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INTERNAL REVENUE SERVICE

Assessment of the Fiscal Year 2009 Budget Request

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Assessment of the Fiscal Year 2009 Budget Request

Highlights of [GAO-08-620T](#), a testimony before the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate

Why GAO Did This Study

The fiscal year 2009 budget request for the Internal Revenue Service (IRS) is a road map for how IRS plans to allocate resources and achieve ambitious goals for improving enforcement, improving taxpayer service, increasing research, and continuing to invest in modernized information systems. One complicating factor in implementing IRS's plans in the immediate future is the recent passage of the Economic Stimulus Act of 2008, which creates additional, unanticipated workload for IRS.

GAO was asked to (1) assess how the President's budget request for IRS allocates resources and justifies proposed initiatives; (2) determine the status of IRS's efforts to develop and implement its Business Systems Modernization (BSM) program; and (3) determine the total costs of administering the economic stimulus legislation. To meet these objectives, GAO drew upon and updated recently issued reports.

What GAO Recommends

GAO is not making new recommendations, but the statement highlights outstanding recommendations to extend the use of return on investment (ROI) analysis to cover major enforcement programs and improve BSM management controls and capabilities.

To view the full product, including the scope and methodology, click on [GAO-08-620T](#). For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

What GAO Found

The President's fiscal year 2009 budget request for IRS is \$11.4 billion, 4.3 percent more than last year's enacted amount. The request proposes to maintain taxpayer service at recent levels, in part by realizing efficiency gains from electronic filing, despite a decrease in staffing. It also proposes a 7 percent increase in enforcement spending, including spending for 21 legislative and nonlegislative initiatives. The legislative proposals are projected to cost \$23 million in fiscal year 2009, funding that IRS would not need if the proposals are not enacted. Similarly, if IRS were to fall behind in its proposed enforcement hiring efforts, it would not need all \$226 million of the associated funding. IRS justified its nonlegislative enforcement initiatives with ROI analyses, which are useful, despite limitations, for making resource allocation decisions. The budget request does not provide ROI information for activities that constitute a large part of the budget request—activities other than the proposed initiatives.

The request for BSM is over \$44 million lower than the fiscal year 2008 enacted amount. IRS said this funding level will allow it to continue its primary modernization projects, but it did not describe how specific projects or benefits to taxpayers would be affected. IRS has continued to make progress in implementing BSM projects and improving modernization management controls and capabilities. However, further improvements are needed. For example, the agency has yet to develop long-term plans for completing BSM and consolidating and retiring legacy systems.

IRS estimated that the costs of implementing the economic stimulus legislation may be up to a total of \$767 million—including a \$202 million supplemental appropriation. In addition to the supplemental appropriation, IRS is reallocating hundreds of collections staff to answering taxpayer telephone calls, resulting in up to \$565 million in foregone enforcement revenue. In addition, IRS expects some deterioration in telephone service because of the increased call volume. For example, IRS is expecting its assistor level of service to drop to as low as 74 percent compared to its goal of 82 percent.

The President's Fiscal Year 2009 Request for IRS Full-time Equivalents (FTEs) Compared to Fiscal Year 2008 Enacted Budget FTEs

Appropriation	FY 2008 enacted	FY 2009 requested	Percentage change
Enforcement	47,349	49,792	5.2
Taxpayer Service	31,218	30,792	-1.4
Operations Support	12,181	11,989	-1.6
BSM	358	333	-7.0
Health Insurance Tax Credit	17	16	-5.9
Total	91,123	92,922	2.0

Source: GAO analysis of IRS data.

Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to comment on the President's fiscal year (FY) 2009 budget request for the Internal Revenue Service (IRS).

Financing of the federal government depends largely on IRS's ability to effectively administer the tax laws. The President has requested \$11.4 billion in program dollars to fund IRS's FY 2009 operations, including \$11.1 billion for service to taxpayers and tax law enforcement, plus \$223 million for the Business Systems Modernization (BSM) program, IRS's ongoing effort to improve the agency's business and tax processing systems.

The FY 2009 budget request is a road map for how IRS intends to allocate resources in order to carry out ambitious plans of improving enforcement, improving taxpayer service, increasing research, and continuing to invest in modernized information systems. Together with the budget request, IRS's recently published strategies spell out its intentions for improving taxpayer service and reducing the net tax gap—the difference between the taxes owed and eventually paid, most recently estimated at \$290 billion for tax year 2001.¹ The budget request and strategies aim to build on recent IRS accomplishments such as annually bringing in more revenue through enforcement and making progress on modernizing IRS's business and tax processing systems. One complicating factor for carrying out IRS's ambitious plans in the immediate future is the recent passage of the Economic Stimulus Act of 2008, which creates additional, unanticipated workload for IRS this year.² Passage of this act required IRS to act quickly to deal with taxpayers' questions and begin issuing payments.

Based on your request, our objectives were to (1) assess how the President's budget request for IRS for FY 2009 allocates resources for enforcement, service, research, and systems modernization primarily compared to FY 2008 enacted levels; (2) assess the rationales for differences between the 2 years, including the rationales for initiatives and the extent to which those rationales have been justified; (3) determine the status of IRS's efforts to develop and implement its BSM program; and (4) determine the total cost of administering the economic stimulus program.

¹Internal Revenue Service, *Reducing the Federal Tax Gap* (Washington, D.C.: Aug. 2, 2007); and Internal Revenue Service, *The 2007 Taxpayer Assistance Blueprint* (Washington, D.C.: 2007).

²Pub. L. No. 110-185 (2008).

To meet these objectives, we drew upon and updated a recently issued report on the budget request and IRS's 2008 tax filing season, and for our BSM work, we relied primarily on our review of the FY 2008 BSM expenditure plan.³ For the first report, we compared enacted and requested budgets for IRS; reviewed documents, including estimates of revenues and costs from initiatives; and interviewed IRS officials. For our BSM report, we analyzed the expenditure plan, reviewed other documents, and interviewed IRS officials. In assessing the cost of the economic stimulus package, we obtained performance and production data, looking for factors that significantly affected performance, and we interviewed IRS officials. We conducted the current performance audit from March 2008 through April 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. For a more detailed discussion of our scope and methodology, see the appropriate sections in the budget and filing season and the BSM reports.

In summary, we make the following major points:

- The President's budget request for IRS proposes to maintain taxpayer service at recent levels and increase enforcement. Overall, it increases spending on IRS by 4.3 percent. Spending on taxpayer service would increase by less than 1 percent, which would result in reduced staffing, but the level of taxpayer service would be maintained by realizing efficiency gains, in part, through increases in electronic filing. The budget proposes a 7 percent increase in enforcement spending, including funds and staffing for various legislative and nonlegislative initiatives. According to the proposal, the legislative initiatives would raise about \$36 billion in revenue over 10 years. They are projected to cost \$23 million in FY 2009, funding IRS would not need if none of the legislative initiatives were enacted. Similarly, if IRS were to fall behind in meeting its challenging hiring goals for the nonlegislative initiatives, it would not need all \$226 million of the associated funding for FY 2009.

³GAO, *Internal Revenue Service: Fiscal Year 2009 Budget Request and Interim Performance Results of IRS's 2008 Tax Filing Season*, [GAO-08-567](#) (Washington, D.C.: Mar. 13, 2008) and GAO, *Business Systems Modernization: Internal Revenue Service's Fiscal Year 2008 Expenditure Plan*, [GAO-08-420](#) (Washington, D.C.: Mar. 7, 2008).

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- IRS included more information than past years on the initiatives in the FY 2009 proposed budget. Of particular note, IRS included return on investment (ROI) information for all nonlegislative initiatives. However, beyond those initiatives, the budget request does not provide an analytic basis for key resource allocation decisions. Such decisions include allocating resources among a variety of enforcement programs and taxpayer services. Analytic data such as ROI can be helpful to IRS's management and the Congress for making these decisions as well as decisions about the overall balance between taxpayer service and enforcement. Although the budget request provides performance measure data, it does not provide ROI for programs or activities that constitute a large part of the budget request—activities other than the proposed initiatives.
 - The requested budget for BSM is over \$44 million lower than the FY 2008 enacted amount of about \$267 million and roughly \$185 million less than the amount the IRS Oversight Board is proposing. Modernized e-File (MeF) is the project with the largest difference between the requested budget and the FY 2008 enacted amount. IRS stated that the requested BSM funding level will allow it to continue developing and delivering its primary modernization projects but did not provide details on how plans to deliver specific projects or benefits to taxpayers would be affected. IRS continues to make progress in implementing BSM projects and meeting cost and schedule commitments for most deliverables, but three project milestones recently experienced significant cost or schedule delays.⁴ IRS has also taken steps to address our prior recommendations; however, work remains to fully implement them, including developing long-term plans for completing the BSM program. Future releases of the Customer Account Data Engine (CADE) and Account Management Services (AMS) continue to face risks and challenges, which IRS is working to mitigate. Finally, we recently recommended that IRS complete a plan with specific time frames for implementing initiatives supporting its information technology (IT) human capital strategy, and IRS agreed.
 - IRS estimates that the cost of implementing the economic stimulus legislation may be up to a total of \$767 million, including a \$202 million supplemental appropriation. In addition to the supplemental appropriation, IRS is reallocating resources from enforcement to taxpayer service by shifting hundreds of collections staff to answering

⁴Milestones represent different phases in IRS's project life cycle.

telephone calls and, as a result, may forego up to \$565 million in enforcement revenue. IRS has experienced a deterioration of telephone access and expects a further decline. For example, IRS's assistor level of service—which measures a taxpayer's ability to get through and speak to an assistor—has already declined, and IRS expects access to continue to drop to as low as 74 percent, down from the FY 2008 goal of 82 percent.

The FY 2009 Budget Request Proposes to Maintain Taxpayer Service at Recent Levels and Increase Enforcement

The President's budget request is proposing to maintain taxpayer service levels with fewer staff by realizing efficiency gains; it also proposes to increase enforcement by adding staff. The President's FY 2009 budget request of \$11.4 billion for IRS is 4.3 percent more than the FY 2008 enacted budget and represents an increase of less than 1 percent for taxpayer service and 7 percent for enforcement, as shown in table 1.

Table 1: The President's FY 2009 Request for IRS Compared to the FY 2008 Enacted Budget

Dollars in thousands			
Program	FY 2008 enacted	FY 2009 requested	Percentage change
Enforcement	\$6,997,226	\$7,487,209	7.0
Taxpayer Service	3,612,833	3,636,230	0.6
BSM	267,090	222,664	-16.6
Health Insurance Tax Credit	15,235	15,406	1.1
Total	\$10,892,384	\$11,361,509	4.3

Source: GAO analysis of IRS data.

Note: Dollar amounts include amounts for operations support.

The budget request increases IRS-wide staff levels, measured in full-time equivalents (FTEs), by 2 percent, with a 1.4 percent decrease in taxpayer service FTEs and a 5.2 percent increase in enforcement FTEs, as shown in table 2.

Table 2: The President's FY 2009 Request for IRS FTEs Compared to FY 2008 Enacted Budget FTEs

Appropriation	FY 2008 enacted	FY 2009 requested	Percentage change
Enforcement	47,349	49,792	5.2
Taxpayer Service	31,218	30,792	-1.4
Operations Support	12,181	11,989	-1.6
BSM	358	333	-7.0
Health Insurance Tax Credit	17	16	-5.9
Total	91,123	92,922	2.0

Source: GAO analysis of IRS data.

Note: The decline in taxpayer services, including operations support, reflects 91 FTEs in efficiency savings and 207 FTEs in electronic filing savings. The increase in enforcement, including operations support, includes an additional 1,431 revenue agents and 582 revenue officers who will work on initiatives.

The President's budget proposal is consistent with longer-term trends for IRS. Compared to actual spending in FY 2006, the proposed FY 2009 budget increases taxpayer service funding by 3.7 percent, a real decrease after inflation, while increasing IRS's enforcement funding by 10 percent.

The budget request proposes to maintain taxpayer service at recent levels. As an example, the key taxpayer service measures shown in table 3 are projected to remain relatively stable through FY 2009.

Table 3: Telephone Service Measures

Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Planned	FY 2009 Planned
Telephone performance—access				
Assistor level of service (percentage of taxpayers who wanted to talk with an assistor and actually got through and received service)	82.0%	82.1%	82.0%	82.0%
Telephone performance—accuracy				
Tax law customer accuracy (percentage of calls in which telephone assistors provided accurate answers on tax law and took appropriate action)	90.9%	91.2%	91.0%	91.0%
Accounts customer accuracy (percentage of calls in which telephone assistors provided accurate answers on customer accounts and took appropriate action)	93.2%	93.4%	93.5%	93.7%

Source: GAO analysis of IRS data.

In order to maintain taxpayer service at recent levels despite a decrease in real spending and staffing, IRS expects to realize efficiency gains. For instance, IRS expects to devote 207 fewer FTEs to the labor-intensive processing of paper returns because of expected increases in electronic filing. These expected efficiency gains are consistent with past trends—between 1999 and 2007, IRS reduced staff devoted to processing paper returns by about 1,800 FTEs.

IRS's ability to maintain or improve taxpayer service beyond 2009 will likely depend on its ability to continue to improve efficiency. To this end, in recent reports, we made recommendations to further increase electronic filing. We recommended that IRS determine the actions needed to require software vendors to include bar codes on printed returns, and we suggested that the Congress mandate electronic filing by certain paid tax preparers.⁵ IRS agreed with our bar code recommendation and outlined the actions it would take.

⁵GAO, *Tax Administration: 2007 Filing Season Continues Trend of Improvement, but Opportunities to Reduce Costs and Increase Tax Compliance Should Be Evaluated*, [GAO-08-38](#) (Washington, D.C.: Nov. 15, 2007) and GAO, *Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings*, [GAO-07-27](#) (Washington, D.C.: Nov. 15, 2006).

Some of the real spending decrease proposed for FY 2009 is because of one-time investments made in FY 2008 or carryovers in funds from FY 2008. For instance, the budget request proposes a \$31 million reduction in funding for taxpayer assistance centers and outreach. However, IRS officials told us that this reduction includes funding used for long-term investments in FY 2008 that would not need to be duplicated in FY 2009. IRS officials also told us that a \$7.7 million decrease in funding for the Taxpayer Advocate offsets a funding increase in FY 2008 that is being used to lower the Advocate's outstanding caseload. Finally, an \$8 million reduction in the Volunteer Income Tax Assistance (VITA) program reflects FY 2008 funding that was not spent and carried over into FY 2009.⁶

The budget request for IRS's enforcement programs includes nonlegislative and legislative initiatives. According to the proposal, the five nonlegislative enforcement initiatives would cost about \$338 million in FY 2009 and are expected to raise about \$2 billion of direct revenue annually starting in FY 2011.⁷ In addition, the budget request estimates that the enforcement initiatives would generate at least another \$6 billion annually in indirect revenue. The indirect revenue results from improved voluntary compliance induced by taxpayers' awareness of expanded IRS enforcement. The budget request also proposes increases in examination coverage for corporations with assets of \$10 million or more from a planned 6.6 percent for FY 2008 to 6.8 percent for FY 2009. The coverage rate would increase to 7.6 percent in FY 2010 as new enforcement staff hired in FY 2009 complete training and can audit more returns.

The budget request includes 16 legislative initiatives budgeted at \$23 million for FY 2009 that it says would raise about \$36 billion in revenue over 10 years; if none were enacted, IRS would not need the \$23 million. We have reported on three of the proposals. In 2006, we suggested that the Congress consider an idea for reducing securities capital gains

⁶The funding provided in FY 2008 was two-year funding. Since IRS was ramping up the program being funded—providing matching grants to volunteer preparer organizations—in 2008, additional funding was not needed for 2009. Despite not asking for additional funding, IRS is expecting to see large, but unquantified, growth in tax returns prepared at VITA sites. According to IRS officials, IRS does not have a separate line item showing how much it spent on VITA overall.

⁷These nonlegislative initiatives involve (1) reducing the tax gap for small businesses and the self-employed; (2) reducing it for large businesses; (3) increasing reporting compliance related to offshore activity; (4) through research, improving tax gap estimates, measurement, and detection of noncompliance; and (5) expanding document matching.

noncompliance.⁸ In 1991, we supported the notion that payments to corporations be reported on information returns.⁹ Finally, in 2007, we described ways to mitigate the compliance costs related to these information returns and to other information returns associated with credit and debit card payments.¹⁰

The revenue expected from IRS's enforcement initiatives is modest compared to the net tax gap, which was last estimated at \$290 billion for tax year 2001. As we noted in our statement to this Committee last year, no single approach, such as IRS enforcement, is likely to fully and effectively address noncompliance.¹¹ Multiple approaches are needed because noncompliance has multiple causes and spans different types of taxes and taxpayers.

Hiring needed staff for the nonlegislative initiatives will be challenging for IRS's Large and Mid-Size Business (LMSB) and Small Business/Self-Employed (SB/SE) divisions. For instance, the initiatives call for adding 1,431 revenue agents in addition to those who must be replaced from attrition, a high number relative to past years. IRS divisions have previously hired large numbers of staff in a short time because of specific budget initiatives, but officials reported that hiring gradually over time would reduce challenges. If IRS were to fall behind in its hiring efforts, it would not need all \$226 million of the funding for staff for FY 2009 initiatives.

⁸GAO, *Capital Gains Tax Gap: Requiring Brokers to Report Securities Cost Basis Would Improve Compliance if Related Challenges Are Addressed*, [GAO-06-603](#) (Washington, D.C.: June 13, 2006).

⁹GAO, *Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs*, [GAO/GGD-91-118](#) (Washington, D.C.: Sept. 27, 1991).

¹⁰GAO, *Tax Administration: Costs and Uses of Third-Party Information Returns*, [GAO-08-266](#) (Washington, D.C.: Nov. 20, 2007).

¹¹GAO, *Internal Revenue Service: Assessment of the 2008 Budget Request and an Update of 2007 Performance*, [GAO-07-719T](#) (Washington, D.C.: May 9, 2007).

IRS Has Enhanced Its Justifications for Initiatives and Could Benefit from Using ROI Analyses More Broadly, Even with Their Limitations

Responding to our recommendations from last year, IRS included more information on initiatives in the FY 2009 proposed budget, including ROI information for all nonlegislative initiatives. Last year, we recommended that IRS have available basic descriptive, cost, and expected performance information on all new initiatives and include such information in future budget submissions.¹² This year, the budget request has sections explicitly entitled, for instance, “Initiative Summary,” “Implementation Plan,” “Expected Benefits,” and “ROI.” Four of the five nonlegislative enforcement initiatives for FY 2009 were revisions of FY 2008 initiatives, but with more total funds requested and generally more informative justifications than for FY 2008.

However, IRS’s ROI calculations have limitations that reflect the challenges of estimating ROIs. For example, the calculations do not account for benefits that are harder to measure, such as improved voluntary compliance. Another example showing ROI limitations is the \$51 million National Research Project (NRP) initiative for which IRS estimates the ROI to be \$0.40 per \$1.00 invested. NRP funds research audits in order to develop more effective enforcement programs. The ROI calculation only includes direct revenue resulting from the research audits, not the potential for increased revenue from improved enforcement programs; nor does the calculation include the benefits of the Department of the Treasury’s use of NRP data to provide the basis for legislative recommendations.

Although the budget request for IRS provides performance measure data, it does not provide ROI analyses for programs or activities other than the new initiatives. As we noted in our recent report, analytic data such as ROI can be helpful to managers and the Congress when making resource allocation decisions.¹³ ROI analyses, even with their limitations, can help answer questions such as the following:

- What are the implications for IRS’s resource allocation of the lower costs per taxpayer contact for some services compared to others as shown in table 4?
- Are there extra benefits that offset the higher costs of some services, or could costs be reduced by promoting increased reliance on the lower-cost options?

¹²GAO-07-719T.

¹³GAO-08-567.

Table 4: Cost of Providing Taxpayer Service in FY 2005

Service	Estimated cost per contact
Answering tax law questions via e-mail	\$52.51
Providing assistance at taxpayer assistance centers	28.73
Answering correspondence	24.97
Providing assistance by assistors via toll-free telephones	19.46
Providing assistance through VITA sites	12.01
Providing assistance by automation via toll-free telephones	0.71
Providing assistance such as downloads and searches on IRS's Web site	0.13

Source: GAO analysis of IRS data.

Note: IRS reported that these estimates do not fully allocate all indirect overhead and support costs. We have reported that because of long-standing limitations in IRS's cost accounting capability, cost data at this detailed level have not been audited (see, for example, [GAO-07-310](#) and 07-247). From our perspective, it would be important to know more about the indirect and support costs to see if they might significantly change the cost estimates.

Similar questions can be asked about enforcement based on table 5:

- Is IRS appropriately allocating resources between field audits, often conducted at a taxpayer's business, and correspondence audits, which are simpler and conducted by mail?¹⁴
- For the rows in table 5 with average recommended additional tax per return greater for correspondence audits than for field audits, could resources be reallocated from field audits to correspondence audits in order to help close the tax gap?
- Are there other benefits to field audits, such as a greater impact on voluntary compliance, that are not captured in IRS's data?

¹⁴In FY 2007 correspondence audits took, on average, 1.4 hours to conduct compared to the 30.8-hour average for field audits done at taxpayers' locations and the 7.8-hour average for field audits done at IRS offices.

Table 5: Field and Correspondence Audits of Some Business Categories of Taxable Individual Income Tax Returns, FYs 2006 and 2007

Type and size of return	Number of returns examined		Average recommended additional tax per return	
	Field	Correspondence	Field	Correspondence
FY 2006				
Business nonfarm returns by size of total gross receipts (TGR):				
Under \$25,000	19,801	107,802	\$3,918	\$2,614
\$25,000 under \$100,000	38,722	42,070	5,464	7,600
\$100,000 or more	54,716	34,515	25,787	27,863
FY 2007				
Business nonfarm returns without earned income tax credit, by size of TGR:				
Under \$25,000	53,092	81,237	4,836	11,048
\$25,000 under \$100,000	31,363	31,513	6,320	11,793
\$100,000 under \$200,000	28,286	28,041	24,582	32,640
\$200,000 or more	11,319	1,730	15,959	7,017
Business returns with total positive income at least \$200,000 and under \$1 million	17,499	15,280	20,880	33,406

Source: GAO analysis of IRS data.

Note: This table does not include all categories of audits. For a number of those categories, field audits produce a higher average recommended additional tax per return than do correspondence audits.

We recognize that developing ROI estimates for IRS's ongoing programs such as examinations and taxpayer service will be a challenge. However, because of the potential benefits of ROI analyses, we recommended in our previous report on the FY 2009 budget request that the Commissioner of Internal Revenue extend the use of ROI in future budget proposals to cover major enforcement programs. At that time, IRS officials said that because of the short time frame for our report, they did not have time to fully analyze its recommendations, and, therefore, were unable to respond.¹⁵ We have agreed to meet with IRS to further discuss the ROI recommendation.

¹⁵ GAO-08-567.

Further Progress Made in Implementing BSM, but Challenges and Risks Remain

IRS's BSM program, initiated in 1999, involves the development and delivery of a number of modernized tax administration, internal management, and core infrastructure projects that are intended to provide improved and expanded service to taxpayers as well as IRS internal business efficiencies. Key tax administration projects include CADE, which is intended to provide the modernized database foundation to replace the existing Individual Master File processing system that contains the repository of individual taxpayer information; AMS, which is intended to enhance CADE by providing applications for IRS employees and taxpayers to access, validate, and update accounts on demand; and MeF, which is to provide a single standard for filing electronic tax returns. We recently reported that while IRS has continued to make progress in implementing BSM projects and improving modernization management controls and capabilities, challenges and risks remain, and further improvements are needed.¹⁶

As shown in table 6, the FY 2009 budget request for the BSM program is less than the enacted FY 2008 budget by over \$44 million and about \$185 million less than the amount the IRS Oversight Board is proposing. When we asked about the impact of this reduction on its operations, IRS told us that the proposed funding level will allow it to continue developing and delivering its primary modernization projects but did not provide details on how plans to deliver specific projects or benefits to taxpayers would be affected. MeF is the project with the largest difference between the requested budget and the FY 2008 enacted amount.

¹⁶GAO-08-420.

Table 6: BSM Funding Differences, FY 2008 and 2009 (in thousands)

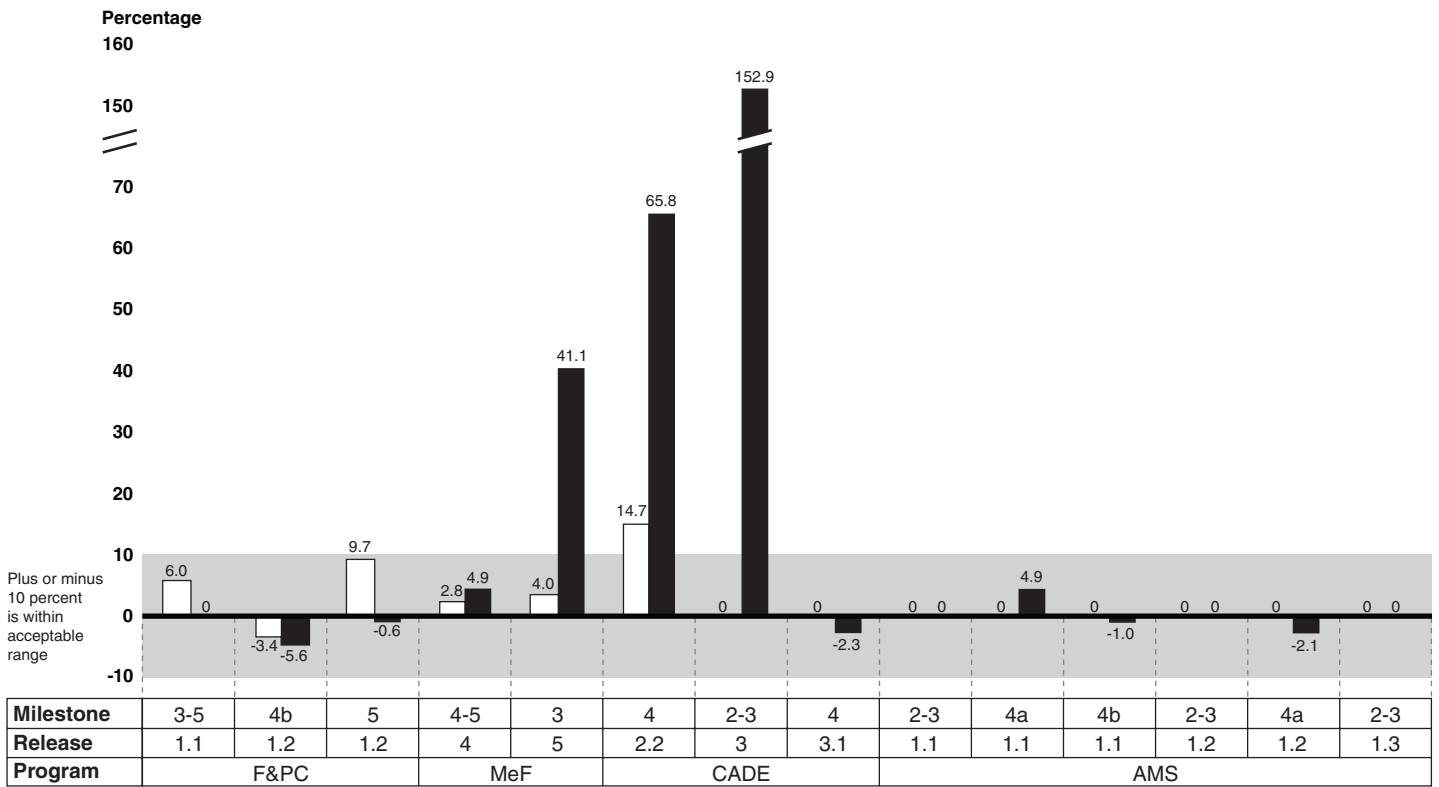
Project	FY 2008 enacted	FY 2009 budget request
Customer Account Data Engine	\$58,500	\$58,800
Accounts Management Services	28,983	26,158
Modernized e-File	55,802	25,000
Filing & Payment Compliance	0	0
Core Infrastructure	39,150	32,000
Architecture, Integration, and Management	35,100	35,000
Management Reserve	4,310	2,300
Subtotal Capital Investments	\$221,845	\$179,258
BSM Labor	44,000	42,052
Subtotal Program Request	\$265,845	\$221,310
Maintaining Current Levels	1,245	1,354
Total BSM Budget Request	\$267,090	\$222,664

Source: IRS data.

IRS has made progress in implementing BSM projects and meeting cost and schedule commitments for most deliverables, but three project milestones experienced significant cost or schedule delays.¹⁷ During 2007, IRS completed milestones of the Filing and Payment Compliance (F&PC), a tax collection case analysis support system; MeF; CADE; and AMS. Our analysis of reported project costs and completion dates showed that 13 of the 14 associated project milestones that were scheduled for completion during this time were completed within 10 percent of cost estimates, and 11 of the 14 milestones were completed within 10 percent of schedule estimates. However, a milestone for CADE exceeded its planned schedule by 66 percent and experienced a 15 percent cost increase; another milestone for the same project incurred a 153 percent schedule delay, and a milestone for MeF experienced a 41 percent schedule delay (see fig. 1).

¹⁷Milestones represent different phases in IRS's project life cycle.

Figure 1: Summary of Cost and Schedule Performance for Fiscal Year 2007 Project Milestones



Cost variance
 Schedule variance

Source: GAO analysis of IRS data.

IRS has taken steps to address our prior recommendations to improve its modernization management controls and capabilities. However, work remains to fully implement them. For example, in July 2005, we recommended that IRS fully revisit the vision and strategy for the BSM program and develop a new set of long-term goals, strategies, and plans consistent with the budgetary outlook and IRS’s management capabilities.¹⁸ We also noted that the vision and strategy should include time frames for consolidating and retiring legacy systems. In response, IRS has developed a Modernization Vision and Strategy framework and

¹⁸GAO, *Business Systems Modernization: Internal Revenue Service’s Fiscal Year 2005 Expenditure Plan*, GAO-05-774 (Washington, D.C.: July 22, 2005).

supporting 5-year Enterprise Transition Plan. However, the agency has yet to develop long-term plans for completing BSM and consolidating and retiring legacy systems. We also recommended in February 2007 that IRS ensure that future BSM expenditure plans include a quantitative measure of progress in meeting scope expectations.¹⁹ We further recommended that, in developing this measure, IRS consider using earned value management since this is a proven technique required by the Office of Management and Budget for measuring cost, schedule, and functional performance against plans.²⁰ While IRS has developed an approach to address our recommendation, it has not yet fully implemented it.

Future BSM project releases continue to face significant risks and issues, which IRS is addressing. Specifically, the agency recently identified significant risks and issues with planned system deliveries of CADE and AMS and reported that maintaining alignment between the two systems will be a significant challenge and source of risk for the BSM program. IRS recognizes the potential impact of identified risks and issues on its ability to deliver projects within cost and schedule estimates and has developed mitigation strategies to address them. While mitigation strategies have been developed, the risks and challenges confronting future releases of CADE and AMS are nevertheless significant, and we will continue to monitor them and actions to address them.

IRS also made further progress in addressing high-priority BSM program improvement initiatives during the past year. In September 2007, IRS completed another cycle of initiatives and initiated a new cycle, which was scheduled to be completed at the end of March 2008. Initiatives that were addressed in the 6-month cycle ending in September 2007 included IT human capital, information security, and process improvements (e.g., developing and implementing standardized earned value management practices for major projects). IRS's program improvement process continues to be an effective means of regularly assessing, prioritizing, and incrementally addressing BSM issues and challenges. However, more work remains for the agency to fully address these issues and challenges.

¹⁹GAO, *Business Systems Modernization: Internal Revenue Service's Fiscal Year 2007 Expenditure Plan*, [GAO-07-247](#) (Washington, D.C.: Feb. 15, 2007).

²⁰Earned value management is a project management tool that integrates the investment scope of work with schedule and cost elements for investment planning and control. This method compares the value of work accomplished during a given period with that of the work expected in the period. Differences between accomplishments and expectations are measured in both cost and schedule variances.

Finally, we recently reported that efforts to address human capital challenges continue, but more work remains. IRS developed an IT human capital strategy that addresses hiring critical personnel, employee training, leadership development, and workforce retention, and agency officials stated that they plan to undertake a number of human capital initiatives to support their human capital strategy, including conducting analyses of turnover rates and continuing efforts to replace key leaders lost to retirement. However, a specific plan with time frames for implementing these initiatives has not been developed. We recommended that IRS complete such a plan to help guide the agency's efforts in addressing its IT human capital gaps and measure progress in implementing them. IRS agreed with our recommendation and stated that it intends to develop a plan to implement its IT human capital strategy.

IRS Estimates the Cost of Implementing the Economic Stimulus Legislation May Be Up to a Total of \$767 Million and Expects Declines in Some Taxpayer Services

The Economic Stimulus Act of 2008 is resulting in a significant workload increase not anticipated in the FY 2008 budget. As part of the legislation, IRS received \$202 million in a supplemental appropriation. However, because IRS could not find an alternative according to responsible officials, it has reallocated resources from enforcement to taxpayer service and is allowing some deterioration in telephone service.

IRS will begin sending economic stimulus payments to more than 130 million households in early May, after the current tax filing season, and is scheduled to be done by mid-July. These include an estimated 20 million retirees and disabled veterans, and low-wage workers who usually are exempt from filing a tax return but will be eligible for stimulus payments. Taxpayers required to file a tax return must do so by April 15 in order to receive a stimulus payment by mid-July.²¹ People who are not required to file a tax return, but are doing so to receive a stimulus payment, are required to file an IRS Form 1040A by October 15, 2008.

As part of the legislation, IRS received a supplemental appropriation of \$202 million to help fund its costs for implementing the stimulus package. This funding will remain available until September 30, 2009. As shown in table 7, IRS plans to spend the bulk of the funding—\$151.4 million—for Operations Support, most of it on postage for two mass mailings and on IT

²¹Taxpayers who are unable to meet the April 15 filing deadline can file a Form 4868, the automatic extension of time to file, which gives them until October 15 to submit a 2007 tax return.

support. IRS also expects to spend \$50.7 million for Taxpayer Services, including \$26.2 million for staffing and overtime for telephone assistors. IRS is expecting 2.4 million additional telephone calls in March and April with questions for IRS assistors about the economic stimulus legislation. These calls are in addition to the more than 14 million calls typically answered by IRS assistors between January and mid-April.

Table 7: IRS's Estimated Costs of Implementing the Economic Stimulus Legislation

Dollars in millions			
Supplemental appropriation			
Operations Support			
Postage			\$90.613
IT support			43.965
Telecommunications			8.370
Printing			6.767
Communications plan			1.700
Total for Operations Support			151.415
Taxpayer Services			
Additional staffing/overtime			50.720
Total supplemental funding			\$202.135
IRS estimates of foregone revenue from shifting Automated Collection System (ACS) staff^a			
Wage and Investment (W&I)			\$191.728
Small Business/Self-Employed (SB/SE)			373.065
Total foregone revenue			Up to \$564.793
Total			Up to \$766.928
Taxpayer service	2008 goal	Revised estimate	Reduction
Assistor level of service (percent)	82	As low as 74	Down 8 percentage points

Source: GAO analysis of IRS and Treasury data.

^aRevised as of early April 2008.

To help meet the increased telephone demand, IRS is shifting about half of its over 2,000 Automated Collection System (ACS) telephone staff from collecting delinquent taxes to answering economic stimulus telephone

calls from March through May.²² To accommodate this shift, IRS stopped sending out some ACS-generated notices, such as notices of levy, several weeks ago.²³ According to IRS officials, it takes about 3 to 4 weeks before this adjustment in ACS-generated notices affects the ACS workload. IRS originally estimated that the revenue foregone by shifting ACS staff to be up to \$681 million. However, according to IRS officials, in early April, IRS revised its foregone revenue estimate down to \$565 million, shown in table 7, largely because of lower-than-expected demand for telephone assistance in March.²⁴

According to IRS officials, IRS's priority is to respond to taxpayers' questions about the stimulus program; therefore, the officials are monitoring call volume and adjusting the number of ACS staff answering telephones accordingly. When call volume is low, ACS staff work on outstanding ACS collection cases. However, IRS officials stated that this work does not produce the same revenue as the ACS-generated notices, particularly revenue generated from notices of levy. When IRS adjusts the volume of ACS-generated notices, it takes several weeks before that adjustment affects ACS workload. IRS officials do not want to resume sending ACS-generated notices until they are sure ACS staffers are available to handle the resulting workload.

Should the lower-than-expected call volume continue, IRS may have an opportunity to shift the ACS staff back to their most productive collection work. This could further reduce the revenue foregone from using ACS staff to answer stimulus-related telephone calls. To date, IRS has not reduced its projections for future stimulus-related call volume. If the projections are reduced, IRS may be able to resume sending out at least some ACS-generated notices.

²²When IRS has completed sending its initial series of notices to tax debtors, it assigns the debts to its collections programs, such as ACS. ACS is an automated telephone-based system designed to call tax debtors. ACS staffers then attempt to talk with tax debtors to try to collect outstanding tax debt. IRS estimated there are about 1,200 ACS staff in its W&I division and about 1,100 in its SB/SE division.

²³IRS suspended notices sent by ACS examiners, such as final notices before enforcement, collection due process notices, and notices of levy.

²⁴IRS arrived at the estimates by taking a 3-year average of dollars collected by closing ACS cases for both its W&I and SB/SE divisions. IRS determined the projected foregone revenue by multiplying the average dollars collected per ACS staff by the projected lost case closures. IRS plans to minimize the use of SB/SE staff because the revenue collected by SB/SE is greater than for W&I.

According to IRS officials, IRS considered alternatives to shifting ACS staff, including contracting out, using other IRS staff, or using Social Security Administration or other federal staff, but decided the alternatives were not feasible. For example, contracting out was not deemed feasible because of insufficient time to negotiate the contract and conduct background checks and training.

Another cost—although not measured in dollars—is the decline in telephone service shown in table 7. Because of the increased call volume, IRS expects its assistor level of service to drop from 82 percent (the 2008 goal) to as low as 74 percent—the lowest level since 2002. IRS is already experiencing some declines in telephone service. As of March 29, the level of service had dropped to 80 percent, taxpayers were waiting a minute and a half longer than last year, and they were hanging up 43 percent more often while waiting to speak to an assistor. Between March 3 and March 29, IRS assistors answered over 572,000 stimulus-related calls.²⁵ IRS expects call volume to increase rapidly in upcoming weeks as taxpayers receive their stimulus notices in the mail.

Because IRS is in the early stages of implementing the stimulus legislation, IRS officials do not have much information about the actual costs. Through March, IRS estimates that it has spent almost \$103 million, mostly for postage.

Agency Comments

In commenting on a draft of our earlier report on the FY 2009 budget request and 2008 tax filing season, IRS officials said that, because of the short time frame for our report, they did not have time to fully analyze our recommendation and, therefore, were unable to respond at the time. They provided technical comments at that time and again for this statement, and we made those changes where appropriate. We have agreed to meet with IRS to further discuss the ROI recommendation.

²⁵According to IRS officials, before March 3, taxpayers with stimulus-related calls were transferred to an automated message, which told taxpayers that additional information would be forthcoming. IRS estimated that the number of these calls frequently ranged from 20,000 to 60,000 per day. IRS assistors started answering stimulus-related questions on March 3, and IRS established its dedicated telephone line for stimulus-related calls on March 14.

Mr. Chairman, this concludes my prepared statement. Mr. Powner and I would be happy to respond to questions that you or other Members of the Subcommittee may have at this time.

Contacts and Acknowledgments

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