



Report to the Republican Leader,
Subcommittee on Oversight, Committee
on Ways and Means, House of
Representatives

October 2020

IRS REORGANIZATION

Planning Addressed
Key Reform Practices,
but Goals and
Measures for the Plan
Have Not Been
Finalized

GAO Highlights

Highlights of [GAO-21-18](#), a report to the Republican Leader, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

The Taxpayer First Act required that a comprehensive written plan to redesign IRS be submitted to Congress by September 30, 2020. Reforming and reorganizing a federal agency as large and complex as IRS is not an easy task. However, a potential reorganization could provide IRS with an opportunity to address emerging and long-standing challenges.

GAO was asked to review IRS's organizational structure and IRS's plans to reform it. This report examines (1) reported advantages of, challenges related to, and options for potentially improving IRS's organizational structure; and (2) the extent to which IRS's reorganization planning process is consistent with selected leading practices.

GAO reviewed documents from IRS and other sources; interviewed IRS officials and stakeholders, including three former IRS commissioners; and assessed IRS's reorganization planning process against selected key practices for agency reform efforts developed by GAO.

What GAO Recommends

GAO is making three recommendations to IRS as it finalizes its reorganization plan, including that IRS should finalize goals and performance measures, and identify specific actions to address long-standing management challenges. IRS responded that it plans to implement GAO's recommendations when it submits its final reorganization plan to Congress in December 2020.

View [GAO-21-18](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or mctiguej@gao.gov.

October 2020

IRS REORGANIZATION

Planning Addressed Key Reform Practices, but Goals and Measures for the Plan Have Not Been Finalized

What GAO Found

GAO identified advantages of, challenges related to, and options for improving the Internal Revenue Service's (IRS) current organizational structure, based on GAO's review of prior work and interviews with IRS officials and stakeholders. For example, one advantage of the current structure, according to several interviewees, is that IRS's divisions have developed specialized expertise on different types of taxpayers with similar needs, such as small businesses. Several interviewees also believed that addressing some of IRS's challenges may not require significant changes to IRS's organizational structure. GAO and others have identified challenges and options to improve IRS's structure, processes, and operations in the following areas: (1) customer service; (2) communication and coordination within IRS; (3) technology; and (4) strategic human capital management and training.

While developing its reorganization plan required by the Taxpayer First Act, IRS addressed or partially addressed all six of the key practices for agency reforms that GAO reviewed (see table below).

| GAO Assessment of IRS's Reorganization Planning Process against Key Reform Practices | |
|--|------------------|
| Key reform practice | Extent addressed |
| Establishing goals and outcomes | ⓪ |
| Involving employees and key stakeholders | ● |
| Using data and evidence | ● |
| Addressing fragmentation, overlap, and duplication | ⓪ |
| Addressing high-risk areas and long-standing management challenges | ⓪ |
| Leadership focus and attention | ● |

Legend: ● Generally addressed ⓪ Partially addressed ○ Not addressed

Source: GAO analysis of Internal Revenue Service (IRS) information. | [GAO-21-18](#)

IRS established a senior-level team—the Taxpayer First Act Office—to lead the reorganization planning, involved employees and key stakeholders, and used multiple sources of data and evidence to inform its planning. Although IRS has developed preliminary goals for the plan, it has not yet finalized and communicated the goals and performance measures for the plan. IRS has also researched potential actions it could take to address long-standing management challenges at IRS, such as those related to areas of fragmentation, overlap, duplication, and high risk that GAO has identified. However, IRS has not yet decided on specific actions to address those areas in its plan.

IRS officials told us that they intend to take these additional steps, but COVID-19 delayed the completion of their reorganization plan to December 2020. As a result, it is still unclear whether the reorganization plan will have outcome-oriented goals and performance measures or whether it will identify specific actions to address long-standing management challenges. Taking these steps could help IRS identify and achieve the intended outcomes of the reorganization plan, and identify reforms that can create long-term gains in efficiency and effectiveness.

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Abbreviations

| | |
|----------|---|
| ABA | American Bar Association |
| AICPA | American Institute of Certified Public Accountants |
| COVID-19 | Coronavirus Disease 2019 |
| IDT | identity theft |
| IRS | Internal Revenue Service |
| IRSAC | Internal Revenue Service Advisory Council |
| IT | information technology |
| NAEA | National Association of Enrolled Agents |
| NATP | National Association of Tax Professionals |
| NTEU | National Treasury Employees Union |
| RRA98 | Internal Revenue Service Restructuring and Reform Act of 1998 |
| TAS | Taxpayer Advocate Service |
| TFAO | Taxpayer First Act Office |
| TIGTA | Treasury Inspector General for Tax Administration |
| W&I | Wage and Investment |

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October 19, 2020

The Honorable Mike Kelly
Republican Leader
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Kelly:

The Internal Revenue Service's (IRS) overall organizational structure has remained largely unchanged since 1998. However, the Taxpayer First Act required the Secretary of the Treasury, or the Secretary's delegate, to submit a comprehensive written plan to redesign the organization of IRS to Congress by September 30, 2020.¹ In April 2020, IRS informed Congress that it would delay submitting the reorganization plan until December 2020 because of the workforce and operational challenges resulting from the Coronavirus Disease 2019 (COVID-19) pandemic.

Reforming and reorganizing a federal agency as large and complex as IRS is not an easy task and can take years to fully implement. A potential reorganization could provide IRS with an opportunity to address both emerging and long-standing challenges facing the agency. For example, our prior work has identified characteristics of resilient organizations that allow them to respond to major disruptions, such as the COVID-19 pandemic.² In addition, we have previously found that IRS needs to increase its capacity to implement new initiatives, improve ongoing

¹Pub. L. No. 116-25, § 1302, 133 Stat. 981, 993 (July 1, 2019). The Taxpayer First Act also required the Secretary of the Treasury, or the Secretary's delegate, to submit a comprehensive customer service strategy for IRS to Congress, and required the Commissioner of Internal Revenue to submit a comprehensive training strategy for IRS employees to Congress. Pub. L. No. 116-25, §§ 1101, 2402. According to IRS officials, IRS plans to combine these strategies and the reorganization plan into one consolidated report.

²For further information about characteristics of resilient organizations, see appendix II of GAO, *IRS Management: IRS Practices Contribute to Its Resilience, but It Would Benefit from Additional Emergency Planning Efforts*, [GAO-09-418](#) (Washington, D.C.: Apr. 9, 2009).

enforcement and taxpayer service programs, and combat identity theft refund fraud.³

Our prior work has shown that effective government reform initiatives (1) require a combination of people, processes, technologies, and other critical success factors to achieve results; and (2) depend upon following essential change management practices, such as involving Congress, federal employees, and other key stakeholders. This means that it is important during a reorganization to examine the effect of proposed changes on employees, stakeholders, and program customers. It is also important to maintain the agency's effectiveness during the reorganization.

You asked us to review IRS's organizational structure and IRS's plans to reorganize itself. This report examines (1) reported advantages of, challenges related to, and options for potentially improving IRS's current organizational structure; and (2) the extent to which IRS's process for developing its reorganization plan is consistent with selected leading practices for agency reform efforts. We define organizational structure as the operating units, operational processes, and other structures that IRS uses to achieve its objectives.⁴

To describe reported advantages of, challenges related to, and options for potentially improving IRS's current organizational structure, we reviewed our prior work on IRS; reviewed reports and documents from IRS and other sources, including IRS's policies and reorganization planning materials; and interviewed IRS officials and key stakeholders. We selected a nonprobability sample of 11 interviewees, including IRS officials and stakeholders who represent a range of organizations and individuals who regularly interact with IRS, and would have perspectives on IRS's organizational structure. Throughout this report, we refer to the IRS officials and stakeholders we interviewed as "interviewees." For a full list of these interviewees, see appendix I.

We conducted our stakeholder interviews from January 2020 to July 2020. The majority of these interviews occurred prior to the outbreak of COVID-19. We analyzed information from the interviews to identify themes raised by stakeholders and IRS officials, and summarized their

³GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

responses. When describing the views of the 11 groups and individuals we interviewed, we use the terms “some” interviewees to represent two to four interviewees and “several” interviewees to represent five to seven interviewees.

We asked open-ended questions about the advantages and challenges our interviewees considered most significant and relevant to IRS’s current organizational structure. We did not ask every interviewee whether they agreed or disagreed with every idea raised by the other interviewees. Although our findings from these interviews are not generalizable to the views of all stakeholders, they provide insight and illustrative examples about the advantages of, challenges related to, and options for potentially improving IRS’s current organizational structure.

To assess the extent to which IRS’s process for developing its reorganization plan is consistent with selected key reform practices for agency reform efforts, we reviewed IRS documents related to IRS’s reorganization planning process, interviewed IRS officials and key stakeholders about IRS’s process, and assessed IRS’s process against selected key practices for agency reform efforts that we have identified in our prior work.⁵ We also met with congressional committees with oversight of IRS, tax policy, or government organization to discuss any consultations they have had with IRS about its reorganization plan.

Figure 1 shows the key reform practices against which we assessed IRS’s planning process. We selected practices that were most relevant to planning and designing agency reform efforts because, at the time of our review, IRS was planning and designing its potential reorganization.

⁵GAO, *Government Reorganization: Key Questions to Assess Agency Reform Efforts*, [GAO-18-427](#) (Washington, D.C.: June 13, 2018).

Figure 1: Selected Key Reform Practices and Questions for Assessing the Internal Revenue Service’s Reorganization Planning Process

| Selected categories for key reform practices | | Selected subcategories of key reform practices | Selected key questions |
|--|---|---|--|
| Goals and Outcomes |  | <ul style="list-style-type: none"> Establishing Goals and Outcomes | <ul style="list-style-type: none"> To what extent has the agency established clear outcome-oriented goals and performance measures for the proposed reforms? To what extent has the agency shown that the proposed reforms align with the agency’s mission and strategic plan? |
| Process for Developing Reforms |  | <ul style="list-style-type: none"> Involving Employees and Key Stakeholders Using Data and Evidence Addressing Fragmentation, Overlap, and Duplication Addressing High-Risk Areas and Long-Standing Management Challenges | <ul style="list-style-type: none"> How and to what extent has the agency consulted with Congress, and other key stakeholders, to develop its proposed reforms? Is there a two-way continuing communications strategy that listens and responds to concerns of employees regarding the effects of potential reforms? What data and evidence has the agency used to develop and justify its proposed reforms? To what extent has the agency addressed areas of fragmentation, overlap, and duplication—including the ones we identified—in developing its reform proposals? To what extent has the agency identified cost savings or efficiencies that could result from reducing or better managing areas of fragmentation, overlap, and duplication? What management challenges and weaknesses are the reform efforts designed to address? How specifically has the agency considered high-risk issues, agency Inspector General’s major management challenges, and other external and internal reviews in developing its reform efforts? |
| Implementing the Reforms |  | <ul style="list-style-type: none"> Leadership Focus and Attention | <ul style="list-style-type: none"> Has the agency established a dedicated implementation team that has the capacity, including staffing, resources, and change management, to manage the reform process? |

Source: GAO. | GAO-21-18

We conducted this performance audit from October 2019 to October 2020 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.

Background

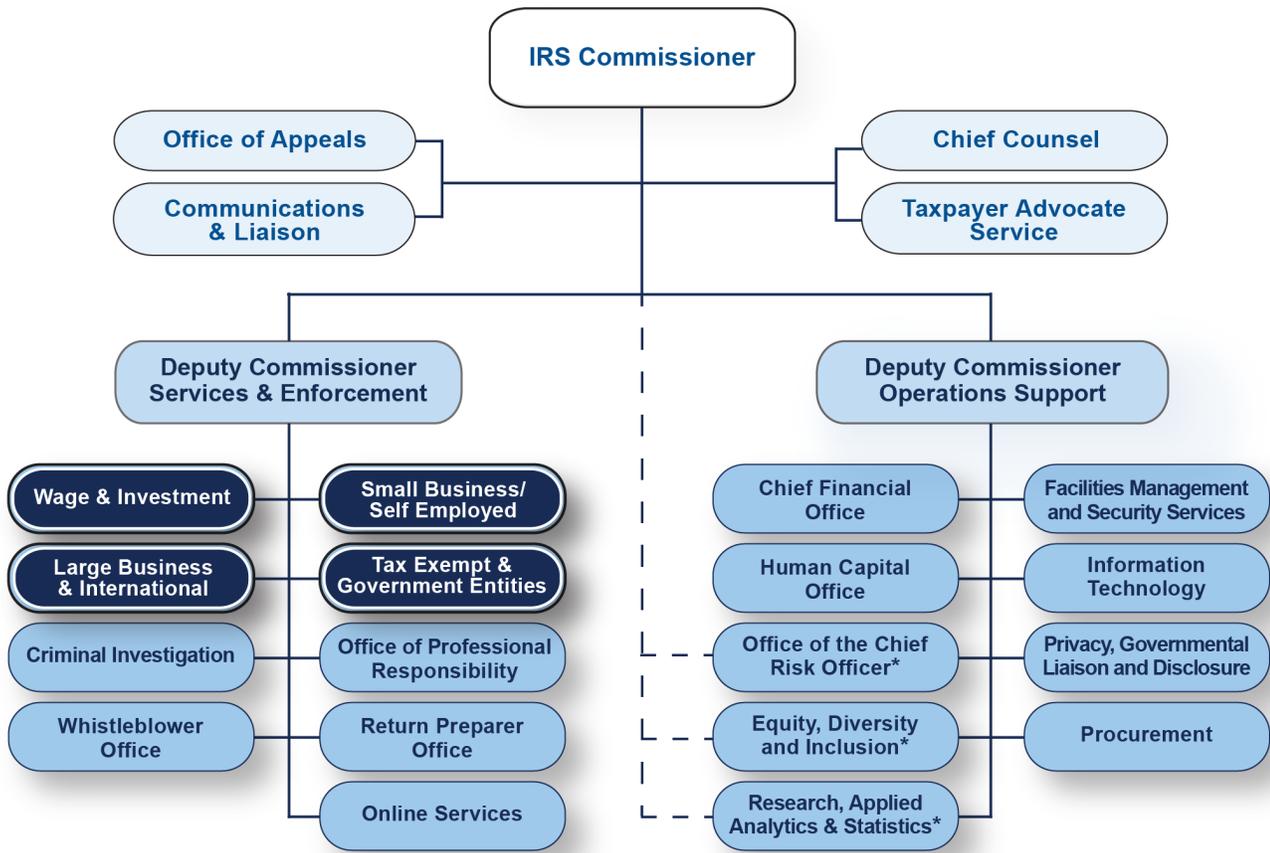
IRS’s last major reorganization occurred following the passage of the Internal Revenue Service Restructuring and Reform Act of 1998

(RRA98).⁶ Since the 1950s, IRS had operated under a three-tier geographic structure with a national office, four regional offices, and 33 district offices. Each region and district served all the taxpayers in a particular geographic area. RRA98 required IRS to change from a geographic structure to its current structure based on providing service to groups of taxpayers with similar needs. The law also required IRS to revise its mission to place a greater emphasis on serving the public and meeting taxpayers' needs.

In addition to a number of smaller divisions and offices, IRS now has four primary divisions which each serve a particular type of taxpayer: Wage and Investment, Small Business and Self-Employed, Large Business and International, and Tax Exempt and Government Entities. Figure 2 shows IRS's current organizational chart.

⁶Pub. L. 105-206, 112 Stat. 685 (July 22, 1998).

Figure 2: IRS's Organizational Chart, as of July 2020



 Divisions that serve a particular type of taxpayer

*Identifies reporting relationship direct to the Commissioner

Source: GAO analysis of Internal Revenue Service (IRS) organizational chart. | GAO-21-18

Reported Advantages of, Challenges Related to, and Options for Improving IRS's Current Organizational Structure

Reported Advantages of IRS's Current Organizational Structure

Our review of prior work in this area and our interviews with IRS officials and stakeholders identified some advantages of IRS's current organizational structure. These advantages include specialized expertise on different types of taxpayers and an organizational structure that several interviewees stated may not require major changes.

According to IRS's policies and several of our interviewees, IRS's current divisions are able to develop specialized expertise on different types of taxpayers and their needs. For example, IRS's Large Business and International Division specializes in complex and highly technical tax issues for corporations and partnerships with assets greater than \$10 million. Several of our interviewees identified the ability to develop this type of expertise as an advantage of IRS's current organizational structure supporting its efforts to enforce tax law and provide service to taxpayers.

Finally, although the Taxpayer First Act requires that a redesign plan be submitted to Congress, some sources suggest that major changes to IRS's organizational structure may not be necessary. For example, when the Department of the Treasury developed a plan in 2017 for reforming the department, its proposals for IRS were mainly related to improving taxpayer services and modernizing information technology infrastructure, rather than major changes to IRS's organization. In addition, several of our interviewees believed that significant changes to IRS's organizational structure may not be necessary to improve IRS's operations.

For example, some former high-ranking IRS officials suggested improvements that they believed could address many of the challenges facing IRS, such as encouraging communication across the agency and having effective processes, data, and technology systems in place. These officials did not believe IRS's challenges were primarily structural and

noted that changing IRS's organizational structure could have unintended negative consequences on existing processes that are working well.

Reported Challenges Related to and Options for Improving IRS's Current Organizational Structure, Processes, and Operations

Our review of prior work and our interviews with IRS officials and stakeholders identified challenges related to and options for improving IRS's current organizational structure, processes, and operations. For example, we identified challenges and options for improvement in four areas: (1) customer service, (2) communication and coordination within IRS, (3) information technology management and modernization, and (4) strategic human capital management and training.

Customer Service. IRS provides customer service to taxpayers through telephone service, paper correspondence, online services, and in-person services. In our prior work, we have identified challenges related to difficulties taxpayers experience in contacting IRS, IRS's ability to provide online services, and IRS's interactions with tax professionals. IRS's mission statement in its strategic plan for fiscal years 2018 to 2022 is to "provide America's taxpayers with top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all."⁷

In September 2020, we reported that IRS and two of its divisions—the Wage and Investment Division and the Small Business/Self-Employed Division—did not have performance goals and related performance measures for improving the taxpayer experience, such as reducing taxpayer wait times for telephone assistance.⁸ Although IRS analyzes its taxpayer service measures, the analyses provide few insights and no recommendations to improve the taxpayer experience. As a result, we recommended, among other things, that IRS identify performance goals, measures, and targets. IRS responded that it plans to identify performance goals, measures, and targets as part of its forthcoming report to Congress required by the Taxpayer First Act.

Furthermore, we have found that IRS has struggled over many years to balance competing demands for maintaining quality telephone service

⁷IRS, *Strategic Plan FY2018-2022*, Publication 3744 (Rev. 4-2018).

⁸GAO, *Taxpayer Service: IRS Could Improve the Taxpayer Experience by Using Better Service Performance Measures*, [GAO-20-656](#) (Washington, D.C.: Sept. 23, 2020).

with timely responses to written correspondence.⁹ In December 2012, we recommended IRS develop a strategy to improve telephone and correspondence services.¹⁰ Since then, IRS defined what an appropriate level of telephone service would be. However, as of April 2020, IRS had neither outlined a strategy on the appropriate levels of correspondence service and wait time nor determined how it will manage service based on time frames, demand, capabilities, and resources.¹¹

In addition, several of our interviewees stated taxpayers and tax professionals face difficulties in contacting IRS when trying to resolve issues. Efficiently responding to taxpayer inquiries and providing timely responses to taxpayer correspondence supports IRS's mission to provide top-quality service. Moreover, responding to taxpayer inquiries has long been demonstrated to improve and encourage compliance with the tax code, which can reduce the tax gap (the difference between taxes owed and taxes paid).¹²

As part of improving customer service, in recent years Congress and the executive branch have emphasized the importance of enhancing online services.¹³ For example, the Taxpayer First Act requires that IRS's customer service strategy address online services. IRS provides some online services for individual taxpayers, including services that allow

⁹GAO, *2019 Tax Filing: IRS Successfully Implemented Tax Law Changes but Needs to Improve Service for Taxpayers with Limited-English Proficiency*, [GAO-20-55](#) (Washington, D.C.: Jan. 15, 2020).

¹⁰GAO, *2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively*, [GAO-13-156](#) (Washington, D.C.: Dec. 18, 2012). This recommendation is also one of our priority recommendations to IRS. For more information, see GAO, *Priority Open Recommendations: Internal Revenue Service*, [GAO-20-548PR](#) (Washington, D.C.: Apr. 23, 2020).

¹¹As previously mentioned, IRS is drafting a comprehensive customer service strategy in accordance with the Taxpayer First Act and expects to finish that strategy in December 2020, along with the reorganization plan. However, IRS officials told us in February 2020 that the strategy would not define the appropriate levels of correspondence service and wait times because it is challenging to meet performance targets across different types of correspondence. Until IRS releases the customer service strategy, the extent to which IRS will address our recommendation is unclear. [GAO-20-548PR](#).

¹²GAO, *Tax Gap: IRS Needs Specific Goals and Strategies for Improving Compliance*, [GAO-18-39](#) (Washington, D.C.: Oct. 31, 2017).

¹³In December 2018, Congress passed and the President signed the 21st Century Integrated Digital Experience Act, which includes requirements for agencies when they are creating or redesigning a website or digital service that is intended to be used by the public. Pub. L. No. 115-336, 132 Stat. 5025 (Dec. 20, 2018).

taxpayers to view the status of an anticipated refund and make online payments to IRS, among other things.¹⁴

However, we reported in December 2019 that IRS had done little research or reporting on the extent to which its online services are satisfying taxpayers' needs.¹⁵ In that report, we recommended, among other things, that IRS should ensure that it collects information on taxpayers' experiences with all online services and the extent to which the services are meeting taxpayers' needs. We also recommended that IRS include taxpayer input as an element of IRS's identification and prioritization process for new online services. IRS agreed with these two recommendations. As of July 2020, IRS has begun addressing these recommendations. For example, in January 2020, IRS reported testing a new version of a survey administered to a sample of irs.gov users to obtain taxpayer input regarding potential new online services.

Our review of prior work and our interviewees also identified challenges related to IRS's interactions with tax professionals. In a January 2020 letter to the Department of the Treasury and IRS providing input on IRS's customer service, training, and reorganization strategies, 10 organizations representing tax professionals suggested IRS create an executive-level division that would engage with and provide services to tax professionals. According to the letter, that division should engage with the tax professional community and ensure feedback is acted upon through a liaison with all major operating divisions, among other things.¹⁶ In addition, tax professionals we interviewed told us IRS does not always consult or include tax professionals when making decisions that may affect tax professionals. IRS acknowledged the importance of collaborating with external partners, such as tax professionals, by making it one of IRS's strategic goals in its strategic plan for fiscal years 2018 to 2022.¹⁷

¹⁴Online services for individual taxpayers include "Where's My Refund?" and "Where's My Amended Return?" For more information, see GAO, *Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services*, [GAO-20-71](#) (Washington, D.C.: Dec. 19, 2019).

¹⁵[GAO-20-71](#).

¹⁶In their letter, tax professionals also indicated that this division should: (1) engage with the tax professional community; (2) ensure practitioner feedback is acted upon through a liaison with all major operating divisions; (3) maintain robust practitioner hotlines; and (4) provide an online tax professional account.

¹⁷IRS, *Strategic Plan FY2018-2022*, Publication 3744 (Rev. 4-2018).

We reported in 2018 that existing mechanisms within IRS, such as IRS advisory bodies like the IRS Advisory Council (IRSAC), could serve as a way for IRS to receive regular customer feedback and to hear the public's perspective about both current operations and proposed IRS policies, programs, and procedures.¹⁸ Furthermore, one former high-ranking IRS official we interviewed said that creating a new division for tax professionals without providing it additional resources may not deliver the services that tax professionals are seeking.

In addition, IRSAC has identified communication challenges between IRS, tax professionals, and taxpayers.¹⁹ For example, IRSAC reported that IRS has faced challenges in communicating tax law and tax filing changes to tax professionals. IRSAC also reported that IRS sends tax professionals email communications that can be repetitive and overwhelming to them. As a result, IRSAC recommended IRS develop a process to coordinate its various electronic communications to tax professionals.

Communication and Coordination within IRS. We identified challenges with communication and coordination across divisions at IRS.

For example, in January 2020, we reported that IRS has not designated a lead entity to design and oversee business identity theft (IDT) fraud risk management activities across the agency.²⁰ Four IRS entities have responsibility for detecting, preventing, and resolving business IDT. While we found that IRS officials were knowledgeable about business IDT in their individual units, officials we spoke with at that time could not articulate an agency-wide view of the problem. As a result, we recommended that IRS should designate a dedicated entity to oversee

¹⁸Other IRS advisory councils that convene external stakeholders for feedback on IRS operations and tax policy issues include: Advisory Committee on Tax Exempt and Government Entities; Art Advisory Panel; Electronic Tax Administration Committee; Information Reporting Program Advisory Committee; and Taxpayer Advocacy Panel. For more information, see GAO, *Tax Administration: Opportunities Exist to Improve Monitoring and Transparency of Appeal Resolution Timeliness*, [GAO-18-659](#) (Washington, D.C.: Sept. 21, 2018).

¹⁹Internal Revenue Service Advisory Council, *2018 Public Report* (Washington, D.C.: November 2018).

²⁰GAO, *Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns*, [GAO-20-174](#) (Washington, D.C.: Jan. 30, 2020).

agency-wide efforts to detect, prevent, and resolve business IDT consistent with leading practices.

This could involve designating one business unit as a lead entity or leveraging cooperative relationships between business units to establish a business IDT leadership team. IRS agreed with this recommendation, and stated that it will determine the appropriate oversight structure and scope of authority. As of March 2020, IRS had not yet taken action to address this recommendation.

We also found, in May 2019, that IRS lacked centralized leadership in coordinating the protection of taxpayer information held by third-party providers.²¹ Responsibilities for overseeing the security of that information were fragmented across seven IRS offices. As a result, we recommended that IRS develop a governance structure or other form of centralized leadership, such as a steering committee, to coordinate its protection of taxpayer information held by third-party providers. As of December 2019, IRS had not yet taken action to address this recommendation.²²

Some of our interviewees told us that communication and coordination gaps across divisions may be caused by disincentives for divisions to share resources. For example, officials with knowledge of IRS's internal operations told us that divisions each have their own budget and are driven by their own internal goals and objectives. Those officials said that, as a result, IRS divisions may be primarily concerned about improving

²¹GAO, *Taxpayer Information: IRS Needs to Improve Oversight of Third-Party Cybersecurity Practices*, [GAO-19-340](#) (Washington, D.C.: May 9, 2019). This finding is also included in our annual report that identifies duplicative goals or activities and areas that are fragmented or overlapping within federal agencies or government-wide. For more information, see GAO, *2020 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions in Financial Benefits*, [GAO-20-440SP](#) (Washington, D.C.: May 19, 2020).

²²IRS disagreed with this recommendation, citing the need for additional authority to establish security requirements. IRS also stated that developing a governance structure without such authority would be inefficient, ineffective, and a costly use of resources. We disagreed that convening a governance structure or other centralized form of leadership would require additional statutory authority or be inefficient, ineffective, and costly. As discussed in the report, IRS already has seven different offices across the agency working on information security-related activities that could benefit from centralized oversight and coordination. Furthermore, IRS could choose a leadership mechanism that it determines to be low cost and most efficient to gain a higher degree of coordination. [GAO-19-340](#).

their own performance measures rather than, for example, improving overall customer service across IRS.

Divisions might therefore be reluctant to coordinate or share their own limited resources, including staff, with other divisions because it could divert resources that would normally be used to improve the division's own performance measures. One former high-ranking IRS official suggested that IRS could break down silos across the agency by encouraging more employees and managers to work in multiple divisions over the course of their respective careers.

In addition, another former high-ranking IRS official stated that having an internal management oversight process in place to oversee cross-organizational issues is important for any organization. This process could include holding regular senior-level meetings to set goals and budgets, and allocate resources across the organization.²³

To address some of these issues, several of our interviewees suggested IRS create new divisions that would be responsible for certain cross-agency functions, such as returns processing, examinations, or collections. Officials with knowledge of IRS's internal operations stated that the current approach of placing cross-agency functions within a single division may reduce the division's focus on the taxpayers it serves. For example, the Wage and Investment (W&I) Division is responsible for certain cross-agency functions, such as returns processing. Those officials with knowledge of IRS's internal operations stated that W&I's responsibilities for returns processing may interfere with services it provides to taxpayers.

Information Technology Management and Modernization. IRS relies extensively on computer systems to support its financial and mission-related operations. In our prior work, we identified risks IRS was facing with managing and modernizing its information technology (IT) systems affecting tax processing and customer service, including outdated

²³We have previously found that conducting frequent, in-person, data-driven reviews can promote the use of performance information by agency officials and produce improved results, including enhancing the level of collaboration between agency officials and the efficiency of agency operations. For more information, see GAO, *Managing for Results: Agencies Report Positive Effects of Data-Driven Reviews on Performance but Some Should Strengthen Practices*, [GAO-15-579](#) (Washington, D.C.: July 7, 2015).

hardware and a shortage of staff with the required skills.²⁴ We previously recommended, among other things, that IRS should fully implement risk management key practices and IT workforce planning practices. IRS acknowledged the importance of strengthening its risk management process, but as of January 2020, had not taken action to fully address these recommendations.

IRS has made some progress in correcting or mitigating previously reported deficiencies, but as of May 2020, IRS had not implemented 132 of our recommendations related to deficiencies in its information system security controls.²⁵ Further, as we reported in January 2020, IRS employees told us that they frequently experienced issues with their computers that affected their ability to serve taxpayers.²⁶ IRS officials estimated the cost of system downtime to be more than \$7.5 million in fiscal year 2018.²⁷ As a result, we recommended in January 2020 that IRS should further assess the increase in system downtime and identify possible solutions to mitigate it. IRS agreed with this recommendation, but as of May 2020, had not yet implemented it.

In July 2020, IRS officials told us that IRS has made progress in managing its IT in recent years, such as upgrading its network infrastructure to support telework in response to the COVID-19 pandemic. We have work underway to assess this progress.

Strategic Human Capital Management and Training. We have identified strategic human capital management and training as existing challenges related to IRS's operations and processes.²⁸

²⁴GAO, *Information Technology: IRS Needs to Take Additional Actions to Address Significant Risks to Tax Processing*, [GAO-18-298](#) (Washington, D.C.: June 28, 2018).

²⁵GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Information System Security Controls*, [GAO-20-411R](#) (Washington, D.C.: May 13, 2020).

²⁶IRS employees told us that they had experienced computer problems frequently, such as freezing or taking excessive time to reboot, or that they experienced difficulty logging on. [GAO-20-55](#).

²⁷IRS employees charge unproductive time to a job code on their time sheets called "system downtime."

²⁸In accordance with the Taxpayer First Act, IRS is drafting a training strategy and expects to finish that strategy in December 2020, along with its comprehensive customer service strategy and its reorganization plan.

Our prior work has shown that cultivating a high-performing workforce through strategic human capital management is key to enabling IRS to achieve its mission.²⁹ IRS officials previously told us that resource constraints and fewer staff with strategic workforce planning skills required IRS to largely abandon strategic workforce planning activities. Moreover, IRS has skills gaps in mission-critical occupations, such as tax examiners and revenue officers.

In March 2019, we recommended that IRS (1) fully implement its workforce planning initiative, and (2) develop a work plan to help identify and close skills gaps. IRS agreed with both recommendations and is taking steps to implement them. For example, IRS reported that it is currently updating its workforce planning policies and, by December 2020, will establish a workforce plan with an enterprise strategy and initiate related workforce analysis.

High-quality customer service begins with IRS customer service representatives having the necessary knowledge and skills to address the unique needs of individual taxpayers.³⁰ In January 2020, we recommended that IRS should collect employee input on the strengths and weaknesses of its customer service training and use that input to inform changes to its training program and its training strategy required by the Taxpayer First Act.

IRS agreed with the recommendation, and said it would review the employee training evaluation process to determine how to improve training but as of May 2020, had not yet done so. In addition, a 2019 IRSAC report expressed concern that, with many senior IRS personnel retiring and funding limits preventing many vacancies from being filled, IRS may not have enough experienced and trained personnel in the future to adequately address taxpayer needs and protect taxpayer rights.³¹

²⁹GAO, *Internal Revenue Service: Strategic Human Capital Management is Needed to Address Serious Risks to IRS's Mission*, [GAO-19-176](#) (Washington, D.C.: Mar. 26, 2019), and [GAO-20-548PR](#).

³⁰[GAO-20-55](#).

³¹Internal Revenue Service Advisory Council, *2019 Public Report* (Washington, D.C.: November 2019).

IRS Generally Addressed Key Reform Practices in Its Reorganization Planning, but Has Not Finalized Goals, Measures, and Actions to Address Management Challenges

IRS's reorganization planning process addressed key reform practices for involving employees and key stakeholders, using data and evidence, and leadership focus and attention. However, IRS is still finalizing its reorganization plan, which it plans to deliver to Congress in December 2020. As a result, IRS partially addressed key reform practices for establishing goals and outcomes; addressing fragmentation, overlap, and duplication; and addressing high-risk areas and long-standing management challenges. Table 1 summarizes our assessment.

Table 1: GAO Assessment of IRS's Reorganization Planning Process against Key Reform Practices

| Key reform practice | Extent addressed | Summary of findings |
|--|------------------|---|
| Establishing goals and outcomes | ● | IRS has developed preliminary goals for its reorganization plan, but has not specified the final goals and performance measures for the plan. |
| Involving employees and key stakeholders | ● | IRS conducted outreach to internal and external stakeholders, such as its employees and tax professionals. |
| Using data and evidence | ● | IRS used multiple sources of data and evidence to inform its reorganization planning. |
| Addressing fragmentation, overlap, and duplication | ● | IRS has taken steps to identify actions to address fragmentation, overlap, and duplication, but has not decided which actions it will take. |
| Addressing high-risk areas and long-standing management challenges | ● | IRS has taken steps to identify actions to address high-risk areas and long-standing management challenges, but has not decided which actions it will take. |
| Leadership focus and attention | ● | IRS established the Taxpayer First Act Office, led by a team of senior leaders, to manage the reorganization planning process. |

Legend:

- Generally addressed – IRS has taken actions that generally address this practice and there are no significant actions that need to be taken to further address this practice.
- Partially addressed – IRS has taken some, but not all, of the actions necessary to address this practice.
- Not addressed – IRS has taken few, if any, actions to address this practice.

Source: GAO analysis of Internal Revenue Service (IRS) information. | GAO-21-18

IRS Has Not Finalized Outcome-Oriented Goals and Performance Measures for Its Reorganization Plan

To implement the Taxpayer First Act and develop the reorganization plan, IRS established the Taxpayer First Act Office (TFAO). TFAO officials have developed preliminary goals for IRS's reorganization plan, but have not specified the final goals and performance measures for the plan. Our prior work has found that agencies should design proposed reforms to achieve specific, identifiable, and outcome-oriented goals and performance measures that encourage decision makers to reach a shared understanding of the purpose of the reforms, and to communicate them.

TFAO has taken steps toward developing goals and performance measures for the reorganization plan. For example, TFAO officials stated that they had developed preliminary goals for the reorganization plan that are connected to the preliminary goals for IRS's forthcoming customer service and training strategies, which they plan to submit to Congress in one consolidated report along with the reorganization plan in December 2020. TFAO officials also said that they were in the process of developing performance measures for the reorganization plan, which they plan to further define as they finalize the plan.

However, TFAO officials stated that they had not yet decided what the final goals and performance measures for the plan will be. Therefore, it is still unclear to what extent the reorganization plan will have specific, identifiable, and outcome-oriented goals and performance measures to guide and monitor the plan.

TFAO's process for developing goals and measures so far has been generally consistent with elements of our prior work on strategic planning, which states that the first steps in defining desired outcomes are to involve stakeholders and assess the agency's operating environment.³² However, our prior work has also found that sound planning is not enough to ensure an organization's success, and that activities, core processes, and resources must be aligned to achieve goals. Typically, leading organizations create ambitious but realistic and measurable "stretch" goals, link the goals to their mission and business processes, tie the goals to day-to-day activities, and involve key stakeholders in helping to manage toward them.³³

³²See GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1, 1996).

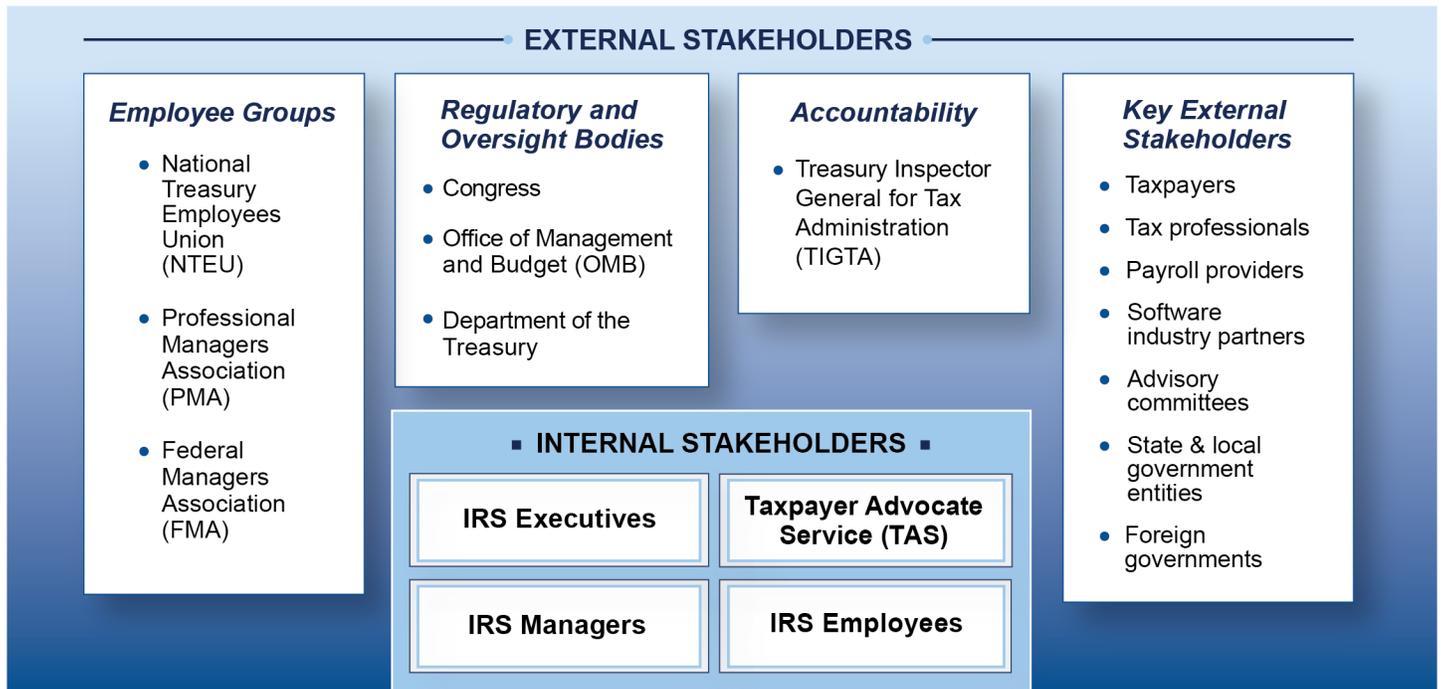
³³See GAO, *Government Reform: Goal-Setting and Performance*, [GAO/AIMD/GGD-95-130R](#) (Washington, D.C.: Mar. 27, 1995).

Finalizing specific, identifiable, and outcome-oriented goals and performance measures will help IRS to identify the most serious issues facing the agency, balance differing objectives, create long-term gains through the reorganization process, and track progress during implementation. For example, if IRS seeks to improve service to taxpayers, IRS could establish clear goals for its reorganization plan that describe specifically what IRS intends to achieve along with measures to track its success. Proceeding without specifying goals and performance measures in advance, or involving employees and other stakeholders to help ensure their buy-in for any organizational changes, makes it more difficult to achieve the intended outcomes of the reform.

IRS Involved Key Stakeholders in the Reorganization Planning Process

TFAO has involved IRS employees and key stakeholders in the reorganization planning process. Our prior work has shown that it is important for agencies to directly and continuously involve their employees, Congress, and other key stakeholders in developing any major reforms. TFAO identified several external and internal stakeholders as part of its planned outreach, as shown in figure 3.

Figure 3: External and Internal Stakeholders Identified by IRS for Reorganization Planning Outreach



Source: GAO analysis of Internal Revenue Service (IRS) document. | GAO-21-18

TFAO sought feedback from stakeholders in several different ways, and internal and external stakeholders we spoke with were generally positive about TFAO's outreach efforts.³⁴ Outreach to IRS employees included town halls and listening sessions held between October 2019 and January 2020, as well as an email address for employees to submit feedback. External stakeholder outreach included meetings with tax professionals and other groups. For example, TFAO officials held a meeting in January 2020 with representatives of tax professional organizations to gather input for the reorganization plan, customer service strategy, and comprehensive training strategy.

TFAO also engaged several congressional committees in its reorganization planning. TFAO officials provided briefings about the implementation of the Taxpayer First Act, which included discussions of the reorganization planning process. These briefings occurred between November 2019 and March 2020. In addition, officials stated that they planned to brief congressional committees again later in 2020.

IRS Used Data and Evidence to Inform Its Planning

TFAO used multiple sources of data and evidence to inform its reorganization planning. We have previously reported that agencies are better equipped to address management and performance challenges when managers use data and evidence to develop and justify proposed reforms.

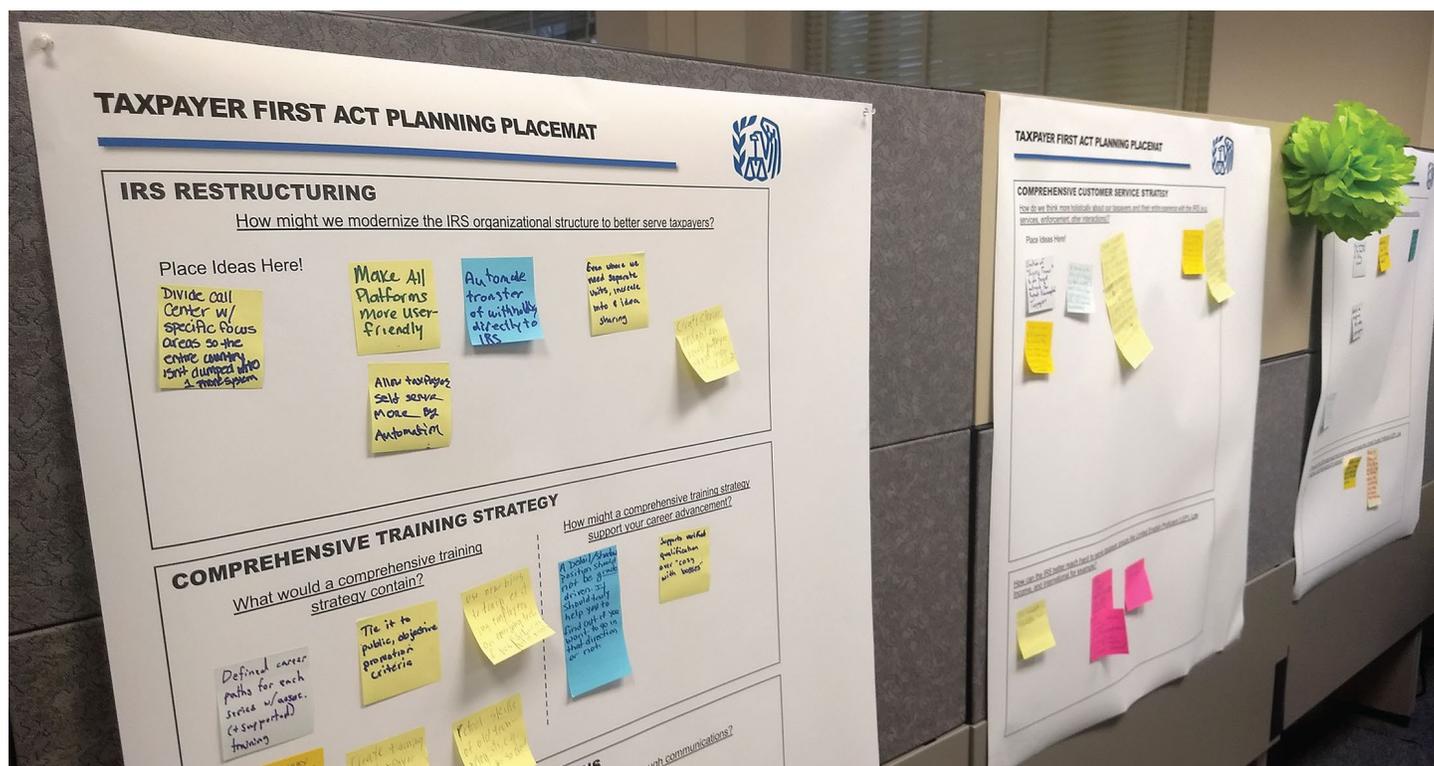
TFAO incorporated information from several different sources of qualitative and quantitative data and evidence.³⁵ For example, TFAO identified information on IRS challenges from our prior work, as well as from reports from the Treasury Inspector General for Tax Administration (TIGTA) and the Taxpayer Advocate Service. Officials also held meetings and conducted listening sessions with external stakeholders and IRS employees. Figure 4 shows an example of one way TFAO collected feedback from IRS employees. TFAO also interviewed current and former IRS executives, including former IRS commissioners, and analyzed

³⁴The National Taxpayer Advocate similarly found that TFAO had listened to a wide array of internal and external stakeholders while developing its customer service strategy and reorganization plan. For more information, see IRS, National Taxpayer Advocate, *Fiscal Year 2021 Objectives Report to Congress* (Washington, D.C.: June 2020).

³⁵The National Taxpayer Advocate also found that TFAO leveraged available information, including 61 different customer satisfaction survey results, research studies, third-party research documents, industry best practices, publications, oversight reports with recommendations, and case studies. For more information, see IRS, National Taxpayer Advocate, *Fiscal Year 2021 Objectives Report to Congress* (Washington, D.C.: June 2020).

results of customer satisfaction surveys. In addition, TFAO officials stated that they expect that lessons learned from the COVID-19 pandemic response will influence IRS's reorganization proposals.

Figure 4: Example of Employee Feedback on IRS's Organizational Structure Collected by the Taxpayer First Act Office



Photograph of a poster at IRS's headquarters with employee feedback on improving IRS's organizational structure and other topics.

Source: GAO photo of Internal Revenue Service (IRS) planning documents. | GAO-21-18

IRS Has Not Finalized Actions to Address Fragmentation, Overlap, and Duplication Areas for Its Reorganization Plan

TFAO has taken steps to identify actions to address areas of fragmentation, overlap, and duplication as part of the reorganization planning process, but has not finalized those actions. Our prior work has shown that agencies developing reform plans may be able to achieve greater effectiveness by considering actions that may reduce or better manage instances of fragmentation, overlap, and duplication. In addition, the Taxpayer First Act requires IRS's reorganization plan to streamline IRS's structure, including minimizing the duplication of services and responsibilities within the agency.

We made 47 recommendations to IRS between 2011 and 2019 to reduce, eliminate, or better manage fragmentation, overlap, or duplication—or achieve other financial benefits—that IRS has not yet fully addressed.³⁶ These recommendations include areas such as IRS strategic workforce planning, IRS third-party cybersecurity practices, online taxpayer services, and IRS’s public referral programs.³⁷ We also described some of our work in these areas earlier in this report under options to improve IRS’s organizational structure.

TFAO officials stated in July 2020 that they had begun to identify redundancies and opportunities to streamline processes based on TFAO’s research, stakeholder feedback, and reports from government oversight bodies—including our prior work and reports by TIGTA and the Taxpayer Advocate Service. For example, TFAO looked at ways to reduce fragmented decision-making and improve integration within IRS. TFAO officials also told us they planned to conduct additional activities to identify further operational redundancies.

While TFAO has researched potential actions it could take to address areas of fragmentation, overlap, and duplication, officials told us that they had not yet decided on the specific actions they will take as part of the reorganization plan. Although TFAO’s reorganization planning process is still ongoing, identifying specific actions to address these areas is important for maximizing the impact of the reorganization plan. Identifying specific actions that IRS will take to address these areas would help the agency take better advantage of the potential reorganization to improve its operations and achieve greater effectiveness across its programs by reducing or better managing fragmentation, overlap, and duplication.

³⁶[GAO-20-440SP](#).

³⁷For more information on these and other areas of fragmentation, overlap, and duplication at IRS and other agencies, see our online [Action Tracker](#), a publicly accessible website which allows Congress, executive branch agencies, and the public to track the government’s progress in addressing the issues we have identified. In addition, see our priority recommendations for IRS in [GAO-20-548PR](#).

IRS Has Not Finalized Actions to Address High-Risk Areas and Long-Standing Management Challenges for Its Reorganization Plan

TFAO has taken steps to identify actions to address IRS high-risk areas and long-standing management challenges as part of the reorganization planning process, but has not yet finalized those actions. TFAO officials gathered input from a variety of sources—including our High-Risk List and TIGTA’s most recent report on IRS management and performance challenges—and identified key findings.³⁸ Some areas TFAO officials reported looking into include cybersecurity, identity theft refund fraud, and the tax gap, which are all areas identified on our High-Risk List.³⁹

Our prior work has shown that it is important to address long-standing management challenges as part of agency reform efforts. We have previously identified a number of long-standing weaknesses in how federal programs and agencies, such as IRS, operate.⁴⁰ For example, one of our high-risk areas is the enforcement of tax laws, which is the responsibility of IRS. Several other government-wide high-risk areas also have direct implications for IRS, including cybersecurity, information technology acquisitions and operations, and strategic human capital management.

While TFAO has researched potential actions it could take to address some of these areas, officials told us that they had not yet decided on the specific actions they will take as part of the reorganization plan. Although TFAO’s reorganization planning process is still ongoing, identifying specific actions to address these areas is important for maximizing the impact of the reorganization plan. Reform efforts provide an opportunity for agencies to improve the effectiveness and responsiveness of the federal government. Identifying specific actions could help IRS to design its reorganization to help address long-standing challenges, such as increasing its capacity to improve enforcement and taxpayer service programs and prevent identity theft refund fraud.

³⁸[GAO-19-157SP](#) and Treasury Inspector General for Tax Administration, *Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2020* (Washington, D.C.: Oct. 15, 2019).

³⁹We have also previously identified areas of fragmentation, overlap, and duplication at IRS related to issues of cybersecurity and identity theft refund fraud. These areas are discussed elsewhere in this report. In addition, more information about these areas can be found through our online fragmentation, overlap, and duplication [Action Tracker](#).

⁴⁰See [GAO-19-157SP](#). In addition, our 2020 Priority Open Recommendations letter for the Internal Revenue Service provides information on the status of IRS’s implementation of our recommendations. For more information, see GAO, *Priority Open Recommendations: Internal Revenue Service*, [GAO-20-548PR](#) (Washington, D.C.: Apr. 23, 2020).

IRS Has Demonstrated Leadership Focus and Attention during the Reorganization Planning Process

IRS established TFAO to develop the reorganization plan and manage implementation of the Taxpayer First Act. Our prior work has shown that significant reorganizations and reforms should be led by a dedicated team of high-performing leaders within the agency.

TFAO's leadership consists of senior executives from across IRS, including the Chief of Staff to the IRS Commissioner. TFAO meets regularly with management and staff at different levels of the organization, including the IRS Commissioner, Deputy Commissioners, and Senior Executive Team, to report on progress and challenges.

TFAO officials told us that they have coordinated with IRS's Office of Change Management and consulted with an outside change management specialist to discuss change management strategies used in other organizations. TFAO plans to conduct more research and provide suggestions for a change management strategy in the last phase of the planning process.

Conclusions

IRS's reorganization planning provides IRS with an opportunity to potentially address long-standing challenges—such as improving taxpayer service and enforcement programs—as well as emerging challenges, such as those highlighted by the ongoing COVID-19 pandemic. As part of its planning, IRS has taken several actions in line with key reform practices to prepare to meet those challenges. For example, IRS established a senior-level team to lead its reorganization planning effort. IRS also involved numerous internal and external stakeholders in its reorganization planning process, including IRS employees, congressional committees, and tax professionals.

However, as it finalizes its reorganization plan, IRS could better create long-term gains and improve its effectiveness by finalizing and communicating goals and performance measures and by identifying specific actions to address long-standing management challenges. Because IRS has not undertaken a major reorganization in more than 20 years, these actions are important for helping IRS ensure it is well positioned to meet the current and future needs of taxpayers, its employees, and its stakeholders. Taking these steps can help IRS maximize this opportunity to reform the agency.

Recommendations for Executive Action

We are making the following three recommendations to IRS:

The Commissioner of Internal Revenue should finalize specific, identifiable, and outcome-oriented goals and performance measures for

IRS's reorganization plan, and communicate those goals and measures. (Recommendation 1)

The Commissioner of Internal Revenue should identify specific actions to address issues of fragmentation, overlap, and duplication, as IRS finalizes its reorganization plan. (Recommendation 2)

The Commissioner of Internal Revenue should identify specific actions to address high-risk areas and long-standing management challenges, as IRS finalizes its reorganization plan. (Recommendation 3)

Agency Comments

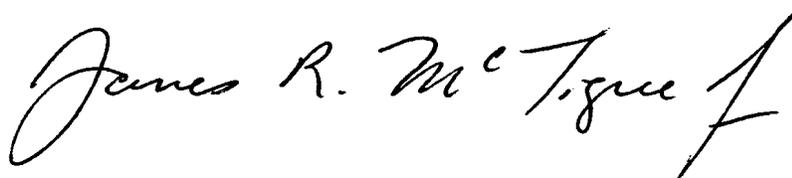
We provided a draft of this report to IRS. IRS provided written comments, which are reproduced in appendix II. In its written comments, IRS stated that it appreciated that we recognized its efforts to involve employees and key stakeholders, use data and evidence, and ensure leadership focus and attention in its reorganization planning efforts.

IRS also stated that it plans to implement our recommendations in its December 2020 report to Congress that will include IRS's reorganization plan. IRS stated that it had established three strategic goals for its organizational redesign: (1) enhance the taxpayer experience; (2) enhance the employee experience; and (3) improve operational efficiencies. IRS stated that these goals will be included in its forthcoming report, which IRS is still finalizing. In addition, IRS stated that it plans to identify performance measures and specific actions to address fragmentation, overlap, duplication, high-risk areas, and long-standing management challenges in its final report. IRS also provided technical comments, which we incorporated as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Commissioner of Internal Revenue, and other interested parties. In addition, the report will be available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or mctiguej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink that reads "James R. McTigue, Jr." The signature is written in a cursive style with a large, stylized initial "J" at the end.

James R. McTigue, Jr.
Director, Tax Issues
Strategic Issues

Appendix I: IRS Officials and Stakeholders We Interviewed

We interviewed the following Internal Revenue Service (IRS) officials and stakeholders to identify advantages of, challenges related to, and options for potentially improving IRS's current organizational structure. We selected a nonprobability sample of stakeholders that would represent a range of organizations and individuals who have regularly interacted with IRS and would have perspectives on IRS's organizational structure.

- American Bar Association (ABA) – ABA is a professional organization of attorneys representing nearly 400,000 members and more than 3,500 entities.
- American Institute of Certified Public Accountants (AICPA) – AICPA represents the certified public accountant profession regarding rule-making and standard-setting, and serves as an advocate before legislative bodies, public interest groups, and other professional organizations.
- Former IRS Commissioners – We interviewed IRS Commissioners from three previous administrations.
- IRS Advisory Council (IRSAC) – IRSAC's primary purpose is to provide an organized public forum for discussion of relevant tax administration issues between IRS officials and representatives of the public. Among other things, IRSAC proposes enhancements to IRS operations and recommends administrative and policy changes to improve taxpayer service, compliance, and tax administration.
- National Association of Enrolled Agents (NAEA) – NAEA is a professional association for enrolled agents. Enrolled agents are allowed to represent a taxpayer before IRS, to prepare and file documents with IRS for the taxpayer, and to correspond and communicate with IRS.
- National Association of Tax Professionals (NATP) – NATP is a professional association of more than 23,000 tax professionals.
- National Treasury Employees Union (NTEU) – NTEU is a labor union that represents 150,000 federal employees in 33 departments and agencies, including IRS.
- Taxpayer Advocate Service (TAS) – TAS is an independent organization within IRS. TAS helps taxpayers with individual problems and recommends "big picture" or systemic changes at IRS or in the tax laws.
- Taxpayer First Act Office (TFAO) – TFAO is the IRS office responsible for implementing the Taxpayer First Act and developing the reorganization plan.

Appendix II: Comments from the Internal Revenue Service



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

September 24, 2020

James R. McTigue, Jr.
Director, Tax Issues
Strategic Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. McTigue:

Thank you for the opportunity to review the draft report entitled *IRS Reorganization: Planning Addressed Key Reform Practices, but Goals and Measures for the Plan Have Not Been Finalized* (GAO-21-18). We appreciate the opportunity to provide comments.

We are pleased the Government Accountability Office (GAO) recognizes that our reorganization planning uses established best methods for involving employees and key stakeholders, data and evidence, and leadership focus and attention. In particular, we appreciate your acknowledging our efforts to listen to and understand the needs of our key stakeholders. Over the past 10 months, we held over 180 meetings with organizations representing all types of taxpayers (individuals, small businesses, large businesses, tax-exempt entities and taxpayers living overseas), as well as advisory groups, tax professionals and other federal agencies. Additionally, we held listening sessions with representatives from the private sector, IRS employees in 25 locations across the country and the National Treasury Employees Union. We also received feedback from over 40 of the 50 states and reviewed over 1,100 written comments submitted by taxpayers, IRS employees, tax professionals and other external stakeholders.

The IRS is dedicated to our mission of helping our nation's taxpayers understand and meet their tax responsibilities. We welcome the opportunity provided by the Taxpayer First Act to reimagine how we interact with taxpayers and to rethink the way we operate. As the first major IRS reform law in more than 20 years, the Taxpayer First Act gives us the chance to become a truly 21st century organization by implementing comprehensive strategies to improve the taxpayer experience (section 1101), training for our employees (section 2402), and our organizational structure (section 1302). These strategies, along with a multi-year strategic plan for information technology (IT) (section 2101), will provide our employees and taxpayers with the tools and information they need. Working closely with IRS senior leaders, including the National Taxpayer Advocate, our Taxpayer First Act team brings to this task a holistic perspective focused on building on our strengths and successes while putting people first.

As we explained previously,¹ we established the following strategic goals for our organizational redesign:

1. Enhance the Taxpayer Experience
2. Enhance the Employee Experience
3. Improve Operational Efficiencies

In light of these goals, our organizational redesign work incorporates findings and recommendations related to management challenges, overlap and redundancies identified in reports issued by GAO, the Treasury Inspector General Tax Administration (TIGTA), and the National Taxpayer Advocate along with feedback from our leaders, stakeholders, employees, and partners. In addition, our reorganization planning follows the development of our taxpayer experience and training strategies to appropriately align our structure to the strategies that it will support. Notably, your draft report reinforces the interrelated nature of our strategies in that many of your suggested measures relate more directly to the taxpayer experience than the organizational redesign.

Based on our goals, we developed a measures framework to comprehensively assess the redesign's impact on taxpayers (enhancing the taxpayer experience), the workforce (enhancing the employee experience), and on the IRS's ability to deliver on its mission (improving operational efficiencies). Since GAO completed its review, we have made considerable progress in finalizing measures for all our Taxpayer First Act strategies, including the organizational redesign. Presently, the organizational redesign and associated measures and metrics are in their final vetting stages and will be shared in our report to the Congress. As indicated above, we have considered which specific actions will best address fragmentation, overlap, duplication, high-risk areas and long-standing management challenges as part of this process, and we will continue to explore such opportunities as we move from design to implementation and analysis.

As your draft report states, the COVID-19 outbreak presented the IRS with unprecedented operational challenges. Initially, we were on track to deliver to the Congress this summer a consolidated report detailing all our Taxpayer First Act strategies; however, pandemic-related workforce disruptions and new responsibilities forced us to revise our timeline for report delivery to December 2020. For this reason, some actions needed to finalize our reorganization plan were delayed. Yet, despite the pandemic's challenges, the IRS continued to implement the Taxpayer First Act while serving our great nation in new and innovative ways.

¹ See IRS response to GAO information request dated July 16, 2020. It should be noted that we refined the wording of the goals to ensure consistency across all three strategies within the report to the Congress.

Appendix II: Comments from the Internal Revenue Service

3

For example, since March, IRS employees helped their fellow Americans by delivering more than 160 million Economic Impact Payments totaling more than \$270 billion in the fastest time ever for stimulus payments. A recent TIGTA report confirmed that, despite the need to deliver these payments as rapidly as possible, the IRS accurately determined the payment amounts 98 percent of the time. Moreover, the IRS successfully extended and delivered the longest filing season on record for the nation, processing more than 148 million returns so far together with more than 104 million refunds, totaling more than \$288 billion. We accomplished all this in the midst of transitioning to a more virtual environment—ranging from more than 56,000 employees working remotely on our IT systems to delivering our first virtual Nationwide Tax Forums attended by over 10,000 tax professionals. As we continue to reopen, we are evaluating what interim procedures should become permanent improvements, what challenges or opportunities arose from our current organization, and how we can administer the tax laws and provide necessary taxpayer services under similar conditions in the future.

Again, thank you for the report and the valuable feedback. Our comments on GAO's recommendations are enclosed. We provided technical comments on the draft separately. If you have questions, please contact me, or a member of your staff may contact Lia Colbert at (202) 317-4390.

Sincerely,

Charles P. Rettig
Digitally signed by Charles P. Rettig
Date: 2020.09.24 08:52:19 -04'00'

Charles P. Rettig

Enclosure

Enclosure

Recommendations for Executive Action

RECOMMENDATION 1

The Commissioner of Internal Revenue should finalize specific, identifiable, and outcome-oriented goals and performance measures for IRS's reorganization plan, and communicate those goals and measures.

COMMENT

The IRS will identify goals and performance measures for our Organizational Redesign Strategy in the forthcoming Taxpayer First Act Report to the Congress planned for delivery in December 2020.

RECOMMENDATION 2

The Commissioner of Internal Revenue should identify specific actions to address issues of fragmentation, overlap, and duplication, as the IRS finalizes its reorganization plan.

COMMENT

The IRS will identify actions to address issues of fragmentation, overlap, and duplication in the forthcoming Taxpayer First Act Report to the Congress planned for delivery in December 2020.

RECOMMENDATION 3

The Commissioner of Internal Revenue should identify specific actions to address high-risk areas and long-standing management challenges, as IRS finalizes its reorganization plan.

COMMENT

The IRS will identify actions to address high-risk areas and long-standing management challenges in the forthcoming Taxpayer First Act Report to the Congress planned for delivery in December 2020.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

James R. McTigue, Jr., (202) 512-9110, mctiguej@gao.gov

Staff Acknowledgments

In addition to the contact named above, Sarah Veale (Assistant Director), Alexander Ray (Analyst-in-Charge), David Blanding, Ann Czapiewski, Amalia Konstas, Andrew Lobel, Peter Verchinski, and Jessica Walker made key contributions to this report. Jeff Arkin, Charles Fox, Sabine Paul, and Cynthia Saunders also contributed.

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