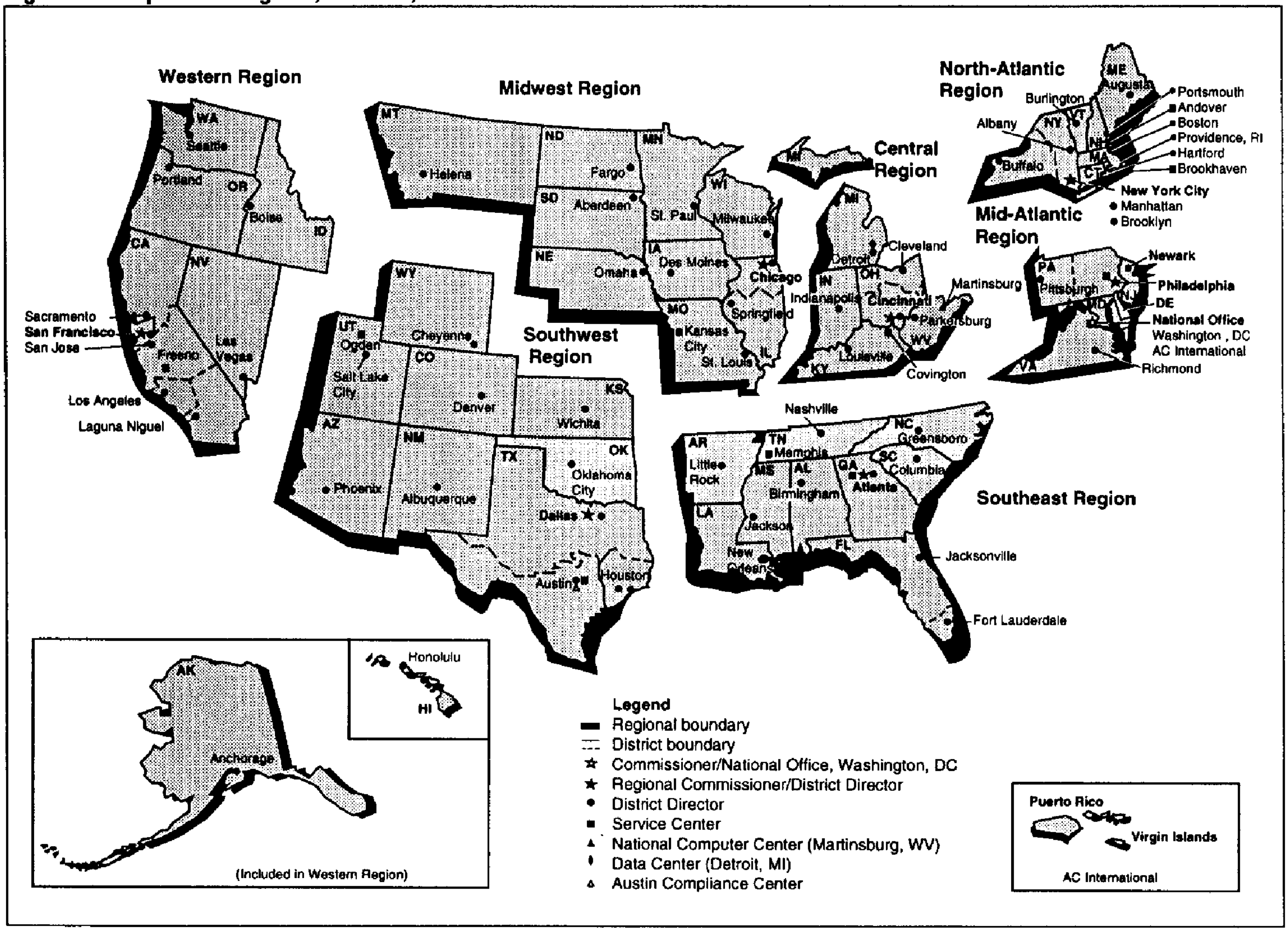
Responding to a presidential request for a governmentwide organization review, the Commissioner of Internal Revenue established a study group to review IRS' organization. In its 1978 report, the study group concluded that the three-tiered structure was conceptually sound and that regional offices provided a necessary interface between the front line and National Office policymakers.

In 1993, IRS completed studies of its entire organization, and, based on those studies, has made some restructuring decisions. These decisions included retaining its three-tiered structure with some modifications. The studies and decisions are discussed in detail in chapter 3.

Structure, Size, and Cost of IRS' Regional Offices

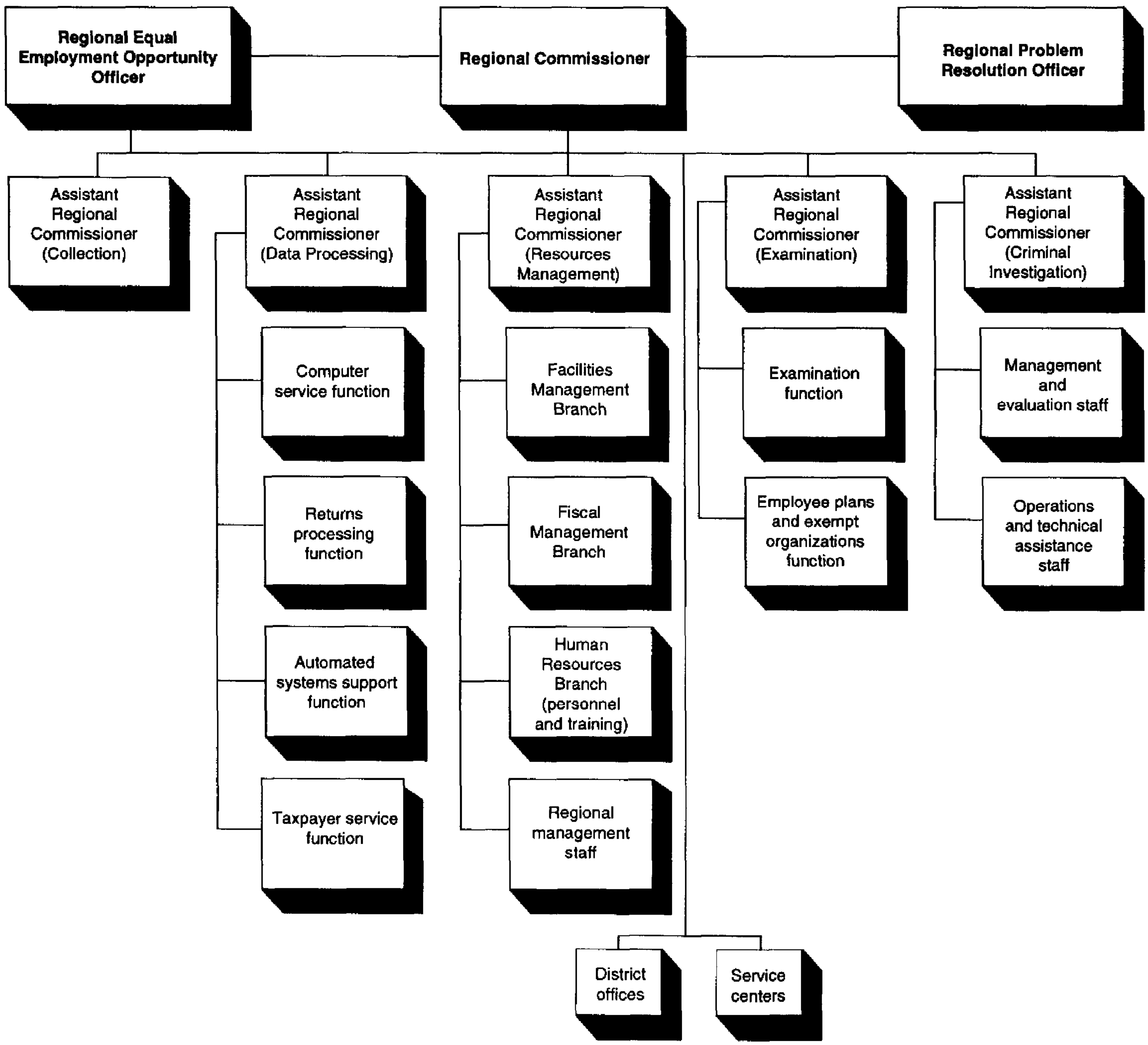
Figure 1.1 shows the geographic boundaries of IRS' 7 current regions and the location of the 73 field offices (63 district offices and 10 service centers) within those regions. Each regional office is headed by a regional commissioner, who reports directly to the Deputy Commissioner. At the time we did our audit work, IRS' regional offices were typically organized along the lines shown in figure 1.2.

Figure 1.1: Map of IRS Regions, Districts, and Service Centers



Source: IRS annual report for fiscal year 1992.

Figure 1.2: Organization Chart of a Typical IRS Regional Office



Source: Internal Revenue Manual.

On March 6, 1993, IRS had 136,865 employees on board,[4] of whom about 2 percent (2,503) worked in the regional offices. Regional office staff are not on the front line in administering the tax laws. Rather, they support front-line staff in service centers and district offices where the bulk of IRS employees work. Table 1.1 shows a breakout of those regional office staff by position title.

Table 1.1: Number of IRS Regional Office Staff by Position Title as of March 6, 1993

Regional office occupation	Number	Percent
Analysts[a]	705	28.2
Technicians/Specialists[b]	679	27.1
Administrative	467	18.7
Managers	204	8.2
Other	448	17.9
Total	**2,503**	**100.1[c]**

[a]Regional analysts clarify program requirements, monitor and evaluate district office and service center performance, and elevate field office concerns to the National Office.

[b]The technician/specialist category includes staff working in accounting and personnel functions in the resources management area or as computer specialists.

[c]The percents do not total to 100 due to rounding.

Source: IRS' Automated Financial System.

IRS' fiscal year 1992 costs totaled about $6.7 billion, with regional offices and field offices accounting for about $4.7 billion. Using IRS data, we determined that regional offices accounted for $209 million, or about 4.4 percent, of the $4.7 billion. That amount is only an approximation because regional offices are allowed to report expenditures for district offices in a regional office cost category. Consequently, data for the regional offices are not reported consistently. For example, rent costs reported for six regional offices include rents paid for district offices in those regions, while the other regional office reported regional office and district office rents separately. Additionally, when we asked for specific regional office costs, IRS officials could not separate regional office costs from district office costs for certain activities, such as training, printing, or supplies. Even though IRS cannot provide accurate cost figures, it is still fair to say that regional offices account for a small portion of IRS' overall budget.

[4]This number is significantly higher than the 114,819 staff on board at the end of fiscal year 1992 because it includes temporary staff who are hired for the filing season.

Objectives, Scope, and Methodology

Our objectives were to (1) assess the value of regional offices to IRS and (2) identify opportunities to make regional office operations more efficient.

We gathered information from IRS' National Office, all 7 of its regional offices, 58 of its 63 district offices, each of its 10 service centers, and the Austin (TX) Compliance Center. To determine whether changes taking place in other organizations were pertinent to our study, we gathered information about the Tennessee Valley Authority and from the U.S. Postal Service, four state tax authorities, and two private companies.

We focused our work on activities under the direction of regional commissioners. As such, we did not review the activities of IRS regional inspectors and regional counsels whose management structures are separate from the regional commissioners, although they may be housed in the same facilities.

There are no performance measures against which to assess the value of IRS regional office activities. Therefore, a major part of our assessment involved getting the perspective of regional office customers—the National Office, district offices, and service centers. To do that we took the following actions:

- We sent questionnaires in March 1993 to 288 IRS field office executives, including all 63 district directors, 151 district office division chiefs,[5] all 10 service center directors, all 59 service center division chiefs, and the Director and 4 division chiefs at the Austin Compliance Center. We received a 92-percent response rate to the questionnaire.
- We held structured interviews with all 13 assistant commissioners in IRS' National Office; 3 regional commissioners and 14 assistant regional commissioners in IRS' Central, Southeast, and Western Regions; and 2 assistant regional commissioners in the Mid-Atlantic Region.

To get a more specific perspective on the regional offices' role, we reviewed how three regions (Central, Southeast, and Western) were involved in implementing IRS' nonfiler initiative. That nationwide initiative is aimed at bringing nonfilers into the tax system. To do that we

[5]The 151 district office division chiefs included all the chiefs in 21 randomly selected districts plus all the chiefs in the 6 Central Region districts.

- interviewed executives and analysts in three regional offices, three district offices, and three service centers to determine the regional office's role in implementing the nonfiler initiative;
- reviewed IRS documentation on goals and strategies, marketing activities, training materials, and implementation procedures; and
- included specific questions on the nonfiler initiative in our questionnaire to get the views of field office executives on the regional office's role.

To obtain background information on the history, makeup, and responsibilities of regional offices, we

- interviewed executives at IRS' National Office, 7 regional offices, 17 district offices, and 4 service centers;
- reviewed sections of the Internal Revenue Manual concerning regional commissioners' responsibilities and a report completed by the Western Region on the role of regional offices;
- analyzed profile data such as organizational charts, staffing data, cost trend data, and organizational change information provided by each of the seven regional offices;
- analyzed regional office cost and staffing data from IRS' Automated Financial System; and
- reviewed various IRS organizational studies.

To obtain information on IRS' current restructuring efforts, we interviewed executives involved in doing the studies supporting those efforts and reviewed study reports and other documentation.

To ensure that the results of our work were available to IRS as it made restructuring decisions, we gave the raw data from our questionnaire to IRS on May 24, 1993. Following analysis of the questionnaire data, we made additional information available to IRS on August 4, 1993.

We did our audit work from August 1992 to September 1993 in accordance with generally accepted government auditing standards. IRS provided written comments on a draft of this report. Those comments are presented and evaluated in chapter 3 and are reprinted in appendix II.

Regional Offices Are Needed to Reduce the Span of Control for the National Office

With about 116,000 employees, IRS is larger than every civilian federal agency other than the Veterans Administration and the Department of Health and Human Services. With about 96,000 of these employees spread over about 700 work locations in 73 field offices, we believe that the span of control is currently too great for IRS to effectively manage without regional oversight. Compare IRS to the Department of Housing and Urban Development, for example, which has announced plans to eliminate its 10 regional offices and have field offices report directly to Washington, D.C. That agency has only about 13,000 employees in total, which is less than the number of staff in 4 of IRS' 7 regions.

Span of control is important at IRS not just because of the large number of employees but because of the tremendous power many of those employees wield—power, such as the ability to access and adjust a taxpayer's account, initiate an audit, levy bank accounts, or seize property, that can cause serious harm to taxpayers and the government if misused.

IRS studies of its organization dating back to the early 1960s concluded that unless IRS reduced the number of field offices, the National Office could not directly oversee field activities. That was also one of the messages that came across from our survey of the regional offices' internal customers in 1993. Their responses to our questionnaire supported the need for regional offices and identified some potentially adverse effects if field offices were required to report directly to the National Office. IRS' implementation of an initiative to bring nonfilers back into the tax system provided even further evidence of the need for regional offices. The initiative showed that regional offices were valuable in moving a program from its development stage to its implementation nationwide.

That need could change in the future, however, if IRS were to significantly reduce the number of district offices. Also, future changes to IRS business processes and the technology supporting those processes could enable IRS' National Office to effectively manage field offices and thus further reduce the number of, if not eliminate, regional offices.

Previous IRS Studies Have Supported the Need for Regional Offices

Although various aspects of IRS' operating environment have changed over the years, one important element in evaluating the need for regional offices—span of control—has not changed. In prior organization assessments, IRS study groups said that span of control was an important consideration in determining the need for regional offices. In 1962, for example, one study group noted that regional offices were established to make management more effective. Referring to IRS' organization before the establishment of regional offices, the report said that various private and government investigators had concluded that the span of control over what was then 64 districts was too wide for good administration.

In 1970, another group reported on a study that, in part, examined the need for regional offices. The major regional office issue covered in the study was whether IRS could operate most effectively with a three-tier or a two-tier structure. Under a two-tier structure, district offices and service centers would report directly to the National Office. The study group reported that span of control and the role of regional offices were the two major factors in determining whether regional offices were needed. The group concluded that the number of field offices that could be effectively managed from the National Office was 20. Thus, the group said that the regional offices were needed for effective supervision of field operations, which then consisted of 58 districts and 10 service centers. Additionally, the group said the regional offices provided an essential intermediate level of management between the National Office and the districts and service centers.

Local IRS Officials Believe They Need Regional Offices

Responses to our questionnaire (see app. I) indicated that a large majority of field office executives felt that regional offices were needed, although not necessarily as many as currently exist. Span of control seemed to be an important consideration in the executives' responses.

In responding to our questionnaire, 258 district office and service center executives expressed an opinion on whether the number of regional offices should be increased, decreased, or stay the same. Seventy-five percent of those executives said that regional offices should not be eliminated, although 64 percent thought the number of regional offices could be reduced. About 88 percent of those who favored reduction felt that the appropriate number of regional offices was anywhere from three to five. About 61 percent of the 262 executives who responded to another of our questions said that the current number of field offices was too great for the National Office to provide oversight without regional offices.

We also asked field office executives whether certain services might become better or worse or stay the same if their office reported directly to the National Office. More than half of the field office executives responding to our questionnaire stated that the access to assistance, the timeliness of decisions, and/or the resolution of taxpayer issues unique to their geographic area would be worse if their office reported directly to the National Office. Not all of the reactions were negative, however. For example, most respondents felt that reporting directly to the National Office would result in better communication and a clearer understanding of National Office policy and guidance.

Another argument for a continuing regional office presence is the preference of field offices for face-to-face contact with the regional offices. In that regard, 34 percent of the 259 executives who responded to that question in our questionnaire indicated they wanted more face-to-face contact with regional offices. Another 50 percent wanted face-to-face contact with the region to remain about the same, while only 16 percent wanted less. Although many field office executives seemed to value face-to-face contact, opportunities for such contacts would surely decrease if field offices reported directly to the National Office, considering the number of field offices and the size of the National Office.

Regional Offices Played a Valuable Role in Implementing the New Nonfiler Initiative

In addition to obtaining the perspective of regional office customers, we reviewed the regional offices' role in implementing IRS' nonfiler initiative in fiscal year 1993. IRS implemented the nonfiler initiative nationwide in fiscal year 1993 to deal with an estimated 10 million nonfilers. The initiative's goal is to bring nonfilers into the system, through a combination of outreach and enforcement, and keep them there.

Regional offices played a critical role in implementing the initiative. A regional commissioner was given responsibility for implementing the initiative nationwide, and each region designated a manager to coordinate the initiative within the region. The regions established working groups to represent all the functional areas that would be affected by this new initiative. Good coordination was critical because as many as 11 regional functions, such as examination, taxpayer service, collection, and public affairs, could be involved with the initiative.

As one National Office executive explained, an important role for the regional offices was to ensure that the nonfiler initiative was implemented consistently among district offices. Although the National Office established broad policy guidelines, regional offices played a crucial role in providing nonfiler information and guidelines to field offices and helping to solve problems. For example, the National Office did not provide telephone assistors with information on where or how to refer nonfilers who needed more assistance. Regional office officials developed guidance that solved this problem. The guidance included listings of telephone numbers, addresses, and directions on guiding nonfilers to volunteer sites or walk-in locations so that they could get the assistance they needed.

Regional offices also resolved apparently unclear guidance issued by the National Office. For example, regional officials said that the National Office issued guidance for telephone assistors who took calls from nonfilers. That guidance directed assistors to use a section of the Internal Revenue Manual that, according to regional office officials, was not available to the assistors. Therefore, there was no assurance the assistors were fielding nonfiler calls in accordance with National Office guidance. A regional office official identified this conflict and worked with the National Office to resolve the problem.

Regional offices did other things to fill the gap when the National Office did not meet field office needs for direction, support, and coordination. Many districts in one region, for example, had developed their own data sheets to collect information on each nonfiler case because the National Office had not provided a data sheet for that purpose. This development of multiple data sheets resulted in inconsistencies. Consistent information is important if IRS is to have reliable data for assessing the initiative's results and for following up on individual cases. Regional office staff contributed toward resolving this problem by helping develop a uniform data sheet. One district office executive said that unlike his experience with the National Office, cross-functional cooperation between the region and district in developing the data sheet was excellent.

Responses to our questionnaire tended to support our conclusion that regional offices played a valuable role in implementing the nonfiler initiative. The number of respondents who felt that regional offices were more of a help than a hindrance in clarifying nonfiler policy and guidance outnumbered those who felt they were more of a hindrance by almost three to one.

We do not know how well the nonfiler initiative was implemented. What is clear, however, is that the regional offices played a key role in implementing the program and resolving various issues that arose during implementation. Could the National Office or the 63 districts have resolved those issues without regional office involvement? We believe that several factors argue for regional office involvement:

- The National Office's functional structure does not, in our opinion, facilitate development of detailed program guidance that cuts across functional areas. This circumstance may become less of a factor as IRS proceeds with the restructuring discussed in chapter 3.
- Regional offices can deal more effectively with implementation issues due to their proximity to field offices.
- Having 7 regional offices working toward solutions provides more assurance of consistent program implementation and equitable treatment of taxpayers than would be the case with 63 district offices, each working toward its own solution.

The Need for Regional Offices Could Change in the Future

Although regional offices are needed to provide an effective span of control in IRS' current environment, that need could change as IRS introduces new organizational structures, technology, and business processes.

As discussed more fully in the next chapter, IRS has embarked on a reorganization that, among other things, will change the structure of regional offices and the way they do business. It will be several years before those changes are fully implemented. The new structure calls for regional commissioners to report directly to the Deputy Commissioner instead of a level below the Deputy as in the past. The new structure will also reduce the number of subordinates reporting directly to the regional commissioners. For example, instead of having separate assistant regional commissioners for each enforcement function, such as Examination and Collection, the new structure calls for one enforcement executive, known as a "regional chief compliance officer," reporting to the Regional Commissioner.

The most significant structural change IRS could make that would warrant a reconsideration of the need for regional offices would be reducing the number of district offices. IRS study groups have expressed the belief that IRS could operate with fewer district offices. In 1970, for example, a study group reported that, in moving toward an optimum district structure, IRS would need to abandon the concept of having at least one district in each state. The group concluded that 38 districts represented the best structure for achieving organizational effectiveness and recommended that IRS downsize to that number. For reasons we do not know, the recommendation was not implemented.

In 1992, IRS initiated another study of its district office organization. The study group provided information on the possibility of doing business in 2001 with fewer districts. The group developed alternative organizations with 32 to 39 districts, but IRS has decided to keep the current number of 63. It is our understanding that IRS decided against any reduction because it contemplated many other changes and did not want to complicate matters by subjecting itself to any additional resistance. There is at least one district office in each state, and some IRS executives said that trying to change that number would not be well received by politicians. The concern about such resistance is not new—it was also mentioned in the 1970 reorganization report.

Many field office executives responding to our survey expressed the belief that IRS should reduce the number of districts. Our questionnaire included an open-ended question soliciting any suggestions for altering IRS' existing organizational structure. Of the 180 field office executives who responded to that question, 30 suggested that IRS reduce the number of districts. Examples of specific comments included: "Reduce the number of districts by combining smaller districts or merging into larger districts"; "Reduce the number of [district offices] by at least 50 [percent] and allow surviving districts to cross state lines, especially where metropolitan areas spread over the geography of parts of multiple states"; and ". . . eliminate all district offices with fewer than 600 employees (approximately 20)."

Besides restructuring, IRS will be introducing new technology and revising its business processes over the next several years. Those changes may allow IRS to further reduce the number of regional offices or even consider eliminating that layer of management. If technology, for example, provides managers with more timely, reliable, and relevant information than currently available, IRS may be able to effectively monitor field office activities with fewer, if any, regional offices.

Conclusions

After looking at the way IRS operates and after considering the views of IRS executives and past IRS study groups, we believe that IRS needs regional offices to effectively manage the tens of thousands of employees stationed in field offices across the country. Our opinion might change if IRS were to reduce the number of district offices or were to broaden its span of control through new technology or business processes. But until then some regional offices are needed.

Most regional office customers in the National Office and in the field agreed that regional offices are needed. At the same time, however, as discussed in the next chapter, many of those customers expressed dissatisfaction with the service being provided by regional offices. The message seemed clear: "We need regional offices, but we need them to do things differently than they do now."

Changes Are Needed in the Way Regional Offices Operate

Although regional offices are needed, it seems clear from the responses to our questionnaire and from other audit work that those offices are not operating in a way that provides the most value to internal customers. Many regional office customers, especially those in the field, while acknowledging the need for regional offices as discussed in chapter 2, were unenthusiastic at best and often very negative in their responses to questions about how helpful regional offices have been. IRS has recently announced significant organizational changes, including some that will require a rethinking of the role of regional offices. In rethinking that role, it is important that critical activities, such as those directed at ensuring appropriate and consistent implementation of IRS programs, are retained and strengthened while unimportant activities, such as the funneling of communications through the regional offices, are eliminated.

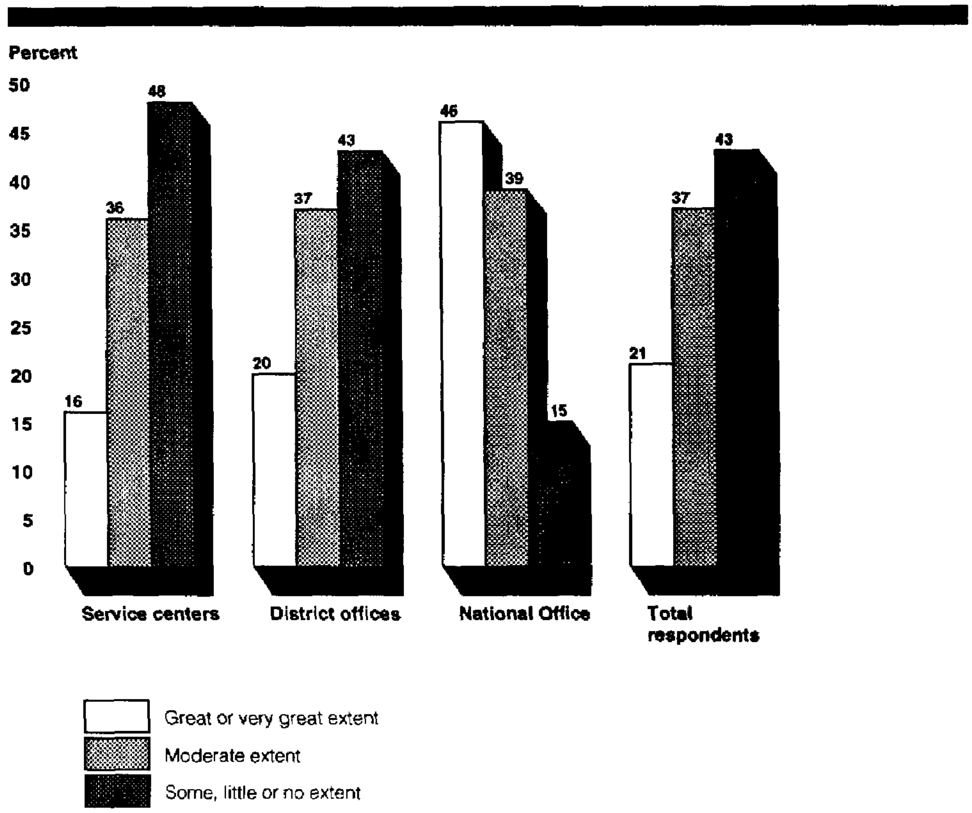
Internal Customer Satisfaction With Regional Office Services Varied Across Organizational Levels

We asked regional offices' internal IRS customers for their views on several regional office activities. Their responses showed a wide variance in levels of satisfaction with the services provided. Field office customers, for example, gave a less than overwhelming endorsement of many regional office activities, with service center customers being more negative than district office customers. National Office customers, on the other hand, were more positive.

We asked National Office, district office, and service center executives several questions directed at assessing their overall satisfaction with regional office services. Specifically, we asked whether regional offices (1) contribute to accomplishing IRS' mission, (2) meet the needs of the customer's office, and (3) are more of a help or a hindrance in providing overall assistance.

One of the most negative responses from field office executives came in response to our question about the extent to which regional offices contributed to IRS' mission. We gave the executives five answers from which to choose—very great, great, moderate, some, and little or no. Only 19 percent of the 260 field office respondents said that regional offices contributed to a great or very great extent. The rest answered "moderate" or less. As shown in figure 3.1, National Office executives were more positive.

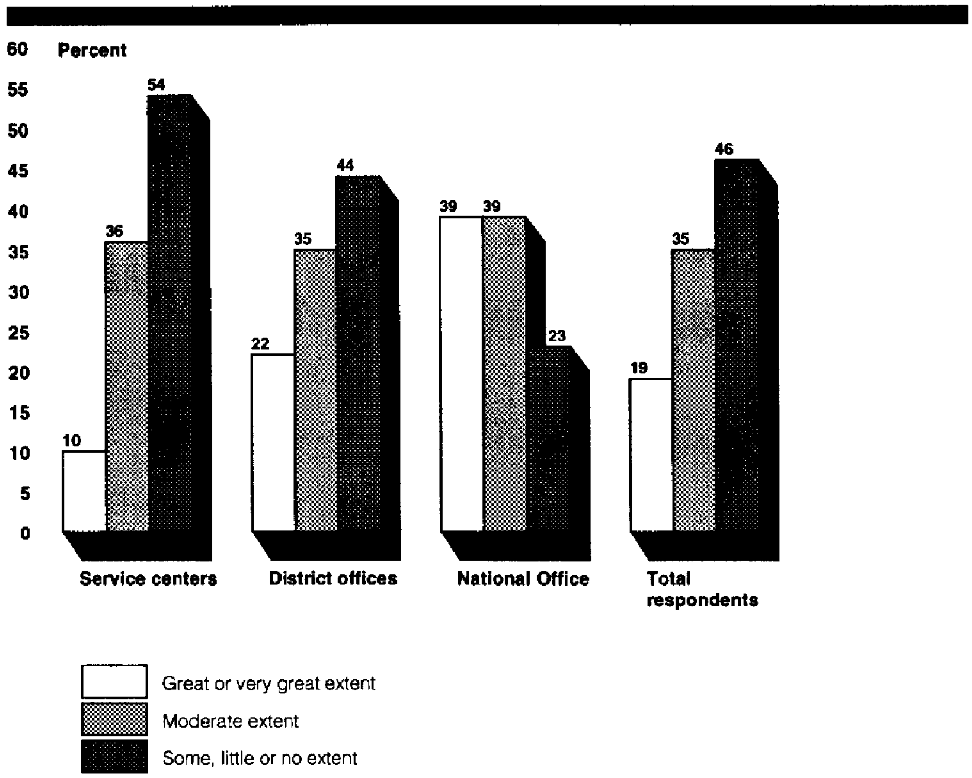
Figure 3.1: Responses of Regional Office Customers to the Question "To What Extent Does the Regional Office Contribute to Accomplishing IRS' Mission?"



Source: Analysis of responses to a questionnaire GAO sent to field office executives and structured interviews GAO held with all 13 assistant commissioners in the National Office.

As shown in figure 3.2, customers also gave the regional offices low marks when asked to identify the extent to which regional offices met the needs of the customers' offices. Here again, field office executives were much more negative than National Office executives.

Figure 3.2: Responses of Regional Office Customers to the Question "To What Extent Does the Regional Office Meet the Needs of Your Office?"



Note: Percents do not always add to 100 because of rounding.

Source: Analysis of responses to a questionnaire GAO sent to field office executives and structured interviews GAO held with all 13 assistant commissioners in the National Office.

As shown in figure 3.2, there was also a marked difference between district office and service center responses, with service center executives being more negative. Some service center officials told us that because they must meet certain work schedules, they need immediate assistance when a problem, causing downtime, occurs. The officials stated that they experience quicker response times when they bypass the regional office and deal directly with the National Office.

We asked field office executives to give examples of needs the regional offices had not met, and we combined their responses into broad categories. Of the 100 executives who responded, 42 commented on matters that we categorized as "limited guidance or assistance." For example, one executive said, “In the past we have requested their [the regional office's] assistance in analyzing problems with programs. They have not delivered.” Another executive said that “rather than assisting us in meeting customer needs, they roadblock; rather than allowing us the freedom to choose how to handle budget issues, they control; and rather than relieve administrative burden, they add to the burden.”

Other unmet needs mentioned most frequently by the 100 field office executives fell into the following categories:

- support for or advocacy of field offices (mentioned by 16 respondents),
- use of or allowing use of creativity (14 respondents), and
- good communications or feedback (12 respondents).

Other responses to our questionnaire tended to support the concern about unmet needs. When asked whether assistance provided by the regional offices had been more of a help or a hindrance, only 34 percent of service center and 50 percent of district office executives said it was more of a help. The rest thought regional office assistance was either more of a hindrance or neither a help nor a hindrance. If regional offices were operating in an ideal manner, we would expect everyone to answer “more of a help.” Any other answer raises a question about whether regional offices add value.

In addition to inquiring about overall assistance, we asked National and field office executives whether regional offices were more of a help or a hindrance in providing various specific services. Responses to that question showed an even greater difference in satisfaction among customers at different organizational levels than did responses to our more general questions. Table 3.1 shows those activities that attracted the most divergent responses.

Table 3.1: Responses to Question About Helpfulness of IRS Regional Offices in Providing Certain Services

	Percent of respondents who said that regional office assistance was much more or somewhat more of a help than a hindrance		
Regional office service	**National**	**District**	**Service center**
Providing guidance on human resources matters	100	38	28
Providing training	89	42	17
Evaluating programs	75	38	19
Conducting business reviews	75	35	22
Implementing suggestions for improvement	69	29	22
Providing solutions to problems	77	39	31

Source: Analysis of responses to a questionnaire GAO sent to field office executives and structured interviews GAO held with all 13 assistant commissioners in the National Office.

The questionnaire responses depicted in the preceding figures and table show a significant amount of dissatisfaction with the services provided by regional offices. As discussed in the next section, IRS has embarked on a major reorganization that will affect all of its operations. In conjunction with that reorganization and in light of the questionnaire responses, IRS needs to rethink the roles and responsibilities of its regional offices.

IRS Needs to Address Inefficiencies in Regional Office Operations as Part of Its Restructuring

IRS is in the midst of a major reassessment of its organizational structure and work processes. We have been urging such a reassessment for some time and are encouraged by IRS efforts.

As part of that reassessment, IRS has announced certain steps it plans to take to streamline regional office operations and is considering other changes affecting those operations. If IRS follows through on its plans, regional office staffing will be reduced significantly. At the time we completed our audit work, IRS had not yet decided on the specific roles and responsibilities of the streamlined regional offices. Thus it was unclear what would be expected of regional office staff and how any future role might differ from what they currently do.

Based on the results of our audit work, including our survey of regional office customers, we have identified some activities that regional offices now do that we think are unnecessary or need to be changed to be of more value. IRS should keep these in mind as it decides on the future role of regional offices.

IRS' Plans to Change the Way It Does Business Include a Restructuring of Regional Offices

Through a $23 billion dollar project known as Tax Systems Modernization (TSM), IRS is redesigning the automated systems so critical to its work. TSM is expected to provide the right information, at the right time, in the right place, thus enabling IRS to employ new business processes to improve front-line customer service, compliance, and processing capabilities. TSM will change how IRS receives, processes, stores, and retrieves information necessary to administer the tax system. TSM will also change the way taxpayers interact with IRS, including how they file their tax returns and get their questions answered.

In July 1991, we testified on the need for IRS to take full advantage of the opportunities afforded by this new technology by reassessing its organizational structure and business operations.[1] We noted that:

> "Although automation of current business processes should provide clear benefits, IRS' current organizational structure and business operations—premised on outdated technology—will constrain the agency from becoming all it could be with the new tools. . . . [N]ow is the time for IRS to systematically examine options for major changes in business operations, unconstrained by assumptions that limit organizational change."

In response to our testimony and similar urgings from the Office of Management and Budget and various congressional committees, in 1992, IRS initiated three studies of its organizational structure. Those studies dealt with (1) service centers, telephone call sites, and other field operations not involving face-to-face contact with taxpayers; (2) face-to-face district office functions, like examination and collection, not covered by the first study; and (3) national and regional office operations.

IRS has announced various changes resulting from those studies, which were completed in 1993. Some of IRS' decisions affect regional offices directly, while others involve changes to the National Office and field offices that will have repercussions for the regional offices.

Directly affecting the regional offices are decisions to (1) reduce the number of regional offices from 7 to 5 by December 1995, (2) decrease the number of operations analysts and managers in each regional office to 100

[1] Identifying Options for Organizational and Business Changes at IRS (GAO/T-GGD-91-54, July 9, 1991).

by December 1993 and then to 50 by December 1994,[2] and (3) appoint regional chief compliance officers in each region in an effort to focus on new strategies for improving compliance and eliminating duplicative efforts. IRS' intent in downsizing the regional offices is to redirect resources to front-line positions in the hope of improving compliance and customer service. Toward that same end, IRS has announced changes at the National Office that include (1) realigning under 6 chiefs the responsibilities that used to be managed by 13 assistant commissioners reporting to 3 chiefs and (2) reassigning 800 to 1,000 National Office staff to field office positions by 1995.

Under the new organization, according to IRS, the National Office will guide IRS by identifying internal and external trends that affect progress toward its three objectives[3] and then developing and delivering strategies to address those trends. The regional offices are to "prioritize resources toward improvement of district compliance operations; focusing national business priorities and monitoring/evaluating accomplishments; and overseeing financial accountability."

IRS has also announced changes to its field offices that, when implemented, should have an effect on the roles and responsibilities of regional offices. As a result of those changes, activities now performed by 10 service centers, 32 taxpayer service call sites, 23 automated collection sites, 3 forms distribution sites, and 2 computer sites will be consolidated into three types of organizational entities:

- Computing centers will receive tax returns and other information transmitted electronically or via magnetic media, generate notices to taxpayers, update databases, and identify issues for analysis or taxpayer contact. IRS has announced that there will be three such centers, located in Martinsburg, WV; Detroit, MI; and Memphis, TN.
- Submission processing sites will receive and scan or image all paper returns and correspondence, process the information, and store the data. IRS has indicated that there will be five such sites. The Austin Service Center has been identified as the prototype site and is scheduled to be operational in August 1995. The other four submission processing sites will be in Covington, KY; Kansas City, MO; Memphis, TN; and Ogden, UT.

[2]Operations analysts and managers are those working in the areas of examination, collection, criminal investigation, taxpayer service, and returns processing. This category does not include analysts and managers working in administrative areas like resources management and computer services.

[3]IRS' three objectives are to (1) increase voluntary compliance, (2) reduce burden on taxpayers, and (3) improve quality-driven productivity and customer satisfaction.

- Customer service sites will resolve taxpayer questions, problems, and issues that do not require face-to-face contact. IRS has announced that there will be 23 such sites.[4] Prototype testing for the customer service site concept is underway at the Fresno Service Center and the Nashville District Office.

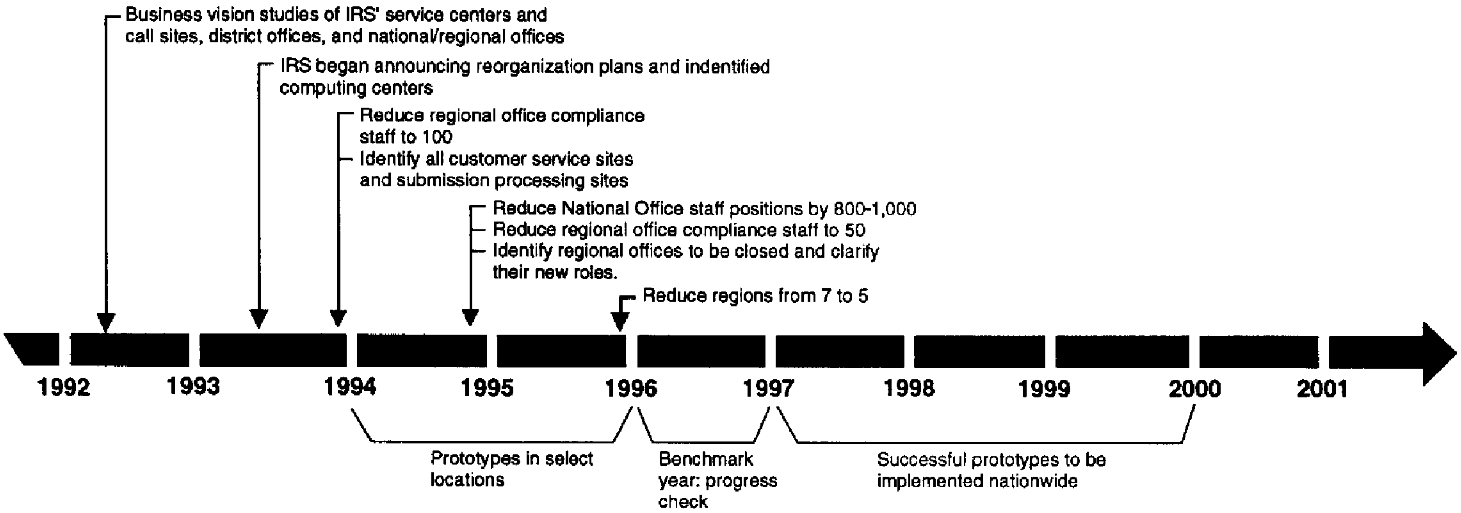
IRS has decided not to change the number and location of district offices, although the size and responsibilities of individual districts may change. For example, IRS has announced a reorganization of its criminal investigation function to be phased in during fiscal year 1994 that, among other things, will reduce from 47 to 34 the number of districts having a chief of criminal investigations. Also, in lieu of having an assistant regional commissioner for criminal investigations in each of the seven regions responsible for overseeing district office activities, the new structure calls for four directors of investigation based in separate geographic areas. The four directors will report directly to the National Office, thus eliminating the regional office from any management role.

IRS reorganization efforts generally reflect the trend of government and private organizations across the country to flatten their structures, become more efficient, and improve service to customers.

Figure 3.3 shows when IRS expects to implement its major reorganization actions.

[4]The 23 customer service sites will be located at the 10 existing service centers (Andover, MA; Atlanta, GA; Austin, TX; Brookhaven, NY; Covington, KY; Fresno, CA; Kansas City, MO; Memphis; Philadelphia; and Ogden, UT) and in 13 other cities (Baltimore, MD; Buffalo, NY; Cleveland, OH; Dallas, TX; Denver, CO; Indianapolis, IN; Jacksonville, FL; Nashville, TN; Pittsburgh, PA; Portland, OR; Richmond, VA; St. Louis, MO; and Seattle, WA.)

Figure 3.3: Time Line of IRS' Reorganization Actions



Source: IRS Transitions, fall 1993, and IRS' announced plans for reorganizing.

Changes in Regional Office Roles and Responsibilities Will Be Necessary in Light of Restructuring

IRS' decision to reduce the number of operations analysts and managers in each regional office to 50 would decrease the total number of those staff to 350 for the current 7 regional offices—a 61 percent decline from the 897 analysts and managers on board when the change was announced in March 1993. If IRS follows through with its plans to eliminate 2 regional offices, the remaining 5 regional offices would have a total of 250 analysts and managers—a 72 percent decline from the March 1993 level.

Although we support IRS efforts to downsize its regional offices, we are uncertain how the magnitude of the announced cutback will affect IRS operations. The decision to cut back to 50 operations analysts and managers in each regional office was not based on any redefinition of the roles and responsibilities of those offices and, thus, at the time we completed our audit work, it was unclear how the functions of streamlined regional offices would change.

It is clear, however, that given the significant reduction in regional office staff being contemplated, regional offices will be unable to do everything they now do. In that regard, IRS, after deciding to reduce the size of the regional offices, asked its regional commissioners to determine what the role of those streamlined offices should be and how the downsizing should be accomplished. As of December 8, 1993, the results of this study had not been finalized.

The Deputy Commissioner of Internal Revenue said that he told the regional commissioners to keep the following three key expectations of regional commissioners in mind in doing their study: (1) know the compliance levels in their geographic areas and how to go about improving compliance, (2) play a key role in sharing best practices and innovative strategies within and among regions, and (3) develop human resources. While we agree that those are important roles for regional offices, we are concerned about the absence of any mention of an oversight/evaluation role—a role we think is vital if IRS is to ensure that its programs and policies are implemented consistently and that taxpayers and employees are treated equitably.

To get additional information on what regional office services might be considered important, we also asked 2 National Office and 10 field office executives what services the regional offices now provide that are essential and must be provided by someone in order for the field offices to function. The executives identified numerous services, with little consensus among them. Those services cited most often were

- being an advocate of the field offices and a buffer between them and the National Office (cited by six executives),
- coordinating among field offices (cited by five),
- sharing information among field offices (cited by four),
- providing technical support and assistance (cited by four),
- ensuring consistency in treatment of taxpayers and employees (cited by four), and
- tailoring National Office guidance to geographic differences (cited by four).

In redefining the roles and responsibilities of its streamlined regional offices, IRS also needs to identify and eliminate activities that are inefficient and a waste of regional office resources. Toward that end, we believe that IRS, needs to (1) revise its procedures so that the National Office and field offices can communicate directly rather than requiring that every communication be funneled through the regions, (2) refocus regional review and oversight activities at helping to solve problems rather than merely identifying them, and (3) remove regional offices from the chain of command in those areas where span of control is not an issue.

Efficiencies Possible Through More Direct Communication Between National and Field Offices

As a byproduct of IRS' three-tiered organization, many communications between the National Office and field offices are funneled through the regional offices. IRS executives told us that the regional offices were helpful in certain cases—for example, in situations dealing with interpreting policy and guidance. However, in other cases the regional office's role is that of a conduit—passing communication on to the ultimate addressee without adding anything of value.

In one situation, for example, an assistant commissioner in the National Office prepared a memorandum describing what district offices should do before using a particular database in assessing the suitability of applicants for participation in the electronic filing program. Rather than sending the memorandum to the districts, however, the assistant commissioner followed the chain of command and sent it to the cognizant assistant regional commissioners who were then expected to pass it on to the districts. In the one region where we checked, the memorandum had been forwarded to the districts with a covering transmittal document.

In a similar example, an assistant commissioner sent a memorandum to assistant regional commissioners asking them to have their district chiefs discuss IRS nonfiler efforts with local U.S. Attorneys in preparation for implementing the program in fiscal year 1993. In one regional office where we checked, the assistant regional commissioner then sent a similar memorandum to the district office directors. That memorandum did not provide additional explanation or more detailed information than was in the National Office memorandum.

In both cases, the same purpose would have been served more efficiently if the memoranda had gone directly to the districts with copies to the regions. If a region had something important to add, it could have sent its own memorandum.

Information we gathered in our survey of district office and service center executives and from discussions with National and regional office executives indicated that they are troubled by the regional offices' role as a conduit. For example, when we asked field office executives to what extent their regional office duplicated activities of other offices without adding value, 30 percent of the 250 executives who responded said "to a great or very great extent." When we asked for examples, the activity most often mentioned (by 64 of those responding) was the region's role as a conduit.

As one respondent noted, the regional office "takes National Office memo, writes a cover memo restating the original memo, gives no guidance in the cover memo and cuts 2 weeks off our response time." Or, in the words of another respondent, "All the regional office does is forward messages or ask for information for the National Office, we don't need GS-13 analysts to do that." And as yet another respondent put it, "The region is basically a conduit up and down in the organization; adding little or no value, and in fact, causing more work for the front line operators."

Regional office officials recognize the need to do something about this issue. For example, a regional commissioner, in providing input to the study of the role of regional offices, noted how technology permits information to be disseminated directly from the National Office to the district offices and concluded that the regional role in disseminating information, including cover memoranda and additional guidance, should be eliminated.

He suggested that if the National Office needs district input, a memorandum could be sent to all district offices, with a request for a response from a statistical sample of the districts. Other districts could respond, if they chose to do so. District responses could be sent directly to the National Office, with a copy to the regional office. The region could review the district responses and submit its own response based on any regional trends that it has identified.

Many Executives See a Need to Improve Regional Office Reviews of Field Office Activities

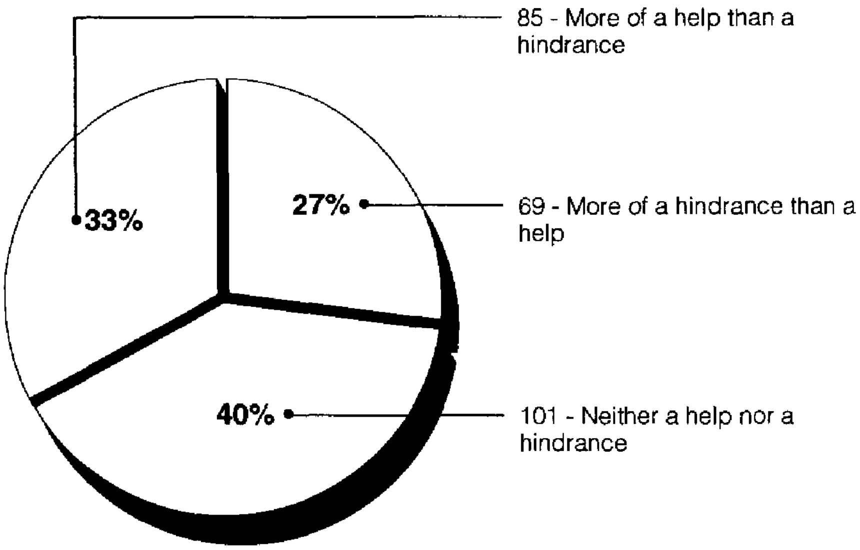
A primary role of the regional office is to review or evaluate field office implementation of IRS policies and programs. According to many IRS executives, this is an area where regional offices could do a better job.

In our questionnaire, for example, we asked field office executives to list the two least helpful things provided by their regional office. Unproductive reviews was the most frequently listed item, cited by 36 percent of the 228 respondents. One service center official told us about the following experience with an unproductive review:

- The General Services Administration (GSA) comes to review the service center once a year. For a recent GSA review, the IRS regional office sent four analysts to observe. The analysts attended GSA's opening and closing meetings and observed the 3-day GSA review, but did not "utter a sound," nor otherwise contribute to the review.

In a related question, we asked field executives whether the regional offices were more of a help or a hindrance in evaluating programs. As shown in figure 3.4, only a third of the respondents felt that regional office assistance in that area was a help.

Figure 3.4: Field Office Executives' Responses to the Question "Has the Assistance Provided by Your Regional Office in Evaluating Programs Been More of a Help or a Hindrance?"



Note: The number of field office executives responded to this question was 255.

Source: GAO survey of IRS field office executives.

We talked in more detail about this issue with executives from one district office and one service center. They told us that some regional office evaluations identify problems without helping to resolve them. The executives added that in some cases evaluations are done simply because they are required, that the evaluations duplicate reviews of other organizations, and that reports on evaluations do not provide new information but tell local managers what they already know about their programs. We believe that such evaluations are an inefficient use of regional office resources that will become even less acceptable as those resources become more scarce.

In suggesting what the future role of regional offices should be with respect to evaluation, one regional commissioner said that the regional office's evaluation should focus "on the impact of the district's programs, procedures, and initiatives on the customer (the taxpayer and/or the IRS employee), rather than on conformance with the letter of National Office policies" and that the region should "conduct its review of the district's results as a cooperative partner in a peer review format."

Regional Offices Remain in the Chain of Command Even When Span of Control Is Not an Issue

Regional offices were established to reduce the National Office's span of control over IRS district offices. Since the regional offices were established in 1952, other field offices (such as service centers and forms distribution sites) have been created where the small number of such offices makes span of control less of an issue. Still, those field offices follow the traditional chain of command and report through the regional offices. This process can create inefficiencies, delay communications, and increase paperwork.

With span of control a nonissue, we see no other reason to keep regional offices in the chain of command for those field offices. There is no need, for example, to shield those field offices from political interference by the National Office, as discussed in chapter 1. Service centers, forms distribution sites, and like offices do not engage in the kind of activities in which political interference should be a concern.

In our July 1991 testimony, we talked about various organizational and operational changes we thought IRS should consider in conjunction with the new technology being introduced through TSM.[5] One of those opportunities involved the consolidation of various types of telephone operations. Currently, IRS has 32 telephone sites to answer tax law and account questions, 23 sites to handle calls on overdue accounts, and 3 sites to handle telephone requests for copies of tax forms and publications. IRS also handles calls relating to document-matching issues and other matters at the 10 service centers. These sites are currently managed through IRS' typical chain of command, which includes regional offices.

As noted earlier, IRS, as part of its proposed restructuring, plans to have 23 customer service sites. As described by IRS, the mission of these sites will be to resolve all taxpayer questions, problems, and issues that do not require face-to-face contact, including tax law and procedural questions, forms requests, adjustments, installment agreements, underreporting, and other compliance issues. We believe that the number of sites being

[5]GAO/T-GGD-91-54.

considered by IRS is small enough to allow direct management by the National Office, assuming the proper mix of employees and managers at each site. IRS has said that customer service sites will eventually report to the National Office.

Returns processing activities present another opportunity for centralized management. Those activities are currently carried out by 10 service centers that report to the National Office through the regional offices. Because span of control should not be a significant factor with such a small number of facilities, there seems little reason to keep the regional offices in the chain of command. IRS has apparently reached the same conclusion. IRS' new Chief of Taxpayer Services, who is responsible, among other things, for returns processing activities, told us that service centers would report directly to the National Office. In responding to a draft of this report, the Commissioner of Internal Revenue said that this change would begin in fiscal year 1995.

Forms distribution sites are an even more obvious example of a situation where the span of control allows for centralized management. Those sites receive and fill orders for forms, instructions, and publications from individual taxpayers, tax practitioners, businesses, and IRS walk-in sites. Although IRS has only three distribution sites, those sites report to the National Office through district and regional offices. As a result, requests for resources and other support must pass through a district office and a regional office to reach the National Office. Guidance to the distribution centers filters down through the same chain. According to the Chief of Strategic Planning and Communication in November 1993, IRS has no plans to change that reporting chain.

IRS Is Taking Steps to Address Regional Office Inefficiencies in Nonoperational Areas

IRS has taken some steps to address regional office inefficiencies in several nonoperational areas—information systems, administrative services, and resources management. These steps, which are in the early stages of implementation, appear to involve changes that will reduce duplication and increase efficiency.

The Central Region was selected to design an organization for providing information systems services that would serve as a prototype for all regions. The regional executive responsible for managing the project told us that the newly designed organization would provide for needed services while reducing inefficiency and duplication. He also said that the new organization would reduce the Central Region's information services staff by about 55 percent and eliminate situations where more than one office unnecessarily provides the same service.

IRS is also evaluating the benefits of centralizing administrative services. Executives at all levels of the organization told us there is too much duplication in providing administrative services, such as multiple offices processing travel vouchers or processing personnel matters. As a test, IRS selected a site where it will centralize accounting and other types of repetitive transactions. The director for this test project said that the site will develop in three phases and will encompass work from the National Office and the North Atlantic, Mid-Atlantic, and Southeast Regions. In phase 1, training for about 30 employees and processing of accounts payable transactions was to begin no later than January 1994; in phase 2, starting in the summer or fall of 1994, the site will expand its accounts payable processing, include travel and relocation processing, and set up a prototype for processing personnel records; in phase 3, the site will move into a permanent location in a new federal facility. The permanent site, scheduled for occupancy in 1998, will have 400 employees.

IRS also established a Resources Management Support Strategy Group to develop a concept for managing and delivering management support for professional resources at IRS field offices. That group issued a report in July 1993 that contained numerous recommendations directed at consolidating offices and services. As of December 8, 1993, no official decision had been made on those recommendations.

Conclusions

Although our work has led us to conclude that regional offices are needed to help manage IRS' large and diverse workload and workforce, it has also clearly demonstrated that significant changes are needed in the way those offices operate. IRS' plans to streamline the regional offices can be a major step toward that end if IRS ensures that the streamlining is accompanied by appropriate changes to the roles and responsibilities of those offices.

Regional office staff should not spend valuable time funneling communications and information between National and field offices or doing unproductive reviews. It is also unproductive, in our opinion, for regional offices to be involved in managing activities, such as returns processing or customer service, where the number of sites involved is or will be small enough to facilitate direct management by the National Office.

Recommendations

The Commissioner of Internal Revenue should ensure that regional office roles and responsibilities are defined in a way that clearly supports field office needs and contributes to accomplishing IRS' mission. In defining those roles and responsibilities, IRS should do the following:

- Allow field offices to exchange information directly with the National Office, when appropriate, rather than having to funnel everything through a regional office.
- Ensure that reviews done by regional offices do not duplicate those conducted by other offices and that the reviews focus on helping to solve problems.
- Remove regional offices from the chain of command in those situations (e.g., returns processing, forms distribution sites, and telephone call sites once they are consolidated) where span of control is not an issue.

Agency Comments and Our Evaluation

The Commissioner of Internal Revenue commented on a draft of this report by letter dated May 2, 1994 (see app. II). The Commissioner said that IRS generally concurred with our findings and recommendations and planned to implement them as efforts continue to reinvent IRS and the role of regional offices.

With respect to our recommendation on information exchanges, the Commissioner said that as IRS continues to redesign its processes, consolidate and realign operational components, and implement new technology, it expects that more exchanges of information will be handled directly from the National Office to field offices. While we agree that these various activities should expand the opportunities for direct communication between the National Office and field offices in the long run, we believe that improvements are possible now. Even with IRS' current organization and existing technology, we see no reason why all communications must, as a matter of routine, flow through the regional offices on their way between headquarters and the field.

The Commissioner also said that as long as regional offices have an organizational role, they should be kept informed of direct contacts between the National Office and field offices, and there are instances when a regional office could handle a region-specific situation quickly and directly. We agree. It is not our intent to suggest that the regional office not be involved where appropriate or that the regional office not be fully informed.

In agreeing with our recommendation on regional office reviews, the Commissioner said that as the number of regional offices is reduced, the roles of the regions will shift to more proactive analysis and improvement of compliance operations in the districts. The Commissioner said that the flattening of regional office structures, coupled with the creation of seven regional chief compliance officers, provides a new integrated focus on solving problems at the regional and district levels, and the end result will be reviews that are directed to specific problems and are not duplicative of other reviews. It is not clear to us, however, that these events, in and of themselves, will result in such reviews, nor is it clear why such things as proactive analyses and a focus on solving problems must wait for reductions in the number of regional offices and/or a flattening of the regional office structure. We believe that such changes are possible under the current organization and that this expectation should be clearly spelled out when IRS defines the role of regional offices.

In response to our last recommendation, the Commissioner said that chain of command is considered when operations are consolidated as part of IRS' reinvention effort and that field operations are being realigned under the National Office, when appropriate. The Commissioner cited, as an example, the decision to have service centers report to the Chief of Taxpayer Services. The Commissioner also indicated, however, that certain entities, like the three forms distribution sites, would remain in the regional office chain of command, at least for the time being, because those entities report to a district director and district directors report to regional offices. We do not understand why each of the three forms distribution centers has to continue reporting to a district director and thus to a regional office. Because there are only three forms distribution centers and because each of them serves internal and external customers in several districts and regions, it seems only logical that they report directly to the National Office.

Copy of GAO Questionnaire With Results

U.S. General Accounting Office

Review of IRS Regional Offices: A Mail Survey to District Offices and Service Centers

Introduction

The U.S. General Accounting Office (GAO) is studying the roles and responsibilities of IRS' regional offices. The purpose of the study is to identify what regional offices do and whether opportunities exist to improve regional office operations.

An important part of this study is to obtain the views of IRS managers who interact with regional offices. Because the same information is being requested from a number of managers, GAO has decided to use questionnaires to obtain this information. This questionnaire is being sent to District Office and Service Center managers, such as yourself. As a Division Chief, it is expected that you respond only to your functional area. We are aware that IRS is currently reviewing proposals for organizational restructuring. However, these proposals have not yet been finalized. Therefore, we ask you to respond to this questionnaire based on your experience with the current regional office organizational structure.

Your response is important to us. Therefore, please do not vask other staff to complete this questionnaire on your behalf. The questionnaire should take about 30 minutes to complete. Most of the questions require you to simply check a box. Your responses will be used only to develop summary information.

We would appreciate receiving your response within 5 working days. If you have any questions concerning this questionnaire, please call Sherrie Russ in Washington, D.C. at (202) 272-7904 or Daniel Meadows in Cincinnati, Ohio at (606) 292-5484.

We have enclosed a postage-paid envelope for your convenience. If you should misplace this envelope, please send the completed survey to:

U.S. General Accounting Office
Mr. Daniel Meadows
600 Vine Street
Suite 2100
Cincinnati, OH 45202

* * * * *

Definition

Human resources - Recruiting, hiring, firing, evaluating, disciplining, rewarding, etc.

1. How long have you held your current position at IRS? *(Enter years and months.)*

N=264

Mean = 4.5 Years

__ years __ months

2. How long have you worked at IRS? *(Enter years and months.)*

N=264

Mean = 23.6 Years

__ years __ months

3. What is your current job title? *(Check one.)*

N=265

1. ☐ District Office Director *(Skip to Question 6.)* **21.1%**
2. ☐ Service Center Director *(Skip to Question 6.)* **3.8%**
3. ☐ District Office Division Chief *(Continue to Question 4.)* **52.5%**
4. ☐ Service Center Division Chief *(Skip to Question 5.)* **22.6%**

4. For which functional area are you primarily responsible? *(Check one.)*

N=139

1. ☐	Resources management	**17.3%**
2. ☐	Examination	**18.7%**
3. ☐	Collection	**16.5%**
4. ☐	Criminal investigation	**18.0%**
5. ☐	Taxpayer service/ taxpayer relations	**15.8%**
6. ☐	Information systems	**11.5%**
7. ☐	Quality assurance/management support	**0.0%**
8. ☐	Employee plans/exempt organizations	**1.4%**
9. ☐	Other *(Specify.)* ________	**0.7%**

(Skip to Question 6)

5. For which of the following divisions are you responsible? *(Check all that apply.)*

N=59

1. ☐	Quality Assurance/Management Support	**10**
2. ☐	Resources Management	**9**
3. ☐	Processing	**10**
4. ☐	Tax Accounts	**10**
5. ☐	Information Systems	**10**
6. ☐	Compliance	**7**
7. ☐	Other *(Please specify.)* ________	**3**

6. In your opinion, do you believe your office should be having less, more, or about the same amount of the following types of communication with the regional office as you currently have ? *(Check one box per row.)*

Types of communication	Much less (1)	Somewhat less (2)	The same amount (3)	Somewhat more (4)	Much more (5)	No basis to judge (6)
1. Face-to-face meetings **N=259**	**16.2%**		**50.2%**	**33.6%**		
2. Send-A-Message (SAM) **N=262**	**24.8%**		**60.3%**	**14.9%**		
3. Phone calls **N=261**	**11.1%**		**53.3%**	**35.6%**		
4. Mail correspondence **N=263**	**63.1%**		**32.3%**	**4.6%**		
5. Other (faxes, E-mail, etc.) **N=258**	**42.6%**		**45.3%**	**12.0%**		

2

7. To what extent is the <u>substance</u> of your communication with your regional office a help or a hindrance? *(Check one.)*

N=260

1. ☐	Much more of a help than a hindrance	55.8%
2. ☐	Somewhat more of a help than a hindrance	
3. ☐	Neither a help nor a hindrance	21.2%
4. ☐	Somewhat more of a hindrance than a help	23.1%
5. ☐	Much more of a hindrance than a help	
6. ☐	No basis to judge	

8. In the last 3 months, approximately how frequently, if at all, did <u>you personally</u> have face-to-face meetings, at any location, with regional office staff? *(Check one.)*

N=261

1. ☐	Daily	**0.4%**
2. ☐	Weekly	**9.6%**
3. ☐	Monthly	**40.2%**
4. ☐	Every two or three months	**32.6%**
5. ☐	Every 6 months	**7.3%**
6. ☐	Every year or less often	**0.8%**
7. ☐	Not at all	**9.2%**
8. ☐	No basis to judge	

9. In general, to what extent, if at all, did these meetings accomplish their purposes? *(Check one.)*

N=245

1. ☐	Very great extent	**33.9%**
2. ☐	Great extent	
3. ☐	Moderate extent	**34.3%**
4. ☐	Some extent	**31.8%**
5. ☐	Litte or no extent	
6. ☐	No basis to judge	

3

10. In your opinion, has the assistance provided by your regional office in the following areas been more of a help or a hindrance? *(Check one box in each row.)*

	Much more of a help than a hindrance (1)	Somewhat more of a help than a hindrance (2)	Neither a help nor a hindrance (3)	Somewhat more of a hindrance than a help (4)	Much more of a hindrance than a help (5)	Region does not provide this type of service (6)	No basis to judge (7)
1. Clarifying National Office policy **N=253**	**43.9%**		**43.5%**	**12.6%**			
2. Clarifying National Office guidance **N=256**	**43.4%**		**42.6%**	**14.1%**			
3. Allocating funds **N=259**	**45.2%**		**17.0%**	**37.8%**			
4. Shifting resources to meet changing priorities **N=248**	**34.3%**		**28.6%**	**37.1%**			
5. Representing your office's needs to National Office **N=245**	**49.4%**		**31.4%**	**19.2%**			
6. Establishing program objectives **N=252**	**39.3%**		**38.1%**	**22.6%**			
7. Conducting Business Reviews **N=259**	**31.7%**		**42.9%**	**25.5%**			
8. Evaluating programs **N=255**	**33.3%**		**39.6%**	**27.1%**			
9. Providing feedback from program evaluations **N=252**	**36.9%**		**38.5%**	**24.6%**			
10. Providing solutions to problems **N=240**	**36.2%**		**36.2%**	**27.5%**			
11. Implementing suggestions for improvement **N=239**	**27.6%**		**44.8%**	**27.6%**			
12. Providing guidance on human resources matters **N=233**	**35.2%**		**36.5%**	**28.3%**			

(QUESTION 10 CONTINUES ON THE NEXT PAGE.)

(QUESTION 10 CONTINUED.) In your opinion, has the assistance provided by your regional office in the following areas been more of a help or a hindrance? *(Check one box in row.)*

	Much more of a help than a hindrance (1)	Somewhat more of a help than a hindrance (2)	Neither a help nor a hindrance (3)	Somewhat more of a hindrance than a help (4)	Much more of a hindrance than a help (5)	Region does not provide this type of service (6)	No basis to judge (7)
13. Providing guidance on procurement matters **N=221**	**42.5%**		**36.2%**	**21.3%**			
14. Providing guidance on facilities matters **N=204**	**34.3%**		**48.0%**	**17.6%**			
15. Providing guidance on budgetary matters **N=254**	**43.3%**		**24.4%**	**32.3%**			
16. Providing training **N=231**	**36.4%**		**44.6%**	**19.0%**			
17. Providing overall assistance **N=260**	**45.8%**		**36.2%**	**18.1%**			
18. Other *(Please specify)* ______ **N=14**	**71.4%**		**7.1%**	**21.4%**			

11. In general, to what extent, if at all, does the Regional Office meet the needs of your office? *(Check one.)*

N=261

18.4%	1. ☐ Very great extent		
	2. ☐ Great extent	*(Skip to Question 13.)*	
34.9%	3. ☐ Moderate extent		
46.7%	4. ☐ Some extent		
	5. ☐ Little or no extent *(Continue to Question 12.)*		
	6. ☐ No basis to judge *(Skip to Question 13.)*		

12. Please give examples of needs the regional office has not met.

______

______

5

13. In March 1992, IRS' Executive Committee approved a new strategy for dealing with nonfilers. Specifically, it focuses on using new Compliance 2000 techniques, as well as traditional enforcement techniques, to bring nonfilers into compliance. In your opinion, has the regional office been more of a help or a hinderance in implementing the following aspects of this new strategy? *(Check one box per row.)*

	Much more of a help than a hindrance (1)	Somewhat more of a help than a hindrance (2)	Neither a help nor a hindrance 3)	Somewhat more of a hindrance than a help (4)	Much more of a hindrance than a help (5)	Region does not provide this 6)	No basis to judge (7)
1. Clarifying new nonfiler policy N=222	**48.6%**		**34.2%**	**17.1%**			
2. Providing guidance N=218	**48.6%**		**32.6%**	**18.8%**			
3. Clarifying nonfiler outreach and communications strategy N=214	**42.1%**		**42.1%**	**15.9%**			
4. Reallocating staff to meet nonfiler policy goals N=191	**19.4%**		**53.4%**	**27.2%**			
5. Providing funding N=187	**16.0%**		**56.7%**	**27.3%**			
6. Providing training for employees assigned to nonfiler work N=179	**24.6%**		**63.1%**	**12.3%**			
7. Resolving implementation problems N=204	**32.4%**		**49.5%**	**18.1%**			
8. Establishing milestones for reviewing progress in implementation N=196	**31.1%**		**53.1%**	**15.8%**			
9. Monitoring progress against agreed upon milestones N=194	**33.0%**		**51.5%**	**15.5%**			
10. Other *(Please specify.)* ____ N=4	**25.0%**		**0.0%**	**75.0%**			

6

14. In your opinion was your regional office more of a help or a hindrance for each of the followings areas that are included in the fiscal year 1993 Annual Business Plan for Operations? *(Check one box in each row.)*

	Much more of a help than a hindrance (1)	Somewhat more of a help than a hindrance (2)	Neither a help nor a hindrance (3)	Somewhat more of a hindrance than a help (4)	Much more of a hindrance than a help (5)	Region does not provide this (6)	No basis to judge (7)
1. Implementing cross-functional actions for compliance 2000 market segments N=219	40.2%		48.9%	11.0%			
2. Implementing actions to achieve accounts receivable inventory goals N=196	41.3%		45.4%	13.3%			
3. Reducing taxpayer burden N=210	30.5%		57.1%	12.4%			
4. Implementing One Stop Service N=202	29.2%		58.9%	11.9%			
5. Ensuring a successful filing season N=192	36.5%		51.6%	12.0%			
6. Implementing the diversity strategy N=215	25.1%		61.9%	13.0%			
7. Implementing Tax Systems Modernization N=225	38.7%		52.4%	8.9%			
8. Developing measures for a Total Quality Organization N=207	15.9%		67.1%	16.9%			
9. Promoting ethical practices N=231	32.9%		53.2%	13.9%			
10. Other *(Please specify.)* ______ ______ N=3	66.7%			33.3%			

7

15. Are the current number of field offices (63 districts and 10 service centers) too great for the National Office to provide oversight without regional offices? *(Check one.)*

N=262

1. ☐ Yes **61.1%**
2. ☐ No **38.9%**

16. In your opinion, how effective or ineffective are regional offices at providing oversight of field offices? *(Check one.)*

N=259

1. ☐ Very effective } **51.0%**
2. ☐ Somewhat effective }
3. ☐ Neither effective nor ineffective **18.5%**
4. ☐ Somewhat ineffective } **30.5%**
5. ☐ Very ineffective }
6. ☐ No basis to judge

17. In your opinion, should the number of regional offices be increased, decreased or stay the same? *(Check one.)*

N=258

1. ☐ Increased *(Specify by how many ________.)*
2. ☐ Stay the same **10.9%**
3. ☐ Decreased *(Specify by how many ________.)* **64.3%**

Number of decreases	
1	**2.6%**
2	**37.5%**
3	**28.9%**
4	**21.1%**
5	**7.9%**
6	**0.7%**
7	**1.3%**

4. ☐ Regions should be eliminated **24.8%**
5. ☐ No basis to judge

18. In general, how clear or unclear is the authority level of your office in relation to your regional office? *(Check one.)*

N=260

1. ☐ Very clear } **72.3%**
2. ☐ Generally clear }
3. ☐ Neither clear nor unclear **9.6%**
4. ☐ Generally unclear } **18.1%**
5. ☐ Very unclear }
6. ☐ No basis to judge

8

19. In your opinion, are regional offices more of a help or a hindrance in improving IRS' ability to provide the most effective level of service to taxpayers? *(Check one.)*

N=254

1. ☐	Much more of a help than a hindrance	**38.6%**
2. ☐	Somewhat more of a help than a hindrance	
3. ☐	Neither a help nor a hindrance	**34.3%**
4. ☐	Somewhat more of a hindrance than a help	**27.2%**
5. ☐	Much more of a hindrance than a help	
6. ☐	No basis to judge	

20. Based on your own experience, is your regional office currently targeting its efforts on critical issues in your office? *(Check one.)*

N=230

1. ☐ Yes *(Specify critical issues targeted)* **63.5%**

2. ☐ No *(Specify critical issues in your office that region needs to target)* **36.5%**

3. ☐ No basis to judge

21. In your opinion, is your region more of a help or a hindrance in ensuring consistent treatment of taxpayers? *(Check one.)*

N=224

1. ☐	Much more of a help than a hindrance	**33.0%**
2. ☐	Somewhat more of a help than a hindrance	
3. ☐	Neither a help nor a hindrance	**59.4%**
4. ☐	Somewhat more of a hindrance than a help	**7.6%**
5. ☐	Much more of a hindrance than a help	
6. ☐	No basis to judge	

9

22. In your opinion, to what extent, if at all, does your regional office duplicate activities of other IRS offices without adding value? *(Check one.)*

N=250

39.2%	1.	☐	Little or no extent	*(Skip to Question 24.)*
	2.	☐	Some extent	
30.4%	3.	☐	Moderate extent	
30.4%	4.	☐	Great extent	*(Continue to Question 23.)*
	5.	☐	Very great extent	
	6.	☐	No basis to judge *(Skip to Question 24.)*	

23. Please give specific examples of how your region duplicates activities of other IRS offices without adding value.

____

____

24. How much flexibility, if at all, does your regional office provide you in order to structure your office in the most efficient manner? *(Check one.)*

N=259

1.	☐	Very great flexibility	**39.8%**
2.	☐	Great flexibility	
3.	☐	Moderate flexibility	**24.7%**
4.	☐	Some flexibility	**35.5%**
5.	☐	Little or no flexibility	
6.	☐	No basis to judge	

10

25. In your opinion, does the staff in your regional office have more or less expertise in field issues than National Office staff? *(Check one. If you are a division chief, answer for your functional area only. All others, answer for regional staff as a whole)*

N=250

The regional office staff tend to have:

1. ☐	Much more expertise than National Office staff	66.4%
2. ☐	Somewhat more expertise than National Office staff	
3. ☐	About the same as National Office staff	23.2%
4. ☐	Somewhat less expertise than National Office staff	10.4%
5. ☐	Much less expertise than National Office staff	
6. ☐	No basis to judge	

26. In your opinion, to what extent, if at all, does the region need to be involved in the following functions? *(Check one box in each row.)*

		Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little or no extent (5)	No basis to judge (6)
1. Examination	N=188	18.6%		40.4%	41.0%		
2. Collection	N=189	20.6%		38.1%	41.3%		
3. Returns Processing	N=180	25.0%		26.1%	48.9%		
4. Taxpayer Service	N=195	22.6%		35.4%	42.1%		
5. Criminal Investigation	N=181	28.2%		28.2%	43.6%		
6. Information Systems	N=207	32.9%		22.2%	44.9%		
7. Employee Plans/ Exempt Organizations	N=138	14.5%		31.9%	53.6%		
8. Human Resources (recruiting, hiring, firing, evaluating, disciplining, rewarding, etc.)	N=238	15.5%		20.6%	63.9%		
9. Training	N=251	23.5%		23.5%	53.0%		
10. Facilities Management	N=225	16.4%		23.1%	60.4%		
11. Fiscal Management	N=243	35.8%		21.8%	42.4%		
12. Procurement	N=234	24.4%		24.8%	50.9%		

11

27. In your opinion, would the following become better, worse or stay the same, if your office reported directly to the National Office? *(Check one box in each row.)*

	Much better (1)	Somewhat better (2)	Stay the same (3)	Somewhat worse (4)	Much worse (5)	No basis to judge (6)
1. Your office's access to assistance **N=252**	**17.9%**		**26.6%**	**55.6%**		
2. Timeliness of decisions **N=256**	**30.1%**		**19.1%**	**50.8%**		
3. Quality of decisions **N=246**	**17.9%**		**41.1%**	**41.1%**		
4. Resolution of taxpayer issues unique to your geographic area **N=221**	**8.6%**		**34.4%**	**57.0%**		
5. Understanding National Office policy **N=256**	**57.8%**		**33.6%**	**8.6%**		
6. Understanding National Office guidance **N=257**	**55.6%**		**33.9%**	**10.5%**		
7. Communication with the National Office **N=255**	**71.0%**		**19.6%**	**9.4%**		
8. Communication with other field offices **N=250**	**20.0%**		**60.8%**	**19.2%**		
9. Access to resources **N=235**	**38.7%**		**27.2%**	**34.0%**		
10. Training **N=244**	**25.0%**		**50.0%**	**25.0%**		
11. Cooperation between district offices and service centers **N=240**	**10.4%**		**64.2%**	**25.4%**		
12. Efficiency (cost of your operations) **N=244**	**38.5%**		**41.0%**	**20.5%**		
13. Other *(please specify)* ______						

12

28. Based on your experience, to what extent, if at all, does your regional office contribute to accomplishing IRS' mission? *(Check one.)*

N=260

1.	☐	A very great extent	**19.2%**
2.	☐	Great extent	
3.	☐	Moderate extent	**36.5%**
4.	☐	Some extent	**44.2%**
5.	☐	Little or no extent	
6.	☐	No basis to judge	

29. Are you currently working with other districts/service centers outside of your region on special taxpayer issues? *(Check one.)*

N=263

1.	☐	No	**63.1%**
2.	☐	Yes *(Please specify.)* ________	**36.9%**

30. Please list the two most helpful things (actions, advice, assistance, etc.) provided to your office by the regional office.

1. ____________________

2. ____________________

31. Please list the two least helpful things (actions, advice, assistance, etc.) provided to your office by the regional office.

1. ____________________

2. ____________________

32. What, if any, suggestions do you have for alternatives to IRS' existing organizational structure?

33. Please provide any additional comments regarding regional office roles and responsibilities.

Thank you for your assistance.

GGD/CG/3-93

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Comments From the Internal Revenue Service

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

May 2, 1994

Ms. Jennie S. Stathis
Director, Tax Policy & Administration Issues
General Government Division
United States General Accounting Office
Washington, DC 20548

Dear Ms. Stathis:

Thank you for the opportunity to review your recent draft report entitled, "Internal Revenue Service: Changes Needed in the Role of Regional Offices."

The report appears to be a general endorsement and confirmation of the direction we are already taking in reviewing the regional offices. We concur with the report findings in general and plan to implement them as we continue efforts to reinvent the IRS and the role of regional offices. Our comments on the specific recommendations are enclosed.

We hope you find these comments useful.

Sincerely,

Michael P. Dolan

for Margaret Milner Richardson

Enclosure

IRS COMMENTS ON GAO DRAFT REPORT ENTITLED
"INTERNAL REVENUE SERVICE: CHANGES NEEDED IN
THE ROLE OF REGIONAL OFFICES"

RECOMMENDATION:

The Commissioner of Internal Revenue should ensure that regional office role and responsibilities are defined in a way that clearly supports field office needs and contributes to accomplishing IRS' mission. In defining those roles and responsibilities, IRS should do the following:

1) Allow field offices to exchange information directly with the National Office, when appropriate, rather than having to funnel everything through a regional office.

COMMENT:

We agree with this recommendation. As IRS continues to redesign its processes, consolidate and realign operational components, and implement new technology, we expect that more exchanges of information will be handled directly from the National Office to field offices. However, we believe that as long as the regional offices have an organizational role, they should be kept informed of these direct contacts. There are also instances where a regional office could handle a region-specific situation quickly and directly.

Our Finance organization is separating from Resources Management activities in the field (as they have been separated in the National Office). This will create a separate Finance organization with a Regional Controller reporting directly to the Regional Commissioner; and District Controllers reporting to District Directors. This separation will occur this fiscal year. This action, along with decentralizing budget authority and accountability to the local level, are among several activities which will empower the field to make more effective financial management decisions and to become more concerned about and involved in cost/benefit decisions and tradeoffs they must make as operating managers.

RECOMMENDATION:

2) Ensure that reviews done by regional offices do not duplicate those conducted by other offices and that the reviews focus on helping to solve problems.

COMMENT:

This is a common sense recommendation with which we agree. As the number of regional offices is reduced by the end of FY 1995, the roles of the regions will shift to more proactive

-2-

analyses and improvement of compliance operations in the districts. Ultimately, regional staffing will be limited to a relative few multifunctional operations employees (covering the current collection, examination, criminal investigation, taxpayer service and returns processing functions), plus a small staff handling region-wide resources management and information systems. Resources no longer required in the regional offices are to be redirected to front-line operations.

This flattening of the regional office structure, coupled with the creation of seven regional Chief Compliance Officers, provides a new integrated focus on solving problems at the regional and district levels. The end result will be reviews that are directed to specific problems and are not duplicative of other reviews.

In addition, processing of administrative transactions--the more clerical support services--will be centralized to several sites around the country. This will allow for economies of scale and let us take advantage of technological opportunities to centralize repetitive, labor-intensive tasks and work processes.

RECOMMENDATION:

3) Remove regional offices from the chain of command in those situations (e.g., returns processing, forms distribution sites, and telephone call sites once they are consolidated) where span of control is not an issue.

COMMENT:

We agree. Chain of command is considered when operations are consolidated as a part of our reinvention efforts. When appropriate, field operations are being realigned under the National Office. For example, beginning in FY 1995, the service centers are to report to the Chief, Taxpayer Services in the National Office.

Forms distribution sites currently report to a District Director in the state in which the site is located, and telephone call sites are being consolidated into Customer Service Centers. These examples are still in the regional office chain of command because the directors report to the region. More work will be done in this area as the reinvention effort goes forward.

Major Contributors to This Report

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