GAO

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

General Government Division

159547

B-276893

October 10, 1997

The Honorable William J. Coyne
House of Representatives

Subject: IRS' Field Office Restructuring in Pennsylvania

Dear Mr. Coyne:

This letter responds to your request that we provide information on the Internal Revenue Service's (IRS) most recent field office restructuring effort, especially as it relates to Pennsylvania. IRS announced in August 1996 that it would eliminate more than 1,000 positions in its field offices, including some in Pennsylvania. As agreed with your office, we addressed the following questions: (1) On what basis did IRS decide to consolidate the Philadelphia and Pittsburgh districts as part of an overall district office consolidation plan? (2) How did this consolidation and other field office restructuring plans affect IRS positions in Pennsylvania? (3) What have been some of the programmatic impacts in Pennsylvania as IRS transitions to its new structure, and are they likely to continue after the consolidation is complete? (4) What savings, if any, will IRS achieve from its field office restructuring? On July 8, 1997, we briefed your office on the results of our work, and agreed to document our results in this letter.

## BACKGROUND

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

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



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wider geographic areas, and (3) provide managers with greater flexibility to shift compliance staff within the district to respond to changing workload requirements.

Under IRS' consolidation plan, the 30 noncontinuing districts were to continue employing front-line compliance and customer service staff; but their management structure--district office director, assistant director, and chiefs of various functional areas, such as Taxpayer Service, Collection, and Examination--was to be eliminated. Front-line employees remaining in the noncontinuing districts were to report through their immediate managers to the management structure in the continuing districts. That reporting structure took effect in October 1996. IRS deferred decisions regarding other activities to be eliminated in the noncontinuing districts, such as compliance support functions, pending further study. These compliance support functions include processing paperwork that is required to (1) close out examinations so that taxpayers can be assessed taxes and (2) document that taxpayers have paid assessed taxes so that liens on their assets can be released.

When IRS announced its district office consolidation, other function-specific reorganizations were under way that affected regional and district office responsibilities. For example, in 1993, IRS started to centralize various support activities, such as personnel, facilities management, and training (hereafter referred to as Support Services). Also, the first phase of a new structure for managing and servicing regional and district office automation needs, referred to as the Field Information Systems Organization (FISO), began in fiscal year 1996. The enclosure has additional information on the effect of IRS' field office restructuring on Pennsylvania's functional areas.

To help the transition to the new structure of 33 districts, continuing districts were to develop plans showing how they would operate after the district office consolidation. These transition plans were approved by regional and National Office officials between September 1995 and January 1996. Subsequently, according to IRS National Office officials, Regional Commissioners and Chief Officers in the National Office agreed to assess the interactions of the various functional reorganizations, such as Support Services and FISO, on the district office consolidation plan. They considered, for example, whether IRS wanted a noncontinuing district office to function as a consolidated site for Support Services. Also, at that time, IRS faced the prospect of a flat or declining budget for fiscal year 1997. Accordingly, IRS officials said that they were attempting to improve efficiency as much as possible with the various reorganizations.

To help IRS assess the interactions of the various functional reorganizations on district office responsibilities, IRS' Office of Workforce Transition convened a task force for each functional area affected by the consolidation. On the basis of input from these functional teams, the Office of Workforce Transition issued an Organizational Impact Analysis report on April 14, 1996, that outlined a standard approach for consolidation. For example, that report recommended that all district office compliance support functions be centralized in the continuing districts within 18 months after October 1, 1996. However, plans to consolidate the support functions for the district office insolvency units were deferred until fiscal year 1998.[2]

In accordance with the Organizational Impact Analysis, IRS' National Director for Strategic Planning, in a May 23, 1996, memorandum to the Regional Commissioners, (1) provided guidance on how to identify the excess occupied positions expected as a result of the various reorganizations, as of October 1, 1997; (2) asked the regional functional chiefs to develop a standard set of criteria for any needed positions that resulted from the various reorganizations; and (3) asked that any requests for exceptions to the guidance on excess positions be received by June 4, 1996. As a result of this process, in October 1996, IRS developed a final nationwide listing of excess and needed positions. That listing showed 2,371 excess positions and 1,312 needed positions--a potential net reduction of 1,059 positions for fiscal year 1997.

IRS' fiscal year 1997 appropriation act prohibited IRS from implementing its field reorganization plan, including conducting any reduction-in-force (RIF), until it delivered a report to Congress on, among other things, the costs and benefits of its field office restructuring. In hopes of reducing the number of employees who would be subject to a RIF, from January 13 through February 5, 1997, IRS offered buyouts to employees who occupied positions that (1) were targeted for elimination or (2) were potential placement opportunities for employees whose positions were targeted for elimination. As of June 18, 1997, IRS had processed 1,261 buyouts, 122 of which were for IRS employees in Pennsylvania.

IRS could not conduct a RIF until it finalized a RIF agreement with the National Treasury Employees Union (NTEU). A hearing was held before the Federal Services Impasse Panel on August 8, 1997, to resolve open issues, such as the scope of the RIF agreement (e.g., whether the RIF agreement should be limited to only the current field reorganizations or include future reorganizations) and various employee rights under a RIF. As a result of that hearing, a RIF agreement was developed and signed by both IRS and NTEU and was approved by the Department of the Treasury on September 9, 1997. According to IRS' Chief Management and Administration, IRS is currently examining its next steps. He said that based on the results of the most recent round of buyouts offered between July 6 and August 8, 1997, and the filling of vacancies in continuing districts, a decision will be made within the next several weeks on whether IRS will conduct a RIF.[3] IRS officials said that they are also negotiating with local union representatives the transfer of work from noncontinuing districts to continuing districts.

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[2]The insolvency unit is responsible for handling cases where taxpayers who owe IRS money have filed for bankruptcy.

[3]For this buyout period, IRS processed another 209 buyouts, 5 of which were for IRS employees in Pennsylvania.

RESULTS IN BRIEF

Before the district office consolidation, Pennsylvania had two districts--one headquartered in Philadelphia and the other in Pittsburgh. As a result of the consolidation, the two districts were merged to form the Pennsylvania District, headquartered in Philadelphia. In deciding which districts to merge nationwide, IRS attempted to create districts that were more uniform in size than was the case under the structure of 63 districts. Accordingly, total staffing was a key criterion that IRS used to decide which district offices should retain a management structure and be designated as continuing districts. Generally, smaller districts were merged into larger ones, as was the case in Pennsylvania, where Pittsburgh was merged into Philadelphia.

According to IRS' October 1996 final nationwide listing of excess and needed positions, Pennsylvania is expected to lose 132 positions as a result of field office restructuring--the net of 187 positions to be eliminated (79 in Pittsburgh and 108 in Philadelphia) and 55 positions to be added (26 in Pittsburgh and 29 in Philadelphia). The largest portion of the reductions in Pittsburgh are to result from eliminating examination support positions. Slightly more than half of the reductions in Philadelphia are to result from closing the regional office.[4] As of August 12, 1997, of the 187 employees whose jobs had been identified for elimination, 23 employees who still remained at IRS had not been designated for placement into other positions and therefore may be subject to a RIF.

Rather than centralizing all compliance support functions in Philadelphia as initially called for under the consolidation plan, IRS ultimately allowed the Pennsylvania District to centralize its collection support function in Pittsburgh and the examination support function in Philadelphia.[5] That decision appears to have mitigated the programmatic impacts of the district office consolidation on Pennsylvania. In another state that we visited where IRS merged two districts into one, all compliance support functions were to be consolidated in the continuing district. That led to increased attrition in the noncontinuing district, because employment opportunities in the noncontinuing district were limited. That attrition contributed to delays in processing work and increases in inventories in compliance support functions.[6] However, some Pennsylvania district officials felt that attrition was lower in Pittsburgh because of the decision to retain a collection support unit in Pittsburgh as a potential source of employment for examination support employees whose jobs were to be eliminated.

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[4]Although the Philadelphia Regional Office closed October 1, 1995, 57 regional office positions were still occupied in October 1996.

[5]The collection and examination support functions are responsible for various activities that support front-line Collection and Examination personnel, including issuing and releasing liens, processing payments from taxpayers, closing completed audits so that taxes and penalties can be assessed, and reviewing completed audits to make sure they were properly done.

[6]IRS' Field Office Restructuring in Ohio (GAO/GAD-97-125R, July 3, 1997).

According to Pennsylvania District officials, at the time of our visit in May 1997, the district was experiencing a few minor programmatic impacts as a result of the impending downsizing. For example, Philadelphia's Chief of Collection said that some attrition was occurring in the collection support group. As a result, some backlogs were occurring in processing the paperwork needed to substantiate that taxpayers had paid assessed taxes so that liens against their assets could be released. The Chief said that some collection support staff were working overtime to reduce backlogs.

Some Pennsylvania District officials said that they were concerned that if Pittsburgh staff are not trained quickly, backlogs in collection support work could occur once the consolidation takes place. Also, some Pittsburgh managers were concerned over the district's ability to fully service its computer and telecommunications equipment, given the planned reduction in FISO staff. The Electronic Filing Coordinator, the Taxpayer Education Coordinator, and the Public Affairs Officer in Philadelphia expressed concern over the challenges associated with administering their programs across a large state. However, they said that they hoped to maintain the level of service in Pittsburgh that had been provided in the past. Finally, several district officials expressed concern that IRS' planned consolidation of support staff for the insolvency unit could affect the district's ability to process bankruptcy cases. IRS' Chief Management and Administration pointed out that the consolidation should not affect IRS' ability to handle bankruptcy cases, because front-line insolvency staff will not be affected by this consolidation. According to the Chief Management and Administration, front-line staff, not support staff, represent IRS in court proceedings.

In its March 27, 1997, report to Congress on the restructuring of its field support functions, IRS said that it expects to save $138 million in personnel costs over a 5-year period as a result of eliminating 1,059 field office jobs. For the most part, IRS' methodology for computing the savings is consistent with the methodology that we have used in computing the personnel savings associated with buyouts versus RIFs.[7] Although IRS is projecting savings in personnel costs, it does not intend to reduce its overall staffing by the net number of field positions it plans to eliminate. Instead, IRS plans to redirect the $138 million to fund additional front-line customer service and compliance positions.

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

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

support staff, which IRS currently does not have, it will be difficult to fully assess the net costs and benefits of IRS' field office restructuring.

## TOTAL STAFFING WAS THE PRIMARY CRITERION FOR SELECTING LOCATIONS FOR CONTINUING DISTRICTS

Before the consolidation Pennsylvania had two districts, one headquartered in Philadelphia and the other headquartered in Pittsburgh. As part of the consolidation, the two districts were merged to form the Pennsylvania District, headquartered in Philadelphia. In deciding which districts to merge, IRS attempted to create districts that were more uniform in size than was the case under the structure of 63 district offices. To achieve this uniformity, smaller districts were generally merged into larger ones, as was the case in Pennsylvania.

Total staffing was the primary criterion that IRS used to decide which district offices should be merged and which offices should retain a management structure and be designated as continuing districts. In that regard, IRS determined that a continuing district should have a minimum of about 900 staff.[8] As part of its district office reorganization study, IRS developed an estimate for the number of staff on board in fiscal year 1995--the number of staff on board as of April 1994, plus hiring projections for fiscal year 1995. The Pittsburgh District's estimated staff size was 560, and the Philadelphia District's estimated staff size was 1,019. The total staffing for a combined Pennsylvania District was estimated to be 1,579 staff.

NTEU representatives we met with in Pittsburgh expressed the belief that Pittsburgh should have remained a stand-alone district on the basis of the number of tax returns filed in that district (which is a proxy for a district's potential workload). According to the Chief Management and Administration, IRS considered workload, such as the number of tax returns filed, in making its consolidation decisions. However, the Chief said that the combined total number of tax returns filed for Philadelphia and Pittsburgh was still a manageable workload for one district. In that regard, in its 1995 reorganization study, IRS estimated that the Pennsylvania District would have more returns filed in fiscal year 2000 than any other district--about 11.2 million. IRS estimated that the former Pittsburgh district would account for about 3.8 million of those returns, which would be fewer than any continuing district.

Pittsburgh NTEU representatives also said that if Pennsylvania could have only one district office, Pittsburgh should have been designated as the headquarters rather than Philadelphia. The primary reasons they cited were the productivity losses associated with conducting a RIF of productive employees in Pittsburgh and replacing them with new hires in Philadelphia, which had been a relatively less productive district according to certain performance measures. However, all of the productivity data cited by the NTEU representatives related to front-line compliance and customer service activities (e.g., dollars assessed per staff hour in

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[8]The Indiana District, with 699 staff, and the Connecticut-Rhode Island District, with 885 staff, were the only exceptions to IRS' minimum staffing requirement. According to IRS, these districts were allowed as exceptions because if they were merged with other nearby districts, the resulting districts would have been too large. Total staffing does not include customer service staff.

the Examination function and accuracy of information provided to taxpayers calling IRS' customer service sites). Productivity data of front-line compliance and customer service staff were not germane to IRS' consolidation decisions because those decisions affect support staff, not front-line staff. According to some Pennsylvania District officials, standardized, agencywide efficiency statistics for compliance support operations do not exist.

Pittsburgh NTEU representatives also expressed concern about the costs associated with higher locality pay and rent in Philadelphia. These additional costs are not likely to materialize, because Philadelphia is to incur a net reduction in staffing and is not expected to require any additional space as a result of the consolidation.

## PENNSYLVANIA IS TO LOSE 132 POSITIONS AS A RESULT OF FIELD RESTRUCTURING

As a result of IRS' various restructuring efforts, Pennsylvania is expected to lose 132 positions--a net of 187 positions being eliminated (79 in Pittsburgh and 108 in Philadelphia) and 55 positions being added (26 in Pittsburgh and 29 in Philadelphia). The largest portion of the reductions in Pittsburgh stems from eliminating examination support positions. Slightly more than half of the reductions in Philadelphia stem from closing the regional office.

In applying the guidance for identifying excess positions, the Pennsylvania District Director asked for many exceptions. As shown in the enclosure, those exceptions covered 50 positions that were initially planned to be eliminated in Pittsburgh. The Northeast Regional Commissioner initially rejected nearly all of these exception requests. However, she subsequently offered the district the option of centralizing one of its support functions in Pittsburgh. Accordingly, the Pennsylvania District decided to centralize its collection support unit in Pittsburgh. In conjunction with that decision, IRS National Office officials approved exceptions covering 60 collection support positions. Two other exceptions were approved in customer service.[9]

As of August 12, 1997, of the 187 employees whose jobs had been identified for elimination, 23 employees who still remained at IRS had not been designated for placement into other positions and therefore may be subject to a RIF.

## PROGRAMMATIC IMPACTS APPEAR TO HAVE BEEN MITIGATED BY THE DECISION TO CENTRALIZE SOME SUPPORT WORK IN PITTSBURGH

IRS' decision to centralize collection support in Pittsburgh appears to have mitigated the programmatic impacts of the consolidation on Pennsylvania. Examination support employees in Pittsburgh whose jobs were to be eliminated had a potential source of employment in the collection support unit. This was not the case in another state (Ohio) where IRS had merged

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[9]IRS is consolidating its customer service operations into 24 centers, 1 of which is in Pittsburgh. Thus, IRS decided to locate the district's Chief and Assistant Chief of Taxpayer Service in Pittsburgh rather than in Philadelphia.

two districts. In that state, once employees' jobs in the noncontinuing district (Cleveland) were identified as excess, attrition increased because employment opportunities in the noncontinuing district were limited. As we reported in July 1997, that attrition contributed to some backlogs in Ohio's compliance support functions.[10] Although attrition was occurring in Pittsburgh's examination support unit at the time of our visit, the percent of attrition was lower than in Cleveland.[11] Some district officials attributed the lower attrition to the decision to retain a collection support unit in Pittsburgh as a potential source of employment for examination support employees whose jobs were to be eliminated.

Nonetheless, at the time of our visit in May 1997, the Pennsylvania District was experiencing a few minor programmatic impacts stemming from attrition in the collection support unit in Philadelphia, according to district managers. Philadelphia's Chief of Collection told us that backlogs were occurring in processing the paperwork needed to substantiate that taxpayers had paid assessed taxes so that liens against their assets could be released. However, she said that the district was able to keep up with the workload by having staff work overtime. Some Pennsylvania District officials said that they were concerned that if staff in Pittsburgh are not trained quickly, backlogs in collection support work could occur once the consolidation takes place. Examination managers in Philadelphia were not as concerned over potential examination backlogs, because several tax examiners have been transferred to front-line examination groups to close cases.

A few managers in Pittsburgh expressed concern over the potential impact of the FISO consolidation. Specifically, the Pittsburgh FISO manager expressed concern over the district's ability to fully service its computer and telecommunications equipment, given the planned FISO staffing reduction; and the Chief of Taxpayer Service was concerned that downtime on some information systems used for customer service activities could increase as a result of the FISO staffing reduction. However, the district does not track performance measures for FISO--e.g., downtime--so it will be difficult for managers to measure the impact of the staffing reduction on downtime after the reduction takes effect.

The Electronic Filing Coordinator, the Taxpayer Education Coordinator, and the Public Affairs Officer all expressed concern about the volume of work they would need to absorb now that they were responsible for all of Pennsylvania, but they hoped to provide Pittsburgh taxpayers with the same level of service as in the past. The Electronic Filing Coordinator is responsible for promoting electronic filing and monitoring tax preparers who participate in the program. The Taxpayer Education Coordinator is responsible for administering district taxpayer education activities, focusing especially on business groups. The Public Affairs Officer is responsible for media, congressional, and public relations.

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[10]GAO/GAD-97-125R.

[11]Between 1995 and the Spring of 1997, about 25 percent of the staff in Pittsburgh's Examination Support Processing (ESP) unit had left that unit compared with 32 percent in Cleveland's unit.

Finally, several district officials expressed concern that IRS' planned consolidation of support staff for the insolvency unit could affect the district's ability to process bankruptcy cases. District officials in Philadelphia felt that the support group should be in Philadelphia because (1) most of the bankruptcy cases in Pennsylvania are filed in Philadelphia; and (2) the bankruptcy courts in Philadelphia have traditionally required IRS staff to make personal appearances during proceedings, whereas courts in the Pittsburgh area are willing to accept a transcript from IRS. Union officials in Pittsburgh felt that the staff should be placed in Pittsburgh, because they are part of the collection support unit, and other districts are to consolidate insolvency support staff within this group. As of August 1997, no official decision had been made on where the insolvency support unit will be located in Pennsylvania. However, IRS' Chief Management and Administration pointed out that the no matter what the decision, consolidation should not affect IRS' ability to handle bankruptcy cases, because front-line insolvency staff will not be affected by this consolidation. Front-line staff, not support staff, represent IRS in court proceedings.

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

Congress directed IRS, in its fiscal year 1997 appropriation act, to report to the House and Senate Committees on Appropriations no earlier than March 1, 1997, on the impact of its reorganization, including, among other things, the overall costs and benefits of the proposed field office restructuring. In its report, which was delivered on March 27, 1997, IRS said that the restructuring would generate personnel cost savings of $138 million from fiscal years 1997 through 2001.[12] As shown in table 1, the reported savings are the net of (1) salary savings from eliminating 2,371 positions; (2) costs associated with filling 1,312 needed positions; and (3) transition costs, such as buyouts, associated with the reorganization.

[12]In its report on IRS' fiscal year 1998 appropriation, the Senate Appropriations Committee stated that IRS' cost-benefit report lacked sufficient detail on the impacts of its field office restructuring, particularly on customer service. The Committee directed IRS to continue to delay its planned restructuring until another report is submitted. This report is to contain a detailed plan on how IRS will ensure adequate taxpayer service in the future and a detailed analysis of the impacts of the field office restructuring in rural areas of the country. Similarly, the House Appropriations Committee, in its report on IRS' fiscal year 1998 appropriation, directed that the field office reorganization be delayed until a report is submitted to the Committee on the reorganization's impact on the provision of taxpayer services in rural areas.

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

(Dollars in millions)

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

Note: Numbers in parentheses are negative costs.

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

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

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

IRS' methodology for estimating the costs and benefits of its field office restructuring was generally consistent with the methodology that we have used in estimating the costs and savings of buyouts versus RIFs.[13] In cases where IRS' methodology differed from ours, we determined that those differences would tend to overstate the costs of IRS' restructuring and thus understate potential savings.

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

IRS' Chief Management and Administration said that IRS fully expects to achieve operational efficiencies as a result of its field office restructuring. Specifically, he said that by redirecting

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[13]GAO/GAD-96-63.

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

We recognize that if (1) the redirection of resources allows IRS to process more front-line work (e.g., examine more tax returns, collect more delinquent taxes, and answer more telephone calls) than is currently the case; and (2) staff in the headquarters of consolidated districts can handle all of the consolidated workload without adversely affecting cycle time or work quality, IRS could achieve some efficiencies from its field office restructuring. However, it is unclear whether the consolidation might also involve some operational costs, such as increases in cycle time and reductions in work quality, that may offset some of those benefits. If IRS' staffing levels fluctuate from their current levels, attributing changes in outputs to IRS' field office restructuring will be difficult without a baseline ratio of front-line compliance and customer service staff to support staff before the restructuring. Without information on the operational costs of restructuring and a baseline ratio of front-line staff to support staff, which IRS currently does not have, it will be difficult to fully assess the net costs and benefits of IRS' field office restructuring.

## AGENCY COMMENTS AND OUR EVALUATION

We requested comments on a draft of this letter from the Acting Commissioner of Internal Revenue or his designee. On September 22, 1997, we obtained comments from the Chief Management and Administration. He generally agreed with the facts and provided some technical clarifications and updated information, which we considered and then made changes where appropriate.

## SCOPE AND METHODOLOGY

To determine on what basis IRS decided to combine the Pittsburgh and Philadelphia districts and how IRS' field office restructuring plans affected Pennsylvania, we reviewed various IRS studies and analyses used to support decisions to (1) reduce the number of district offices from 63 to 33, and (2) eliminate various field positions in concert with the reduction in the number of district offices. Using an IRS listing of jobs to be eliminated and to be added, we identified those functional areas that were most affected. We met with the highest ranking officials or managers of those areas in Philadelphia and Pittsburgh in May 1997 and had subsequent telephone conversations with various district officials. We met with IRS' Chief Management and Administration; other IRS National Office and regional office officials; the President of NTEU; and union representatives in Philadelphia and Pittsburgh. We also reviewed some of the data the NTEU representatives in Pittsburgh cited as justification for having Pittsburgh remain a stand-alone district.

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

To evaluate the methodology IRS used to calculate the costs and benefits of its field restructuring, we compared that methodology to one we have used to assess the cost and benefits of buyouts versus RIFs.[14]

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

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As agreed with your office, unless you publicly release its contents earlier, we plan no further distribution of this letter until 30 days from its date. At that time, we will send copies to other members of the Pennsylvania congressional delegation, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. We will make copies available to others on request. Major contributors to this letter were Bryon Gordon and Sherrie Russ. If you or your staff have any questions about the information in this letter, please contact me or David Attianese, Assistant Director, on (202) 512-9110.

Sincerely yours,

Lynda D Willis

Lynda D. Willis
Director, Tax Policy and
Administration Issues

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[14]GAO/GAD-96-63.

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

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

District offices could request exceptions to the positions within their districts that were identified as noncontinuing. Their requests were first reviewed by the Regional Commissioner with oversight responsibility for the district requesting the exception. IRS' four Regional Commissioners then met as a group and made consensus recommendations to the Chief Management and Administration; Chief Compliance Officer; and Deputy Commissioner for final approval. As a result, requests for 93 positions were approved as exceptions Service-wide.[15]

The Pennsylvania District originally requested 50 exceptions because of its desire to maintain aspects of both the examination and collection support functions in Pittsburgh and Philadelphia After negotiations with the regional and national offices, it was agreed that the Pennsylvania District would centralize the collection support unit in Pittsburgh. Under that scenario, the District requested exceptions for 62 positions covering staff different from what the district had originally proposed. Those exceptions were approved. Table I.1 shows the net expected change in the number of positions for Philadelphia and Pittsburgh, by functional area (after the exceptions were approved), and the number of exceptions requested and approved.

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

Table I.1: Net Expected Change in the Number of Pennsylvania District Positions as of October 2, 1996, and the Number of Exceptions Requested and Approved

| | Net change | | Exceptions | |
|---|---|---|---|---|
| **Functional area** | **Pittsburgh** | **Philadelphia** | **Requested** | **Approved** |
| Examination | -30 | 20 | 24 | 0 |
| Collection | 24 | -32 | 17 | 60 |
| Taxpayer Service | -7 | -5 | 6 | 2 |
| Problem Resolution Program | 0 | 0 | 0 | 0 |
| FISO | -19[a] | 4[a] | 0 | 0 |
| Support Services | -15 | -10 | 0 | 0 |
| EP/EO | 0 | 0 | 0 | 0 |
| Regional office[b] | 0 | -57 | 0 | 0 |
| Other[c] | -6 | 1 | 3 | 0 |
| **Total** | **-53[a]** | **-79[a]** | **50** | **62** |

[a]Although on paper Pittsburgh is to lose 19 FISO positions and Philadelphia is to gain 4, Pittsburgh may actually lose only 12 positions and Philadelphia may actually lose 3, because 7 of Philadelphia's FISO positions are to be located in Pittsburgh. Therefore, the net loss for Pittsburgh may be only 46, and the net loss for Philadelphia may be 86.

[b]Although the Philadelphia Regional Office closed October 1, 1995, 57 regional office positions were still occupied when IRS prepared its October 1996 listing of noncontinuing positions. Employees occupying those positions in Philadelphia report to the Northeast Region in New York City.

[c]Includes the Controller's Office and Field Executive Direction.

Sources: We computed the net change in the number of positions using data from IRS' October 2, 1996, listings of excess and needed positions. The number of exception requests is from the Pennsylvania District's June 4, 1996, memo to the Northeast Regional Chief Compliance Officer. The number of approved exceptions is from IRS' listing of approved exceptions as of July 25, 1996.

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

EXAMINATION

Of the 50 exceptions requested by the Pennsylvania District, 24 were in the Examination function. All but 1 of the 24 requests were for support positions in the Examination Support Processing (ESP) unit. ESP is primarily responsible for closing completed examinations so that taxpayers may be assessed taxes and penalties owed. Pennsylvania requested an exception for examination support positions, because district office officials believed it would be less disruptive to keep knowledgeable staff in both locations, rather than hire and train new staff in Philadelphia. The exception request for examination support was denied.

The other request for an exception in the Examination function was for a Disclosure Specialist. Disclosure Specialists are responsible for administering IRS' program to ensure that taxpayer information is protected. That request was also denied.

COLLECTION

The Pennsylvania District requested an exception for 17 collection support positions that were targeted for elimination in Pittsburgh. Collection support is responsible for various activities, including issuing liens and lien releases and processing taxpayer payments, that support front-line Collection personnel. The Pennsylvania District Director requested that 17 positions be retained in Pittsburgh because of the disruptions associated with transferring this work to Philadelphia (e.g., hiring and training new staff in Philadelphia). This request was denied, but the district was offered the opportunity to centralize collection support in Pittsburgh rather than Philadelphia. Pennsylvania decided to accept this approach and, as a result, Pittsburgh retained 25 collection support positions while 32 collection support positions in Philadelphia were designated as noncontinuing. As best we could determine, the 60 approved exceptions for the Collection function shown in table I.1 included not only the 25 retained positions in Pittsburgh but also additional positions that Pittsburgh would need to be a fully staffed support unit.

TAXPAYER SERVICE

Pennsylvania requested that it be allowed to locate the Chief of Taxpayer Service and a secretary in Pittsburgh rather than Philadelphia because Pittsburgh was scheduled to continue as a customer service site. IRS is consolidating its telephone-based customer service activities from 70 sites to 24 sites.[16] Of the 70 sites, 4 were in Pennsylvania--1 each in the former Pittsburgh District and the Philadelphia Service Center, and two in the former Philadelphia District. With the consolidation, the site located at the former Philadelphia

[16]In July 1997, IRS decided to increase the number of planned customer service sites from 23 to 24.

District is scheduled to close in 1999.[17] The consolidated customer service sites are to absorb the functions of (1) toll-free taxpayer service sites, which answer calls about tax law and procedures, taxpayer accounts, and notices that taxpayers receive from IRS; (2) automated collection system sites, which contact taxpayers to secure delinquent tax returns and payments and answer calls from taxpayers who are the subject of collection actions; and (3) forms distribution centers, which handle requests for tax forms and publications. The request to have a Chief of Taxpayer Service and a secretary located in Pittsburgh was approved.

The Pennsylvania District Director requested exceptions for four other Taxpayer Service positions that are scheduled to be eliminated in Pittsburgh--a Taxpayer Education Coordinator, an Electronic Filing Coordinator, and two support staff. Taxpayer Education Coordinators are responsible for administering district taxpayer education activities, focusing especially on business groups. Electronic Filing Coordinators are responsible for promoting electronic filing and monitoring tax preparers who participate in the program. The exception was denied, and the workload is to be transferred to Philadelphia.

## PROBLEM RESOLUTION PROGRAM

Pennsylvania was not targeted to lose any positions in the Problem Resolution Program. Problem Resolution Officers (PRO) are responsible for helping taxpayers who feel that they have not been treated fairly by IRS and/or are experiencing a personal hardship as a result of some IRS action. PROs make use of functional staff, such as taxpayer service representatives or revenue agents, to "work" the cases. These case workers are not scheduled to be eliminated by the consolidation. Also, noncontinuing districts with continuing call sites, such as Pittsburgh, are to retain their full PRO staff, primarily because IRS receives most taxpayer complaints requiring PRO attention through customer service sites.

## FISO

Pennsylvania did not request an exception for the 19 FISO positions that were identified as excess in Pittsburgh. Under the FISO concept, oversight responsibility is being transferred from district directors to Regional Directors of Information Services. All FISO positions are to be eliminated in noncontinuing district offices unless the office is also a customer service site. Because Pittsburgh is a customer service site, a few FISO staff will remain.

The major goal of this reorganization is to manage field information systems resources as a corporate asset by aligning them under the Chief Information Officer. IRS expects that doing so will enable it to more consistently employ information technology throughout its field operations and to leverage resources across district boundaries. FISO is responsible for providing customer and technical support for district computer and telecommunications resources and for administering IRS' computer security program and related budgetary and procurement programs.

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[17]According to an IRS official, IRS plans to offer employees at the Philadelphia site the opportunity to transfer to the customer service site located in the Philadelphia Service Center.

SUPPORT SERVICES

Pennsylvania did not request any exceptions for the 25 Support Services positions (10 in Philadelphia and 15 in Pittsburgh) the Pennsylvania District was scheduled to lose. In 1993, IRS developed a strategy to make more efficient use of IRS staff who provide various support services, such as personnel, training, and facilities management. By May 1995, IRS had consolidated these services from 84 sites into 23 sites, with a small staff remaining in Pittsburgh as a satellite office of the Philadelphia consolidated site. However, according to IRS' Chief Management and Administration, when IRS designated Pittsburgh as a noncontinuing district, it decided to eliminate its Support Services presence in Pittsburgh, just as it did in all other noncontinuing offices. IRS has subsequently reduced the number of its Support Services sites to 21.

OTHER

Pennsylvania requested exceptions for three positions that were to be eliminated in the "other" category, which includes the Office of Field Executive Direction and the Controller's Office. The Office of Field Executive Direction supports the District Director and generally includes a Public Affairs Officer, an Equal Employment Opportunity Specialist, and a Quality Coordinator. The Quality Office oversees various initiatives to improve work processes. Since noncontinuing offices will no longer have a district director, IRS determined that these positions were no longer needed in noncontinuing sites. Pennsylvania requested exceptions for a Public Affairs Officer and the Equal Employment Opportunity specialist, and they were denied. Pennsylvania also requested an exception for one position in the Controller's Office, which was denied. That office is responsible for budget and accounting work for field offices.

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