



September 2013

IRS 2014 BUDGET

Improvements Made to Budget Request and Cost Estimate, but Further Actions Needed

GAO Highlights

Highlights of [GAO-13-835](#), a report to congressional committees.

Why GAO Did This Study

The financing of the federal government depends largely on IRS's ability to administer the tax laws, which includes providing service to taxpayers and enforcing the law to ensure everyone pays the taxes they owe. For fiscal year 2014, the President requested \$12.9 billion for IRS, an increase of 9 percent over fiscal year 2012 actual levels.

Because of the size of IRS's budget and the importance of its programs, GAO was asked to review the fiscal year 2014 budget request. In April and May 2013, GAO reported preliminary observations on IRS's budget. Among other things, this report assesses how IRS prioritizes new initiatives; steps IRS has taken to improve the PPACA cost estimate and the reporting transparency of the related IT investment; and the type of information available in the budget justification about major IT systems. To address these objectives, GAO reviewed the fiscal year 2014 budget justification, compared the updated PPACA cost estimate to GAO's *Cost Estimating and Assessment Guide*, and interviewed IRS Corporate Budget officials.

What GAO Recommends

GAO recommends that IRS improve budget formulation guidance for new initiatives; improve the accuracy and credibility of future updates to the PPACA cost estimate as well as report the related IT investment publicly; and consolidate major IT investment reporting. IRS agreed with three of GAO's four recommendations and agreed with the majority of the actions associated with improving the accuracy and credibility of the PPACA cost estimate.

View [GAO-13-835](#). For more information, contact James R. McTigue, (202) 512-9110, or mctiguej@gao.gov

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What GAO Found

For the fiscal year 2014 budget formulation process, the Internal Revenue Service (IRS) implemented a new process that uses templates to help screen, prioritize, and select new initiatives before detailed business cases are developed to support funding requests. The template information that GAO reviewed varied in detail and scope; for some, IRS guidance may have contributed to incomplete submissions to senior leadership. According to Office of Management and Budget *Circular A-94*, in order to evaluate and compare funding initiatives, decision-makers need to be aware of benefits, costs, and strategies related to achieving program goals. By improving guidance on the type of data to include, IRS could help ensure the templates are fully completed.

IRS significantly improved its Patient Protection and Affordable Care Act (PPACA) cost estimate. In particular, the December 2012 estimate is more comprehensive, reflecting the full life-cycle cost of the program—estimated at \$1.89 billion for fiscal year 2010 through 2026. A few areas of improvement remain, primarily regarding the accuracy and credibility of the cost estimate. For example, IRS showed how the December 2012 estimate differed from the previous estimate, but did not explain the factors that resulted in the variances. In addition, IRS did not obtain a second cost estimate that could be used to assess the reasonableness of the \$1.89 billion estimated program costs.

Overall Assessment of PPACA Cost Estimate Alignment with Best Practices

Best practice	October 2010 cost estimate	Updated December 2012 cost estimate
Comprehensive	○	●
Well documented	○	●
Accurate	○	○
Credible	○	○

Source: GAO analysis of IRS documentation.

Although the information technology (IT) systems for PPACA met dollar thresholds (as outlined in the Department of Treasury's guidance) as a major investment for public reporting, IRS did not report this as such. Officials told GAO they did not have time to prepare the information for the fiscal year 2014 budget justification, but plan to do so for fiscal year 2015. Until IRS publicly reports the IT systems for PPACA as a major investment, transparency about these systems' implementation and administration is limited.

Although IRS included new and useful information on its major IT investments in the budget justification (such as life-cycle costs) other important information (such as the start date and percent of life-cycle costs obligated) is reported elsewhere or must be calculated. IRS officials said they could consolidate this information for ease of review. Consolidating key budget and performance data would ensure Congress has comprehensive, easily accessible information on major IT investments to guide decisions.

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Abbreviations

ACA IT	Affordable Care Act information technology
BSM	Business Systems Modernization
DME	development, modernization and enhancement
FTE	full-time equivalent
GPRA	Government Performance and Results Act
HHS	Department of Health and Human Services
IRDM	Information Reporting and Document Matching
IRS	Internal Revenue Service
IT	information technology
MeF	Modernized e-File
OMB	Office of Management and Budget
PPACA	Patient Protection and Affordable Care Act
ROI	return on investment
Treasury	Department of Treasury

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September 26, 2013

The Honorable Tom Udall
Chairman
The Honorable Mike Johanns
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate

The Honorable Charles W. Boustany, Jr.
Chairman
The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The financing of the federal government depends largely upon the Internal Revenue Service's (IRS) ability to collect taxes, including providing taxpayers services to make voluntary compliance easier and enforcing tax laws to ensure everyone meets their obligation to pay taxes. For fiscal year 2014, the President requested a \$12.9 billion budget for the IRS. This is an increase of 9 percent (\$1,044 million) in discretionary funding over the fiscal year 2012 appropriation, and an increase of 8 percent (6,732 full-time equivalents) in staffing over the fiscal year 2012 actual levels.¹ In April and May of 2013, we reported preliminary observations on the fiscal year 2014 budget request for IRS; we also reported budget and staffing trends from fiscal year 2010 through 2014, work we conducted related to proposals highlighted in the President's budget request, and reductions to the fiscal year 2013 budget for IRS that

¹Fiscal year 2013 funding levels reported in IRS's fiscal year 2014 congressional justification did not include reductions due to sequestration and a rescission. In April 2013, IRS released its fiscal year 2013 operating plan, which showed how reductions were implemented due to sequestration and rescission. The final funding level for IRS in fiscal year 2013 is \$11.2 billion.

were due to the continuing resolution and sequestration.² Specific amounts requested for fiscal year 2014 for IRS's four appropriation accounts are \$5.7 billion for enforcement, \$4.5 billion for operations support, \$2.4 billion for taxpayer services, and \$301 million for Business Systems Modernization (BSM).³

Because of the size of IRS's budget and the importance of its service and compliance programs for all taxpayers, you asked us to review the fiscal year 2014 budget request for IRS. In this report we (1) describe IRS's capacity to report fiscal year 2012 obligations and FTEs by program activity, organizational entity, and other efforts of interest; (2) assess IRS's process and the type of information used to prioritize and select new program initiatives; (3) describe proposed base budget savings; (4) describe IRS's new projected return on investment (ROI) methodologies; (5) evaluate steps IRS took to improve the cost estimate for the Patient Protection and Affordable Care Act (PPACA)⁴ in accordance with GAO's *Cost Estimating and Assessment Guide* (GAO Cost Guide)⁵ and determine the extent to which IRS is transparently reporting on the Affordable Care Act (ACA) information technology (IT) investment; (6) summarize IRS's major IT investments and assess the type of information available in the congressional justification; and (7) describe IRS's progress in implementing our prior budget-related recommendations.

To conduct this work for all objectives, we reviewed key documents, such as the fiscal year 2014 congressional budget justification for IRS and IRS's Financial Management Handbook. For the first objective, we analyzed inputs and outputs to the budget formulation process, and

²GAO, *Internal Revenue Service: Preliminary Observations on the Fiscal Year 2014 Budget Request*, [GAO-13-599R](#), (Washington, D.C.: May 3, 2013). *Internal Revenue Service: 2013 Tax Filing Season Performance to Date and Budget Data*, [GAO-13-541R](#), (Washington, D.C.: April 15, 2013).

³The BSM appropriation provides resources for the planning and capital asset acquisition of IT to modernize the IRS business systems, such as Customer Account Data Engine 2 (CADE 2) and Modernized e-File.

⁴Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act (HCERA), Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010). All references to PPACA include amendments by HCERA.

⁵GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs* (Supersedes [GAO-07-1134SP](#)), [GAO-09-3SP](#) (Washington, D.C.: Mar. 2, 2009).

determined IRS's ability to report information for eight program activities, organizational entities, and efforts of interest. For the second objective, we reviewed guidance related to IRS's pre-selection budget formation process, and reviewed submissions for completeness against criteria outlined in the Office of Management and Budget (OMB) Circular A-94.⁶ For the third objective, we reviewed supporting documents obtained from IRS on its proposed fiscal year 2014 budget savings. For the fourth objective, we reviewed relevant studies on methods to calculate ROI. For the fifth objective, we analyzed the updated PPACA cost estimate and compared it to the characteristics of a high-quality cost estimate, as identified in the GAO *Cost Guide*. For the sixth objective, we reviewed Exhibit 300 "capital asset summaries," prepared by IRS for major IT investments, as well as IRS and OMB guidance on preparing those documents, such as the *Office of Management and Budget Guidance on Exhibits 53 and 300—Information Technology and E-Government*. For the seventh objective, we obtained information on prior year budget recommendations from various IRS officials and reviewed relevant documentation to determine if they were implemented. In addition, we interviewed IRS officials, including those from the Corporate Budget Office, selected business units, the Office of Compliance Analytics, and the Affordable Care Act program office. We spoke with IRS officials and reviewed data collection procedures and determined that the data used in this report were sufficiently reliable for our purposes.

We conducted this performance audit from October 2012 to September 2013 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 further details on our scope and methodology, see appendix I.

⁶Office of Management and Budget, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, OMB Circular No. A-94 (revised October 1992).

Background

IRS Budget Formulation and Execution Structures

IRS formulates its budget at three levels: appropriation account, budget activity, and program activity, as shown in figure 1. (See appendix II for the non-interactive figure of IRS's budget formulation structure.) The annual budget request for IRS presents funding and FTE data at the appropriation and budget activity levels. IRS formulates its budget to align with its strategic goals, which is an intended outcome of the Government Performance and Results Act of 1993 (GPRA).⁷

⁷Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993). GPRA was updated by the GPRA Modernization Act of 2010, Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011). IRS's strategic goals are to (1) improve service to make voluntary compliance easier, and (2) enforce the law to ensure everyone meets their obligation to pay taxes.

Interactive graphic

Figure 1: IRS Budget Formulation Structure

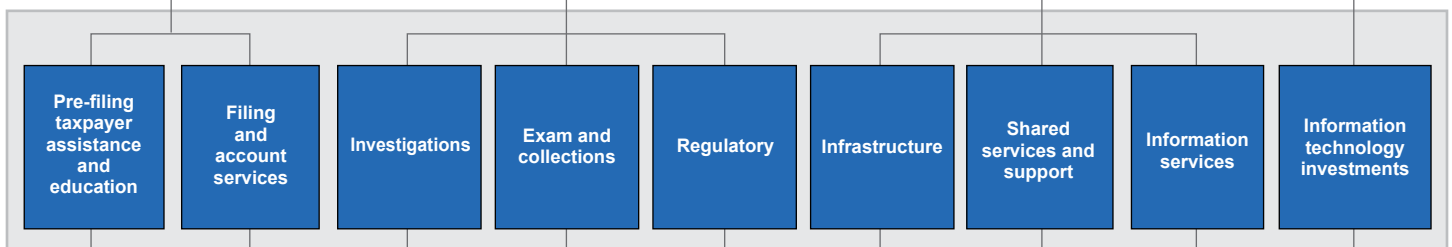
Directions:

For listings of specific program activities, mouseover the number of program activities in the circles below.

Appropriations account



Budget activities



Number of program activities



Source: GAO analysis of IRS documents.

Note: The number of program activities varies from one fiscal year to the next as IRS adjusts its budget formulation structure to address emerging priorities. Program activities are described in detail in the fiscal year 2014 congressional budget justification for IRS.



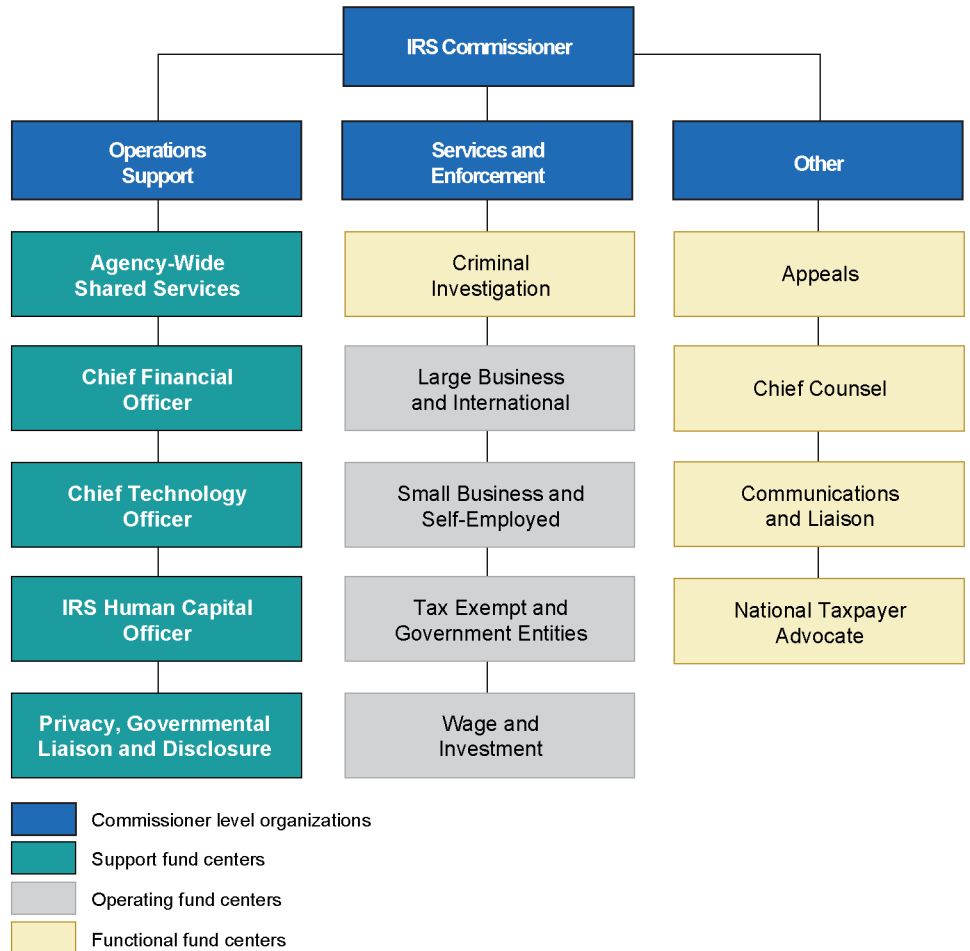
Print instructions

To print full text version of this graphic, go to appendix II.

IRS executes its budget by allocating funds from its appropriation accounts to fund centers. Fund centers manage and distribute funds and allocate funds to sub-units, known as cost centers, where funds are obligated.

IRS's appropriation accounts align with its organizational structure at the highest level. For example, IRS has an Operations Support appropriation account and an Operations Support commissioner-level organization. In addition, IRS's organizational structure tracks roughly to its budget execution structure, which is made up of three types of fund centers: (1) support, (2) functional, and (3) operating. (See figure 2.)

Figure 2: Alignment of Budget Execution Fund Centers to IRS's Organizational Structure



Source: GAO analysis of IRS documents.

Note: This graphic shows common elements between IRS's organizational structure and budget execution structure. This illustration does not include three fund centers that are not part of IRS's organizational structure—Stewardship, Wage and Investment Stewardship, and Executive Leadership and Direction. In addition, the illustration does not include several units/functions identified in IRS's organizational structure that are not fund centers.

The lower levels of the budget formulation and budget execution structures include (1) program activities, which break down the budget activities and are listed above; and (2) organizational entities and other efforts of interest, which are not discrete categories and are different perspectives of IRS's organizational structure. For example, Wage and

Investment is one division within IRS and can be referred to as an organizational entity, while identity theft would be considered an area of interest that crosses divisions within IRS, including Wage and Investment.

Alignment of Budget Execution and Formulation Processes

Prior to the preparation of the annual budget request, IRS budget staff ensure that FTE movements between budgetary accounts made during the fiscal year (e.g., shifting staff to work on different issues) match up with base budget resources assigned to each account. This review (which is conducted by the IRS Corporate Budget Office in coordination with business units) is necessary because business units may have added or eliminated staff during the course of the fiscal year, which can result in a misalignment of funding and FTEs during budget formulation. Further, the review ensures that FTEs—which represent the majority of IRS’s budgetary resources—are fully funded by appropriation accounts and that salary and benefits are aligned with current FTE levels.

IRS Can Report Some Program-Level Obligations and FTE Data

Obligations and FTE Data Are Available for Some Program Activities, Organizational Entities, and Efforts of Interest with Limitations

In its annual budget request, IRS provides funding information at the appropriation account and budget activity levels, but not at the more detailed program activity level. IRS officials stated that they could provide more information at the program activity level; however, reporting on requested funding amounts for program activities could limit IRS’s flexibility to reprogram funds given statutory restrictions.⁸ Still, as we reported in May 2010, IRS could provide additional information that highlights new program activities or those that are proposed for either

⁸IRS is restricted from reprogramming funds within its appropriation accounts without committee approval if, among other reasons, the reprogramming will augment existing programs, projects, or activities in excess of \$5 million or 10 percent, whichever is less. See, for example, the Financial Services and General Government Appropriations Act, 2012, Pub. L. No. 112-74, div. C, title VI, § 608, 125 Stat. 786, 924 (Dec. 23, 2011).

expansion or reduction.⁹ This more detailed information could increase transparency and demonstrate the agency's priorities to congressional decision makers.

As an alternative to more detailed information on requested funds, IRS Corporate Budget officials told us they could provide prior year obligations and FTE data in greater detail than reported in the annual budget request, including information for some program activities, organizational entities, and other efforts of interest. For eight areas we selected as examples,¹⁰ IRS officials confirmed that they could provide fiscal year 2012 obligations data for six and partial information for one.¹¹ They could not provide information for one, as shown in table 1.

⁹GAO, *Internal Revenue Service: Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency*, [GAO-10-687R](#) (Washington, D.C.: May 26, 2010).

¹⁰We selected the eight areas based on several criteria, such as whether it was included in the proposed fiscal year 2014 budget initiatives or the topic of prior GAO work. See appendix I for a full description of our scope and methodology.

¹¹We only requested fiscal year 2012 obligations data for the Appeals and Wage and Investment fund centers to obtain both a simple and complex example of the information available.

Table 1: Availability of IRS Fiscal Year 2012 Obligations Data for Selected Program Activities, Organizational Entities, and Other Efforts of Interest

Area description	Availability of fiscal year 2012 obligations data
Appeals^a Provides an independent, second review of IRS examination decisions.	Available
Identity theft Identifies and prevents the issuance of fraudulent tax returns caused by identity theft.	Partially available
International exam and collections Addresses international tax and financial crimes, including international tax evasion.	Available
Merchant card and basis matching, and the related Information Reporting and Document Matching (IRDM) IT system Establishes a new business tax return and information returns pertaining to merchant card payments and cost basis of securities and automatically matches information with the goals of increasing voluntary compliance and accurate reporting of income.	Available
Offshore voluntary disclosure program Encourages taxpayers with hidden offshore assets and income to voluntarily come back into the tax system.	Not available
Online services Develops new web-based taxpayer services tools.	Available
Telephone & correspondence services Allows taxpayers and paid preparers to communicate with IRS customer service representatives via phone and paper correspondence.	Available
Wage & Investment^a Serves taxpayers whose primary income is derived from wages and investments.	Available

Key: Available = IRS can provide the data; Partially available = IRS can provide some of the data; Not available = IRS cannot provide the data.

Source: IRS Financial Management Code Handbook and discussions with IRS Corporate Budget officials.

Notes: ^aTo obtain both a simple and complex example of the information available and we only requested fiscal year 2012 obligations data for the Appeals and Wage and Investment fund centers.

According to IRS officials, obligations data for identity theft are only partially available because IRS tracks obligations attributed to identity theft from its Wage and Investment fund center, which handles most of its identity theft workload. However, IRS does not track identity theft-related obligations incurred by other IRS business units. According to a senior official, IRS plans to establish a Servicewide internal order code for identity theft at the beginning of fiscal year 2014 because it has become a long-term priority. Officials said they were not able to provide fiscal year 2012 obligations data for the offshore voluntary disclosure program because they had not established a mechanism to track it (in part because the program was operated as a short-term effort in the past and,

according to officials, has only recently been made permanent.) IRS has not decided if it will track obligations for the offshore voluntary disclosure program in the future.¹²

According to IRS officials, IRS obligations data for program activities, organizational entities, and other efforts of interest have some limitations. For example, the data do not include indirect costs, including costs associated with IRS-wide functions like human capital management and procurement. In addition, obligations associated with IT are tracked separately from non-IT costs in IRS's financial management system. For example, non-IT costs for merchant card and basis matching are tracked separately from the related Information Reporting and Document Matching (IRDM) IT system. Furthermore, organizational entities and other efforts of interest are not discrete. Obligations can be analyzed in different ways, such as from an organizational perspective or a program perspective. Different analyses should not necessarily be summed together because they may use different perspectives and, when considered together, might result in overlaps or gaps. For example, organizational entities and other efforts of interest have different perspectives where obligations may be counted towards either. For instance, obligations for the Wage and Investment fund center—an organizational entity—may overlap with related efforts of interest, such as identity theft. Users of IRS obligations data should be cognizant of these limitations.

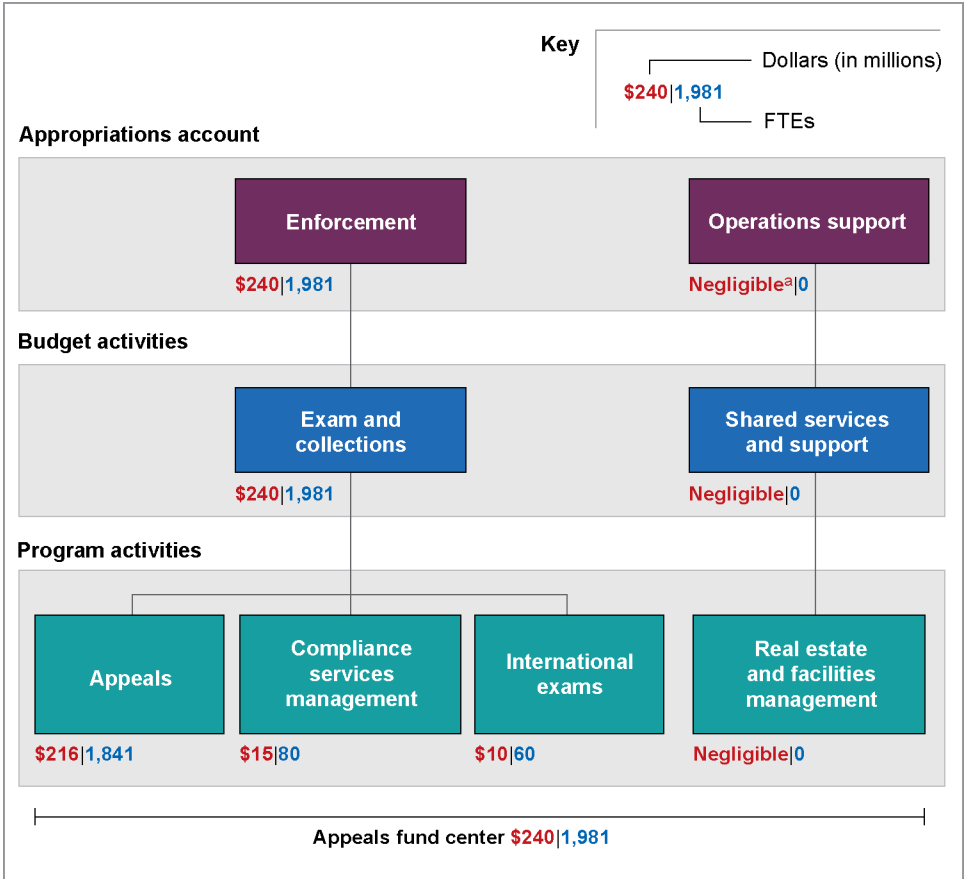
Funding Streams for Obligations Data Vary in Complexity

IRS's obligations data show how the elements of IRS's budget formulation and budget execution structures described in figures 1 and 2 interact, and how those relationships vary in complexity. The data demonstrate the funding streams for IRS's obligations: they show which appropriation accounts, budget activities, and program activities in IRS's budget formulation structure received appropriated funds, as well as which fund centers within IRS's budget execution structure managed and distributed the funds. Some fund centers in IRS's budget execution

¹²In March 2013, we reported that since 2003, IRS had carried out four offshore voluntary disclosure programs that offered incentives for taxpayers to disclose their offshore accounts and pay delinquent taxes, interest, and penalties. The first three programs occurred in 2003, 2009, and 2011. The fourth program started in 2012 and did not have an end date as of September 2013. See GAO, *Offshore Tax Evasion: IRS Has Collected Billions of Dollars, but May be Missing Continued Evasion*, [GAO-13-318](#) (Washington, D.C.: Mar. 27, 2013).

structure receive appropriations from a relatively small number of appropriations accounts, budget activities, and program activities in IRS's budget formulation structure. For example, as shown in figure 3, IRS obligated about \$240 million from the Appeals fund center in fiscal year 2012. While most Appeals fund center resources come from the Appeals program activity, it also receives funding from other parts of IRS's budget formulation structure, including funds from the International exams program activity.

Figure 3: Location of Appeals Fund Center Obligations in IRS's Budget Formulation Structure



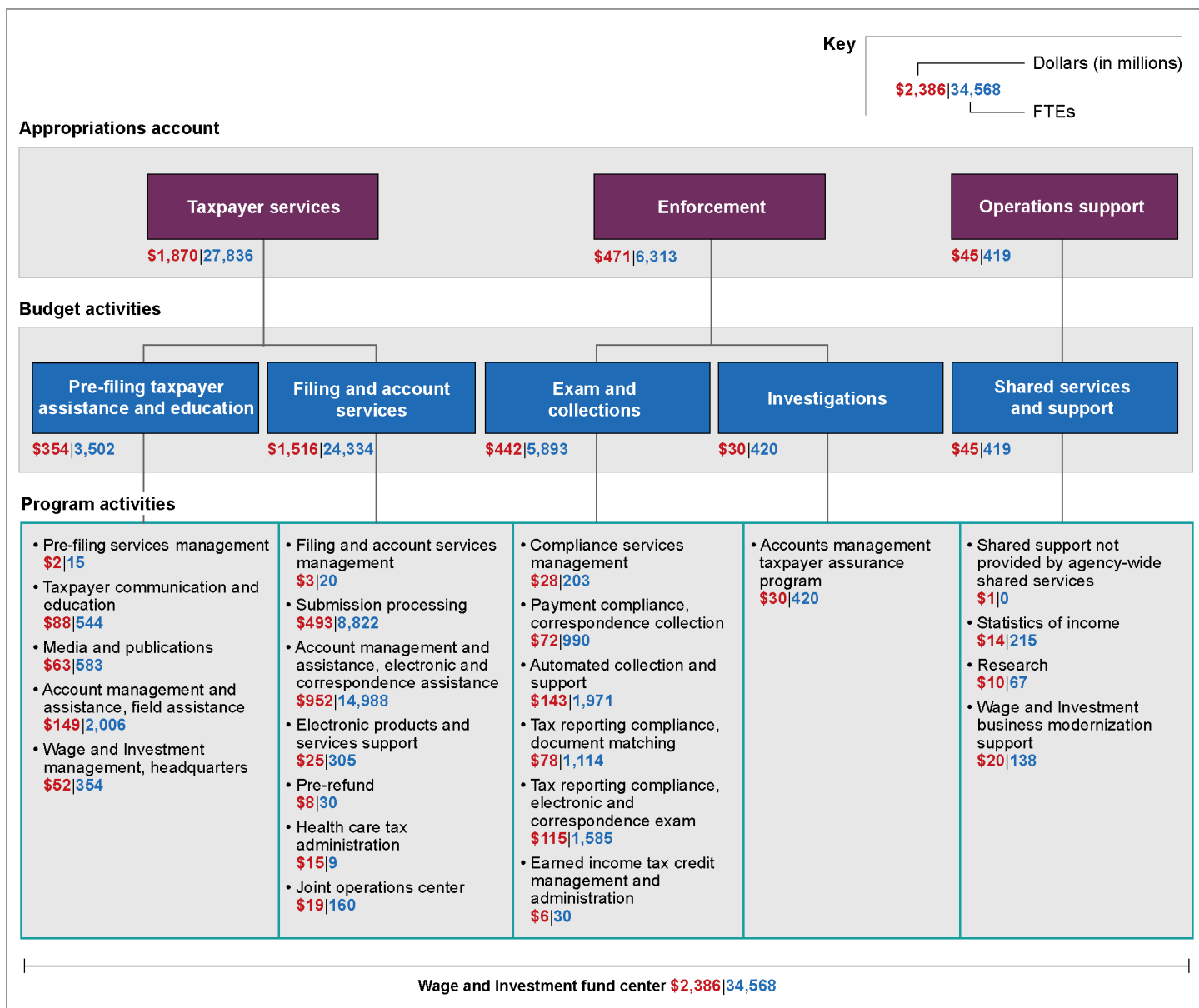
Source: GAO analysis of IRS fiscal year 2012 obligations data.

Note: Numbers may not add due to rounding.

^aNegligible refers to obligations of less than \$1,000.

Obligations data for organizational entities and other efforts of interest can also have a more complex relationship to IRS's budget formulation structure than the Appeals example shown above. For example, in fiscal year 2012 the Wage and Investment fund center received funding from 3 of IRS's 4 appropriations accounts, 5 of its 9 budget activities, and 23 of its 83 program activities (see figure 4). In addition, the ease with which IRS can compile obligations data varies: it can be more difficult for IRS to compile obligations data for programs with a more complex relationship to its budget formulation and budget execution structures.

Figure 4: Location of Wage and Investment Fund Center Obligations in IRS's Budget Formulation Structure



Source: GAO analysis of IRS fiscal year 2012 obligations data.

New Budget Formulation Process Identifies Priorities and Reduces Some Work, but Guidance is Insufficient

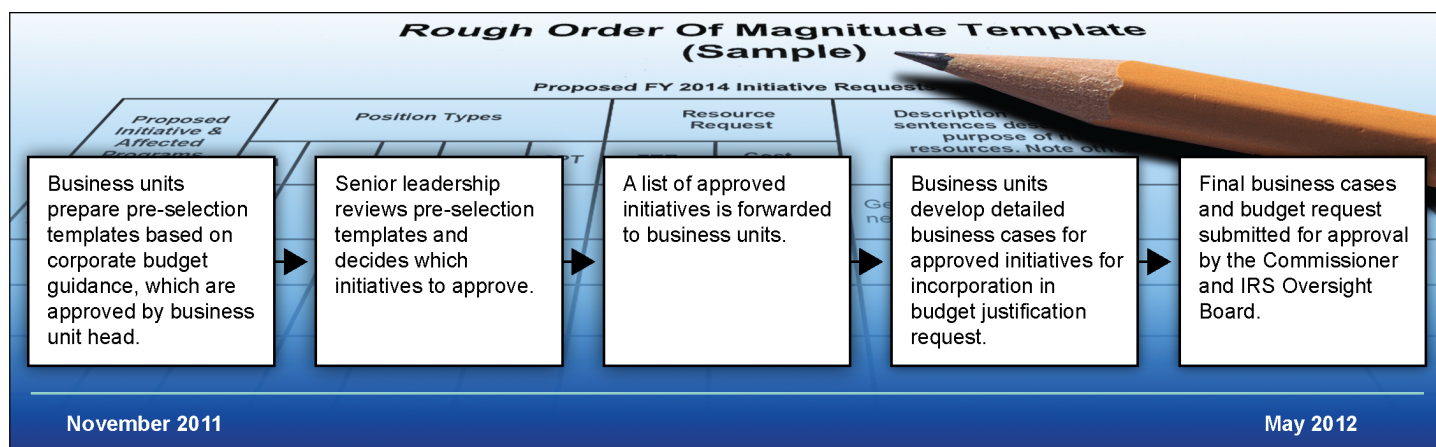
For fiscal year 2014, IRS implemented a new, pre-selection budget formulation process to provide senior leadership with the opportunity to screen, prioritize, and select funding proposals before business units prepare detailed business cases.¹³ However, we found that in some instances the information was incomplete. Previously, business unit staff and subject matter specialists developed detailed business cases for each proposed initiative. Business cases include detailed narrative descriptions, multi-year cost estimates, and account breakouts. IRS budget officials told us the new process reduces work substantially for business units, since staff no longer need to develop extensive information for each proposal; instead, they only develop full information for proposals approved by senior leadership.

The new pre-selection process requires business unit staff to prepare selective, consistent information utilizing templates. (See appendix III for a sample template.) Templates include high level summary information on the purpose of the initiative, the amount of additional funds and FTEs requested, and the estimated impact of the initiative. Management reviews the templates and identifies a preliminary list of approved initiatives. Next, approved initiatives are communicated to business units via a decision document, along with any suggested changes in scope, such as combining initiatives or changing requested FTE or dollar levels. After preliminary approval, business unit staffs prepare detailed business cases for approved initiatives.¹⁴ Figure 5 shows an overview of the new process.

¹³The new pre-selection process does not include proposed IT-related program initiatives. New IT funding requests have been using a similar pre-selection budget formulation process for several years.

¹⁴Business cases may ultimately be included in the budget request.

Figure 5: Overview of IRS's Pre-selection Budget Formulation Process for Fiscal Year 2014



Sources: GAO analysis of IRS information (information); PhotoDisc and IRS (image).

Based on our review of the templates from the taxpayer services and enforcement organizations, we found that the information included by business units on their templates varied in terms of detail and scope. This variation could limit the ability of senior leaders to thoroughly evaluate proposals. For example, about half of the templates reviewed did not describe the proposed initiative's expected benefits, and while almost all templates included a brief description of the proposed initiative, some entries did not include information on the purpose of the initiative or the strategies that would be used to achieve program goals. According to OMB *Circular A-94*, in order to evaluate and compare funding initiatives, decision-makers need to be aware of benefits and costs (tangible and intangible), as well as strategies needed to achieve program goals.¹⁵

According to IRS budget officials, there were several reasons for variations among template submissions. In some instances, senior leadership was very familiar with proposed initiatives and familiar with the estimated impact; in other instances, business units were less adept at articulating benefits of the proposed initiative. Officials also said that senior leadership conducts oral discussions with the business units to clarify an initiative's benefits.

¹⁵OMB Circular No. A-94.

Template instructions provided to business units may have contributed to some incomplete pre-selection template submissions. For instance, the guidance template does not provide an example of qualitative benefits (appropriate for some initiatives) or proposal strategies (especially relevant for initiatives that have not previously been proposed). IRS budget officials acknowledged that improvements could be made in the pre-selection process guidance, especially since this was the first year for this new process. Providing more robust guidance to business units on the information to include in pre-selection templates could help to ensure that business units more fully complete these templates.

IRS Identified Potential Savings in Its Base Budget

The fiscal year 2014 budget request for IRS shows proposed savings and efficiencies in its base budget in several areas totaling over \$217 million as shown in table 2.¹⁶ Some of IRS's expected fiscal year 2014 savings are anticipated to be achieved through operational changes, such as shifting funds to automate processes and streamlining or consolidating operations and functions to make them more cost-effective.

Table 2: Fiscal Year 2014 Projected Base Budget Savings (in Millions)

	Taxpayer Services	Enforcement	Operations Support	BSM	Total
Realizing Personnel Savings	\$13.2	\$56.6	\$7.9	-	\$77.8
Reducing IT Infrastructure	-	-	\$57.5	-	\$57.5
Capturing Savings from Space Optimization ^a	-	-	\$39.2	-	\$39.2
Funding Business Systems Modernization (BSM)	-	-	-	\$30.0	\$30.0
Implementing Human Capital Administrative Efficiencies	-	-	\$7.9	-	\$7.9
Achieving e-File Savings	\$5.0	-	\$0.1	-	\$5.0
Total savings	\$18.2	\$56.6	\$112.6	\$30.0	\$217.4

Source: Fiscal Year 2014 congressional budget justification for IRS.

Notes: Numbers may not add due to rounding.

^aSavings are shown as net.

¹⁶The base budget is the estimated funding necessary to maintain the current level of services without increases for new program initiatives.

IRS's 2014 fiscal year budget includes the following savings and efficiencies:

- **Realizing Personnel Savings:** Personnel savings are mainly the result of staff attrition and hiring restrictions.
- **Reducing IT Infrastructure:** Examples of IT infrastructure changes include providing improved data storage capacity, updating computer servers to be more efficient, adopting common technology platforms and a more efficient telecommunications infrastructure, and changing IT contracting practices. For example, IRS is in the process of implementing virtual computer servers for data storage. Also, the IRS is implementing new technologies for sharing computer services across the agency.
- **Capturing Savings from Space Optimization:** IRS has reduced (or plans to reduce) its office inventory, having selected 123 of its 648 offices to be closed, consolidated, or reduced.¹⁷ These rental savings are the result of attrition, hiring restrictions, and changes in working environments (such as increased telework and development of workspace standards that decrease individual office size). Space optimization savings require a one-time investment of \$37.5 million to build out new and consolidated space and relocate employees, resulting in expected future rent savings of \$76.7 million annually (\$39.2 million net).
- **Funding BSM:** BSM savings represent differences in projected costs of IT operations from one year to the next, including implementation costs related to the Current Customer Account Data Engine 2; Modernized e-File; Core Infrastructure; and Architecture, Integration, and Management.
- **Implementing Human Capital Efficiencies:** Administrative efficiency efforts include the consolidation of employment activities and modifications to training programs. For example, IRS reduced the number of Employment Hiring Centers from 9 to 3. IRS also streamlined processing of requests for personnel-related changes, such as salary increases, transfers, or leaves of absence. In addition, the Employment Operations Unit automated its hiring process to

¹⁷Other than personnel costs, rent and related infrastructure costs represent one of the largest line items in the IRS budget. Although this initiative began during fiscal year 2011, the IRS did not know the magnitude of these savings until the fiscal year 2014 budget formulation process. Plans for closures, consolidations, and space reductions fall into three categories: small posts-of-duty offices (25 or fewer employees), mid-size and large posts-of-duty (generally more than 40,000 square feet), and space reduction projects.

enable electronic completion of pre-hire forms. Some training programs are being modified from classroom training to webinars, reducing travel costs and allowing more employees to attend.

- **Achieving e-File Savings:** These savings result from labor reductions related to increased use of electronic filing of tax returns and corresponding decrease in paper returns.

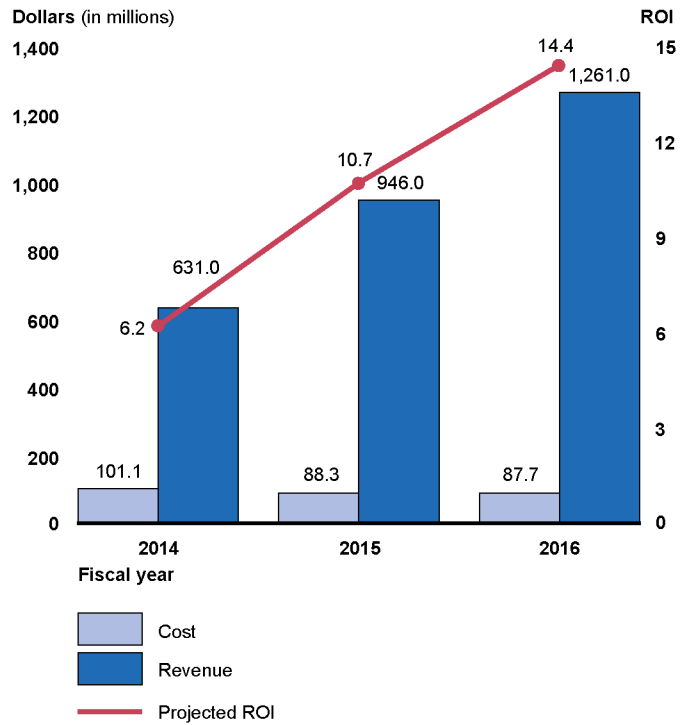
IRS Developed New Revenue Protection and Revenue Enhancement ROI Projections

In its fiscal year 2014 congressional justification, IRS included projected ROI for 10 enforcement initiatives, including two initiatives that used new approaches in estimating potential ROI: revenue protection and revenue enhancement. According to agency budget officials, IRS developed the new ROI methodologies because it did not have enough historical data on these initiatives to use the same methodology used for other initiatives. Since fiscal year 2008, IRS has included ROI projections for new revenue-generating enforcement initiatives in its congressional justification.¹⁸ IRS has generally calculated ROI projections for revenue generating initiatives based on the amount of additional tax collected. For each initiative, IRS calculated an estimate of the potential revenue collected by requested FTEs using 10 years of historical data. Because 10 years of historical data were not available for the revenue protection and revenue enhancement initiatives, IRS developed new methodologies.

For example, the fiscal year 2014 budget for IRS requests \$101.1 million for an *“Improve the Identification and Prevention of Refund Fraud and Identity Theft”* initiative. According to IRS, if funded, the initiative would protect revenue because these activities would identify fraudulent returns related to identity theft and resolve cases prior to issuing a refund. To estimate the amount of projected revenue that would be protected, IRS determined the dollar amount of erroneous refunds detected per FTE from the beginning of the 2012 tax filing season through August of that year. As shown in figure 6, IRS estimated the ROI for this initiative to be 6.2 to 1 in fiscal year 2014, rising to 14.4 to 1 in fiscal year 2016.

¹⁸IRS develops ROI projections by dividing projected revenue by projected cost. IRS's ROI calculations do not reflect benefits from improved voluntary compliance and taxpayer compliance costs. IRS's ROI estimates provide useful information but-given the limits of current data, are not complete estimates of benefits and costs.

Figure 6: Projected ROI for Improve Identification and Prevention of Refund Fraud and Identity Theft Initiative



Source: GAO analysis of fiscal year 2014 congressional budget justification for IRS.

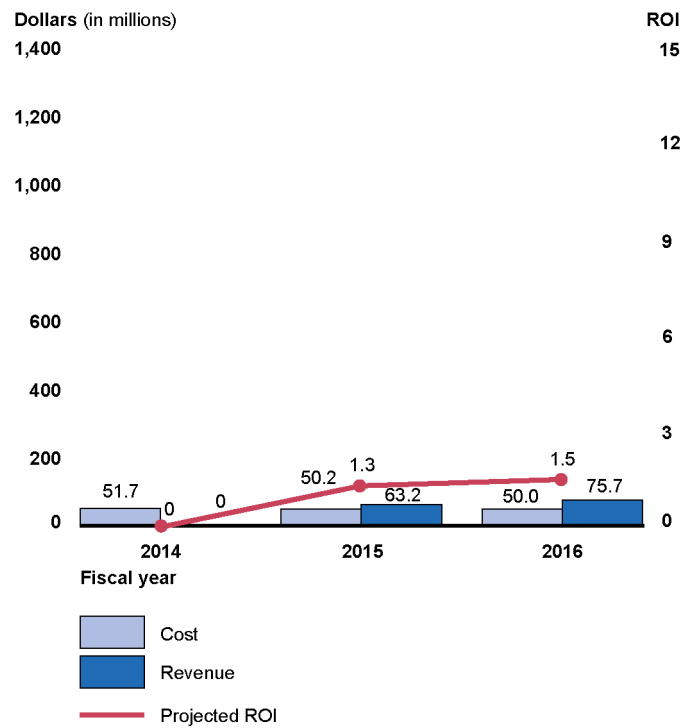
The fiscal year 2014 budget for IRS also requests \$51.7 million for a “*Leverage Data to Improve Case Selection*” initiative. According to IRS, if funded, this initiative would enhance revenue by improving technology that would enable IRS to improve case selection, issue identification, and enforcement case treatment. This technology would also allow IRS to adapt quickly to changing taxpayer behavior and tax code misuse. To estimate the additional amount of projected revenue that would be generated by this initiative, IRS studied the impact of using certain electronically filed data in a new way to examine selected tax returns and

found that it could help classifiers detect more noncompliance.¹⁹ Based on the study's findings, IRS estimated that using certain electronically filed data would increase examination assessments for taxpayers at all income levels, and used that estimate to calculate the amount of additional revenue that could be collected as a result of the "*Leverage Data to Improve Case Selection*" initiative. As shown in figure 7, IRS estimated an initial cost of \$52 million in fiscal year 2014 followed by an estimated ROI of 1.3 to 1 in fiscal year 2015 and 1.5 to 1 in fiscal year 2016.²⁰

¹⁹In May 2013, we recommended that IRS make all data from certain electronically submitted tax returns available to examiners conducting classification. See *Tax Administration: IRS Could Improve Examinations by Adopting Certain Research Program Practices*, [GAO-13-480](#) (Washington, D.C.: May 24, 2013).

²⁰IRS officials have told us that ROI is not the only factor used in determining which new initiatives to request funding for. The "*Leverage Data to Improve Case Selection*" initiative includes a pilot in which future policy decisions will be made based on the research results. For fiscal year 2014, IRS requested funding for two other enforcement initiatives for which no ROI was provided, "*Build Out Tax Return Preparer Compliance Activities*" and "*Leverage Digital Evidence for Criminal Investigation*."

Figure 7: Projected ROI for Leverage Data to Improve Case Selection Initiative



Source: GAO analysis of fiscal year 2014 congressional budget justification for IRS.

IRS Significantly Improved Its PPACA Cost Estimate, but Did Not Publicly Report Investment Information for the Fiscal Year 2014 Budget Request

Updated PPACA Cost Estimate Shows Significant Progress, but a Few Areas for Improvement Remain

In December 2012, IRS updated the PPACA cost estimate as part of its on-going practice to refine the cost estimate and address our prior recommendation.²¹ The updated cost estimate reflects best practices to a much greater extent, as shown in table 3. Unlike previous versions, the updated cost estimate shows significant progress, as it reflects the full-cycle cost of the program, which will total \$1.89 billion from fiscal year 2010 through 2026. With this information, budget decision makers can see the amount IRS plans to spend on the multi-year PPACA effort in a particular year, as well as an estimate of costs that remain to be funded in future years. According to the *GAO Cost Guide*, a reliable cost estimate must be comprehensive, well documented, accurate, and credible.²² (See appendix IV for our full assessment of the updated PPACA cost estimate.) In June 2012, we reported that IRS's cost estimate for PPACA did not fully meet best practices for a reliable cost estimate.²³

²¹GAO, *IRS 2013 Budget: Continuing to Improve Information on Program Costs and Results Could Aid in Resource Decision Making*, [GAO-12-603](#) (Washington, D.C.: June 8, 2012).

²²[GAO-09-3SP](#).

²³[GAO-12-603](#). As a result of our previous assessment, IRS's updated PPACA cost estimate specifies that it is intended to follow best practices from the *GAO Cost Guide*. IRS awarded a contract to update portions of the cost estimate, and it also directed the contractor to follow best practices outlined in the *GAO Cost Guide*.

When enacted, PPACA contained 47 tax-related provisions that IRS is responsible for implementing with effective dates through 2018.²⁴ Meeting these statutory requirements has required a significant IT investment in new data models, databases, and IT systems and operations support. IRS's PPACA cost estimate is important in determining and communicating a realistic view of a program's likely cost and schedule outcomes that can be used to plan the work necessary to develop, produce, install, and support the program. The cost estimate is also integral to establishing and defending budget requests: it provides context for the \$440 million requested for IRS to address PPACA requirements in fiscal year 2014.

Table 3: Overall Assessment of PPACA Cost Estimate Alignment with Best Practices

Best practice	Description	Overall assessment of October 2010 cost estimate	Overall assessment of updated December 2012 cost estimate
Comprehensive	A comprehensive cost estimate ensures that cost elements are neither omitted nor double counted, and all cost-influencing ground rules and assumptions are detailed.	●	●
Well documented	A well documented cost estimate thoroughly documents the process, including source data, clearly detailed calculations and results, and explanations of why particular references were chosen.	●	●
Accurate	An accurate cost estimate is unbiased and is not overly conservative or optimistic. It is based on an assessment of most likely costs.	●	●
Credible	A credible cost estimate discusses any limitations of the analysis because of uncertainty or bias surrounding data or assumptions used in the cost estimating process.	●	●

Key: ● = Meets—IRS provided complete evidence that satisfies the entire criterion; ● = Substantially meets—IRS provided evidence that satisfies a large portion of the criterion; ● = Partially meets—IRS provided evidence that satisfies about half of the criterion; ● = Minimally meets—IRS provided evidence that satisfies a small portion of the criterion; ○ = Does not meet—IRS provided no evidence that satisfies any of the criterion. See appendix I for our full scope and methodology.

Source: GAO analysis of IRS October 2010 and December 2012 PPACA cost estimates.

²⁴For more information on IRS's implementation of PPACA, see *Patient Protection and Affordable Care Act: IRS Managing Implementation Risks, but Its Approach Could Be Refined*, [GAO-12-690](#) (Washington, D.C.: June 13, 2012).

A few areas remain where IRS could continue to improve the reliability of the cost estimate to better meet best practices outlined in the *GAO Cost Guide*. We found that the cost estimate only partially met best practices for accuracy and credibility. Specifically, we identified three deficiencies in the accuracy of the cost estimate. First, the cost estimate was not fully adjusted for inflation. IRS adjusted future costs for inflation, and documented inflation rates, but reported past costs in current year dollars. Because sunk costs were not adjusted for inflation, their contribution to the cost estimate is higher than it should be. In August 2013, the IRS Chief Financial Officer told us that, as a result of this finding, IRS has already revised the next update to the PPACA cost estimate to adjust sunk costs for inflation. Second, IRS included actual sunk costs in the estimate, but it did not use earned value management—a process for capturing actual costs and comparing them to estimated costs. Earned value management would enable IRS to continuously update the estimate to reflect actual costs. Third, the estimate shows how it varies from a previous estimate, but it does not explain factors behind the variance. If the reasons for cost variances are not captured, estimators cannot identify lessons learned that would improve future estimates.

We also identified three deficiencies in the credibility of the cost estimate. First, IRS conducted a sensitivity analysis on two cost drivers (a sensitivity analysis examines the effects on changing assumptions and estimating procedures to highlight elements that are cost-sensitive). However, it is not clear how the two cost drivers were selected for analysis or whether IRS identified the cost elements that were the most sensitive to change. Second, IRS developed multiple risk management plans and conducted a risk and uncertainty analysis, but it is unclear how the risk management plans were applied to address the risks identified in the cost estimate. In addition, IRS incorrectly treated the total funding risk for the entire program as equal to the sum of the risks of individual elements. A proper risk and uncertainty analysis is necessary to correctly assess the variability in the cost estimate due to program risks. Third, IRS did not obtain a second cost estimate. The *GAO Cost Guide* specifies that producing two cost estimates that are independent of one another is a best practice because the second cost estimate can validate the first and provide an unbiased test of whether the original cost estimate is reasonable.

We discussed each of these deficiencies with IRS officials, who stated they gained a better understanding of the criteria in the *GAO Cost Guide* based on our meeting. Because it provides a sound basis for informed investment decision making, realistic budget formulation, and

accountability for results, developing a reliable cost estimate that meets best practices is critical to PPACA's success.

IRS Did Not Report PPACA Investment Information on the OMB Dashboard Website

Although the IT systems used to implement PPACA (which IRS refers to as the ACA IT investment) meet the Department of Treasury's (Treasury) definition of a major investment,²⁵ IRS reported the investment as a non-major investment in fiscal year 2014. According to agency officials, IRS did not have time to prepare the information that is typically reported for major investments in the President's fiscal year 2014 budget request. Unlike major investments, non-major investments are not included for public reporting on the OMB IT Dashboard²⁶ and are also not required to be included in the "Capital Asset Summary," referred to as an Exhibit 300.²⁷

In prior years, IRS's portion of the ACA IT investment was included with related investments that were managed and reported by the Department of Health and Human Services (HHS). HHS reported ACA IT investment information on the Dashboard. In January 2013, at the end of the fiscal year 2014 budget formulation cycle, IRS's portion of the ACA IT investment was split from HHS's portion and IRS assumed responsibility for reporting on its portion. The Clinger-Cohen Act of 1996 requires OMB to establish processes to analyze, track, and evaluate the risks and results of major capital investments in information systems and report to Congress on the net program performance benefits achieved as a result of these investments. In addition, OMB's Capital Programming Guide defines major acquisitions to include capital assets that require special management attention because of high costs, high risk, or a significant

²⁵According to IRS, major investments are defined by Treasury as those that cost \$10 million in either the current year or budget year, or \$50 million over the 5-year period extending from the prior year through budget year +2.

²⁶The IT Dashboard (<https://www.itdashboard.gov/>) is a website enabling federal agencies, industry, the general public, and other stakeholders to view details of federal IT investments. The purpose of the Dashboard is to provide information on the effectiveness of government IT programs and to support decisions regarding the investment and management of resources.

²⁷The Exhibit 300, "Capital Asset Summary," is used to justify resource requests for major IT investments and is intended to enable an agency to demonstrate to its own management (as well as to OMB) that a major investment is well planned. Exhibits 300 for major IRS IT investments are available on the Dashboard.

role in the administration of agency programs. According to the Treasury budget director and IRS officials, the ACA IT investment is expected to be reported as a major investment in the fiscal year 2015 budget request. IRS and Treasury officials also told us they plan to include an Exhibit 300 and report ACA IT information on the OMB Dashboard.

Not reporting information on IRS's ACA IT investment on the Dashboard or in an Exhibit 300 makes it more difficult to monitor and limits transparency. As a result, information about the implementation of PPAA—such as the individual projects that comprise the investment, evaluation history, current Exhibit 300 and cost and schedule variances—is not as readily available to Congress and the general public.

IRS Expanded Information Reported on Its Major IT Investments in the Fiscal Year 2014 Budget Justification, but Additional Information Would Be Useful

In the fiscal year 2014 budget justification, IRS included new, useful information on its major IT investments that was not included in prior budget justifications, such as life-cycle costs,²⁸ projected useful life of the current asset, anticipated benefits, and how performance will be measured. This additional information is a significant enhancement to information provided in prior budget justifications, and provides decision makers with more context on IRS's portfolio of IT investments. However, IRS does not provide information on IT investments in a consolidated format. IT is a significant portion—about 20 percent—of the total IRS budget request for fiscal year 2014. It includes approximately \$2.6 billion to fund 18 major IT investments and 131 non-major investments. (See appendix V for a summary of the major IT investments.)

In addition to the budget justification, information on major IT investments is also presented in other budget related documents, including the Exhibit 300. Exhibit 300s are developed by agencies and reviewed by OMB for each major IT investment. OMB sets forth requirements for the Exhibit 300 in its Circular A-11. Exhibit 300s are publicly available, with some sensitive information redacted on the Dashboard.²⁹ In some instances, the type of information reported in the budget justification is also reported

²⁸Life-cycle costs are the overall estimated costs (including direct and indirect initial costs plus any periodic or continuing costs of operation and maintenance), both government and contractor, for a particular program alternative over the time period corresponding to the life of the program.

²⁹Redacted Exhibit 300s do not include sensitive data, such as estimated obligations for future budget years, names and contact information, and operational risks.

in the Exhibit 300, such as the projected useful life of the current asset. However, certain other information (such as the start date, funds obligated through the prior fiscal year, and the number of FTEs represented by current costs) is only available in the Exhibit 300. Additional information (such as percent of life-cycle costs obligated through the prior fiscal year) is not available in either report, but can be calculated with information contained in the Exhibit 300 and budget justification. See table 4 for a general description of the type of information included in the budget justification and Exhibit 300.

Table 4: Summary of IT Investment Data Presented in the Fiscal Year 2014 Congressional Budget Justification for IRS and Exhibit 300

Source	Section name	Description
Fiscal year 2014 congressional justification for IRS	Capital investments	Identifies and describes the investment, including the projected useful life (e.g., end date) and the investment phase (e.g., development, modernization and enhancement (DME) or operations and maintenance). ^a
		Provides information on the funding source (e.g., appropriation account), obligations data from prior years, request for single budget year, and funding type for current year.
		Describes current cost and schedule performance and the anticipated benefit of the investment.
Fiscal year 2014 Exhibit 300	General information	Provides the investment name and Unique Investment Identifier, a numeric code applied to an investment that allows identification and tracking across multiple fiscal years of an agency's investment portfolio.
	Investment detail	Describes the investment's purpose, goals, and current or anticipated benefits; currently projected return on investment; progress and accomplishments in prior years.
	Life-cycle costs	Provides an overview of the costs for planning, development, modernization and enhancement, and operations and maintenance; full-time equivalents for the previous, current and future fiscal years; and the year the investment begins and ends.
	Acquisition/contract strategy	Provides a list of all prime contracts or task orders for awarded or open solicitations.
	Project plan and execution data	Describes all projects, activities, and/or operations associated with the investment scheduled to commence or continue in the current or future fiscal year.
	Operational data	Identifies metrics associated with the investment, actual results, and risk assessments.

Source: Fiscal year 2014 Congressional budget justification for IRS and Office of Management and Budget Guidance on Exhibits 53 and 300 – Information Technology and E-Government.

Notes:

^aDME is a term used by OMB to describe the program cost for new investments, changes or modifications to existing systems to improve capability or performance, changes mandated by the Congress or agency leadership, personnel costs for investment management, and direct support. For

major IT investments, this amount should equal the sum of amounts reported for planning and acquisition plus the associated FTE costs reported in the Exhibit 300.

Because different information exists in different documents, decision makers must access multiple public documents to gain a full understanding of IRS's IT priorities. For example, if a decision maker was interested in the Modernized e-File (MeF) IT investment, the fiscal year 2014 budget justification would show that the projected useful life of the asset extends to 2019, however, to know the start date of the MeF investment—2001—the decision maker would also need to access the Exhibit 300. Likewise, the decision maker would see that the fiscal year 2014 budget justification shows the estimated life-cycle costs for MeF to be \$575 million, however, to know how much has been obligated for the investment from the start date through fiscal year 2012—\$304 million—the decision maker would have to access the Exhibit 300 and calculate the amount of funding obligated across prior fiscal years.

Consolidating key budget and performance information on major IT investments in one budget document (such as the congressional justification) would ensure decision makers have comprehensive, easy to understand information on major IT investments. In particular, consolidating information for complementary data elements (such as start date and projected useful life of the current asset, and amount of funding obligated through prior fiscal years and life-cycle costs) would provide useful context to understand IRS's progress in implementing long-term IT investments. IRS officials said they can consolidate this information for ease of review.

GAO's *Standards for Internal Control in the Federal Government* states that information should be communicated in a format that enables management and others to carry out their oversight responsibilities.³⁰ Further, the GPRA Modernization Act of 2010—which can serve as a guide to leading practices for planning at lower levels within federal agencies—requires that agencies consult with relevant committees when developing or making adjustments to their strategic plans and agency priority goals. Consulting with relevant committees regarding IT investments would provide IRS with an opportunity to share performance information and confirm that various committees are getting the types of

³⁰GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#), (Washington, D.C.: November 1999).

performance information needed. Congressional staffs have requested comprehensive, easy to understand information on IRS's IT investments: providing it in a comprehensive, consolidated format could provide them with better information to guide decisions. Congress directed IRS to include a summary of cost and schedule performance information for its major IT investments in its budget justification for fiscal year 2013; in addition, starting in March 2012, IRS was required to submit a report after every quarter with specific information on IRS's selected major IT investments, including a "plain English" explanation of the cost and schedule for the previous three months and the cost and schedule performance for the upcoming three months.³¹ IRS has been submitting these reports and briefing the Appropriations Committees and other congressional stakeholders. Despite the increased information in the budget justification and the new quarterly report, key budget and performance information on all of IRS's major IT investments remains in various budget documents. Until such data is consolidated, it is less accessible to congressional stakeholders.

IRS Implemented Six of Our Nine Prior Recommendations to Improve the Budget Presentation and Aid Decision Making

Since June 2012, IRS implemented six recommendations made in our prior reviews of its budget justification documents. Three of the implemented recommendations resulted in additional information in the budget request, such as actual ROI and linking funding requests for new initiatives to strategic goals and objectives. Enhanced information in the budget request can aid decision making and provide context to Congress regarding how current operations and requests for new funding support IRS priorities. Table 5 summarizes the recommendations implemented by IRS.

³¹ See Financial Services and General Government Appropriations Act, 2012, Pub. L. No. 112-74, div. C, title I, 125 Stat. 786, 888 (Dec. 23, 2011). See also, H.R. Rep. No. 112-331, at 901 (2011).

Table 5: Prior GAO Recommendations Implemented by IRS

Report	Recommendation	Action taken	Benefit
GAO-09-754^a	<i>Compare actual ROI data with projections</i> We recommend that the Commissioner of Internal Revenue take steps to develop ROIs for IRS's enforcement programs using actual revenue and full cost data and to compare the actual ROIs to the projected ROIs included in the budget requests.	IRS calculated actual ROIs for three major enforcement programs—Exams, Collections, and Automated Underreporter—and reported the data in the fiscal year 2014 congressional justification.	By including data on actual ROIs there is a basis for assessing the revenue and cost impact of program-level changes.
GAO-10-687R	<i>Provide additional information about program activities</i> To enhance the transparency of IRS's budget request, the Commissioner of Internal Revenue should provide additional information, which could be qualitative if necessary to avoid losing existing reprogramming flexibility, about the program activities in the budget justification to better indicate IRS's priorities.	IRS has taken steps, such as setting up certain codes in its financial management system to track obligations, which allows it to more readily compile obligations data for many of its organizational entities and other efforts of interest—including program activities—when requested.	Information on prior year obligations can provide context for IRS's new resource requests and facilitate decision making.
GAO-10-687R	<i>Link budget request to strategic documents</i> To enhance the transparency of IRS's budget request, the Commissioner of Internal Revenue should make explicit linkages between initiatives and proposals in the budget and strategic documents.	In the fiscal year 2014 congressional justification IRS included a new table that identifies how budget initiatives are linked to Department of Treasury priority goals and strategic goals, and IRS strategic goals.	By linking the budget request to strategic documents, Congress and other stakeholders are better able to understand IRS's priorities to improve service and enforcement.
GAO-10-687R	<i>Describe noteworthy changes in performance goals</i> In the budget justification, explain noteworthy changes in performance goals that reflect changes from previous performance and describe the impact on funding.	IRS included some linkages between performance goals and funding, identifying some instances where funding impacted the level of performance, such as telephone level of service. IRS budget officials noted they plan to continue providing this type of information in future years.	Clear linkages between performance goals and funding can help determine how funded activities contribute to operational goals and to specific measures. These linkages can also illustrate how targets align with funding and how efficiently resources are used.

Report	Recommendation	Action taken	Benefit
GAO-11-547	<p><i>Systematically identify savings and efficiencies</i></p> <p>To improve the usefulness of the budget request for IRS, the Commissioner of Internal Revenue should further expand efforts to systematically identify savings and efficiencies as part of its budget development process on a periodic, but not necessarily annual, basis.</p>	In fiscal years 2013 and 2014 budget formulation guidance, the IRS Corporate Budget Office instructed business units to identify specific and achievable savings and efficiencies, estimate cost savings, and describe associated assumptions. In addition, IRS established task forces and working groups to restructure and streamline operations, and solicited employees for cost-reduction suggestions.	By developing a more systematic process, IRS is better positioned to identify savings and efficiencies.
GAO-12-603	<p><i>Update the PPACA cost estimate</i></p> <p>To continue to improve information on program costs and results that could aid in resource decision making, the Commissioner of Internal Revenue should ensure that an updated PPACA cost estimate is completed by September 2012 in accordance with best practices in the <i>GAO Cost Guide</i>.</p>	IRS updated the PPACA cost estimate which now meets best practices to a greater extent. Specifically, the cost estimate substantially meets two, and partially meets two, of the four characteristics of a reliable cost estimate. For example, the cost estimate now includes full life-cycle costs.	By fully accounting for life-cycle costs, management has better information to plan program resource requirements and make wise decisions.

Source: GAO analysis of prior GAO reports on IRS's budget request.

Notes:

^aWe previously reported this recommendation as partially implemented in [GAO-12-603](#).

As shown in table 6, IRS officials agreed with two of the three budget related recommendations that remain open. IRS initially disagreed with our recommendation to modify its funding request for new hires. However, in August 2013, IRS Corporate Budget officials told us that IRS is considering options to implement the recommendation, including possibly describing in the operating plan how it plans to use available funds not needed for new hires in the first year.

Table 6: Budget-Related Recommendations to IRS That Remain Open

Report	Open recommendations	Benefit	IRS agreed with recommendation
GAO-12-603	<p><i>Conduct cost-effectiveness analyses</i></p> <p>Ensure cost-effectiveness analyses are conducted for future significant investments when there are alternative approaches for achieving a given benefit, such as for any new significant PPACA projects.</p>	Without cost effectiveness analyses, budget decision makers do not have information to compare alternatives and it may be difficult to determine the best use of resources.	Yes. IRS officials are taking steps to implement this recommendation.

Report	Open recommendations	Benefit	IRS agreed with recommendation
GAO-12-603	<i>Develop a quantitative measure of scope</i> Develop a quantitative measure of scope, at a minimum for its major IT investments, in order to have complete information on the performance of these investments.	Without a quantitative measure of scope, IRS cannot ensure that it has a method for monitoring and comparing actual performance to planned results. Such a measure is a good management practice and provides Congress with information on IRS's performance in delivering IT systems.	Yes. IRS officials told us they have not taken any action to implement the recommendation.
GAO-12-603	<i>Modify funding request for new hires</i> Prepare funding requests for new staff based on estimated hiring dates.	By assuming an October 1 hire date, IRS's budgeting for new staff overstates its labor costs and could result in funding being used for other purposes.	No. However, as of August 2013, officials told us they are considering options to implement the recommendation.

Source: GAO analysis of prior GAO reports on IRS's budget request.

Conclusions

IRS has taken important steps to include new and useful information in its budget justification to aid Congress and other stakeholders, including new information on actual ROI and enhanced information on major IT investments. In addition, IRS made significant improvements to the PPACA cost estimate, which is integral to accurately informing budget decision makers of the anticipated long-term costs for both implementation and administration of the new health care program. Furthermore, IRS's new pre-selection process for determining which initiatives to request funding for was reported by officials to be a more efficient method for commencing budget formulation, although enhanced guidance could make it more effective. We also identified some other actions that could improve the budget request and aid Congress in decision making, including (1) improving the accuracy and credibility of the PPACA cost estimate in future updates because it provides the basis for informed investment decision making, realistic budget formulation, and accountability for results, (2) ensuring the ACA IT investment is publicly reported to increase transparency and (3) reporting consolidated information on major IT investments to make the information more accessible.

Recommendations for Executive Action

To enhance the budget process and to improve transparency, we recommend the Acting Commissioner of Internal Revenue take the following four actions:

- Improve guidance given to business units for the pre-selection budget formulation process, emphasizing the importance of information on the estimated impact—qualitative or quantitative—of proposed budget initiatives.

-
- Improve the accuracy and credibility of future updates to the PPACA cost estimate by taking the following actions to more closely follow best practices outlined in the *GAO Cost Guide*:
 - Use earned value management to capture actual costs and use them as a basis for future updates.
 - Explain why variances occurred between the current estimate and previous estimates.
 - Document how cost drivers are selected for future sensitivity analyses.
 - Conduct future risk and uncertainty analyses consistent with best practices, and develop and document plans to address risks.
 - Validate the original cost estimate by preparing a second, independent cost estimate.
 - Publicly report the ACA IT investment as a major investment on the OMB IT Dashboard and the fiscal year 2015 budget request, including standard cost, schedule, and performance information.
 - Report key data on major IT investments in one consolidated document, such as the congressional justification, in consultation with congressional stakeholders.

Agency Comments and Our Evaluation

We provided a draft of this report to the Acting Commissioner of the IRS for his review and comment. We received an email on September 18, 2013 from the Chief Financial Officer, which included an attachment that provided the agency's comments to our recommendations. This attachment is reprinted in appendix VI. In response to our draft report, the Chief Financial Officer stated that IRS agreed with three of our four recommendations and identified actions planned and taken to address them. For example, IRS agreed to include additional data on its major IT investments in the congressional justification, such as actual obligations for the investment to date. IRS agreed with the majority of the actions associated with our fourth recommendation on improving the accuracy and credibility of future updates of the PPACA cost estimate. IRS disagreed with two actions contained in our fourth recommendation. Specifically,

- IRS disagreed with our recommended action to use earned value management, a process that would enable IRS to continuously update the cost estimate to reflect actual costs. IRS stated that earned value management is not part of its current program management processes because the cost and burden to use earned value management outweigh the value added. We disagree with IRS's view

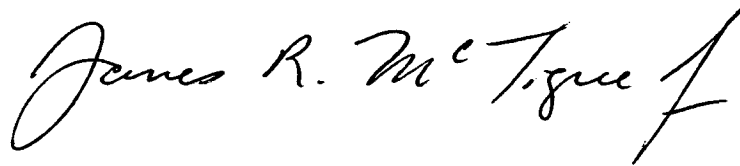
as to the benefits of earned value management. GAO has found that programs that establish good earned value management systems realize better project management decision making and fewer cost and schedule overruns. While there is an upfront investment to establish the earned value management system, there are long-term benefits that go beyond the individual project, such as fostering accountability, improving insight into program performance, and providing objective information for managing the program. Further, the OMB Capital Programming Guide states that earned value management is a critical component of risk management for major investments.

- IRS also disagreed with our recommended action to validate the PPACA cost estimate by preparing a second, independent cost estimate. IRS stated that the cost and burden of having an external organization produce a second, independent cost estimate of the same scope would outweigh the value added. In addition, IRS stated that an external organization would lack the knowledge necessary to produce a reasonable estimate without relying heavily on the IRS group that produced the first estimate. We disagree with IRS's view. As reflected in the *GAO Cost Guide*, GAO has found that producing a second, independent cost estimate is considered one of the best and most reliable methods for validating a cost estimate. Without a second, independent cost estimate, decision makers lack insight into a program's potential costs and may lack confidence that the estimate is reasonable and costs described in the first estimate can be achieved. While preparing a second cost estimate that is independent of the first cost estimate requires additional resources, it is generally based on the same detailed technical and procurement information. Furthermore, an independent cost estimate does not need to be conducted by an external organization, but the estimation team should be outside the acquisition chain and have nothing at stake with regard to program outcome or funding decisions. The major benefit of a second, independent cost estimate is that it provides an objective and unbiased assessment of whether the original estimate can be achieved; reducing the risk that the program will proceed underfunded or costs will exceed its value.

We plan to send copies of this report to the Chairman and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We are also sending copies to the Acting Commissioner of Internal Revenue, the Secretary of the Treasury, and the Chairman of the IRS

Oversight Board. Copies are also available at no charge on the GAO web site at <http://www.gao.gov>.

If you or your staffs have further questions or wish to discuss the material in this report further, 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 major contributions to this report are listed in appendix VII.

A handwritten signature in black ink that reads "James R. McTigue, Jr." with a stylized flourish at the end.

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

Appendix I: Objectives, Scope, and Methodology

We were asked to review the President's fiscal year 2014 budget request for the Internal Revenue Service (IRS). The objectives of this report were to (1) describe IRS's capacity to report fiscal year 2012 obligations and full-time equivalent (FTE) data for program activities, organizational entities, and other efforts of interest; (2) assess IRS's process and the type of information used to prioritize and select new program initiatives; (3) describe proposed base budget savings; (4) describe IRS's new projected return on investment (ROI) methodologies; (5) evaluate steps IRS took to improve the cost estimate for the Patient Protection and Affordable Care Act (PPACA) in accordance with GAO's *Cost Estimating and Assessment Guide*¹ and determine the extent to which IRS is transparently reporting on the Affordable Care Act (ACA) information technology (IT) investment; (6) summarize IRS's major IT investments and assess the type of information available in the congressional justification; and (7) describe IRS's progress in implementing our prior budget-related recommendations.

To describe IRS's capacity to report fiscal year 2012 obligations and FTE data, we reviewed documentation related to IRS budget formulation and budget execution, including IRS's *Financial Management Codes Handbook*, IRS's organizational chart, and its fiscal year 2014 congressional budget justification. We also interviewed knowledgeable officials in IRS's Corporate Budget Office. We selected eight program activities, organizational entities, and efforts of interest for analysis: (1) Appeals, (2) Identity Theft, (3) International Exam and Collections, (4) Merchant Card and Basis Matching and the related Information Reporting and Document Matching (IRDM) IT system, (5) Offshore Voluntary Disclosure Program, (6) Online Services, (7) Telephone and Correspondence Services, and (8) Wage and Investment. We selected this list based on the following criteria: whether it was included in the proposed fiscal year 2014 budget initiatives, whether it was the topic of prior GAO work, and whether the selected list (as a whole) spans most of IRS's appropriation accounts and encompasses a range of methods by which the data can be obtained from IRS's financial management system. To determine IRS's capacity to compile fiscal year 2012 obligations data for these eight items, we interviewed knowledgeable officials in IRS's Corporate Budget Office. From the eight selected program activities,

¹GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs* (Supersedes [GAO-07-1134SP](#)), [GAO-09-3SP](#) (Washington, D.C.: Mar. 2, 2009).

organizational entities, and other efforts of interest, we selected two illustrative examples to report fiscal year 2012 obligations data and to show how IRS's budget formulation and budget execution structures interact: Appeals, and Wage and Investment. We selected these two examples largely to demonstrate the differences in structures. While they are both fund centers in IRS's budget execution structure that manage and distribute funds, Appeals is also a program activity in IRS's budget formulation structure and shows a relatively simple relationship between these structures. In contrast, Wage and Investment is a complex fund center that receives funding from many segments of IRS's budget formulation structure. We assessed the reliability of IRS's fiscal year 2012 obligations data by reviewing relevant IRS documents, including the Financial Management Codes Handbook, as well as prior work we conducted that assesses IRS's financial statements.² We believe that the data are sufficiently reliable for our purposes. We identified some limitations, but they do not affect our illustrative use of the data and are discussed in our report.

To assess IRS's process and the type of information used to prioritize and select new program initiatives, we reviewed IRS documents related to its pre-selection budget formulation process for fiscal year 2014. Documents included guidance from the IRS Corporate Budget Office and pre-selection templates submitted for review by the taxpayer services and enforcement business units to senior leadership between November 2011 and May 2012. We analyzed these submissions for completeness against criteria for budget formulation outlined in OMB Circulars A-94.³ We also interviewed IRS officials familiar with the pre-selection process.

To describe proposed base budget savings, we reviewed the fiscal year 2014 congressional budget justification for IRS. To determine the processes followed to identify savings and efficiencies, we also interviewed IRS officials in the IRS Corporate Budget Office and from the Large Business and International division. We analyzed documents obtained from IRS on its proposed fiscal year 2014 budget savings and

²See GAO, *Financial Audit: IRS's Fiscal Years 2012 and 2011 Financial Statements*, [GAO-13-120](#) (Washington, D.C.: Nov. 9, 2012).

³Office of Management and Budget, *Revised, Guidelines and Discount Rates for Benefit-Cost Analysis for Federal Programs*, OMB Circular No. A-94, (Revised October 1992).

efficiencies, such as human capital, space optimization, and IT infrastructure summaries.

To describe IRS's new projected ROI methodologies (of revenue protection and revenue enhancement) included in the fiscal year 2014 budget request, we discussed the difference between the new methodologies and IRS's other projected ROI calculations with officials in IRS's Office of Compliance Analytics and Corporate Budget Office. We also reviewed a related briefing developed by the Office of Compliance Analytics that summarizes the extent to which the use of non-transcribed electronic data impacts the classification of cases.⁴

To evaluate steps IRS took to improve the PPACA cost estimate, we compared IRS's updated PPACA cost estimate, completed in December 2012, with the characteristics of a high-quality cost estimate, identified in the GAO *Cost Estimating and Assessment Guide (Cost Guide)*.⁵ Our *Cost Guide* identifies four characteristics of a high quality cost estimate. The cost estimate should be (1) comprehensive, (2) well documented, (3) accurate, and (4) credible. We calculated the assessment rating of each criterion within the four characteristics by assigning each an individual assessment rating as follows: does not meet = 1, minimally meets = 2, partially meets = 3, substantially meets = 4, and meets = 5. We then averaged the individual practice scores to determine the overall rating. We shared our preliminary analysis of the updated PPACA cost estimate with program officials. When warranted, we updated our analyses based on the agency's response and additional documentation provided to us.

To assess the transparency of IRS's reporting on the ACA IT investment, we reviewed information reported by the Department of Treasury (Treasury) on its capital investments, including the Office of Management and Budget (OMB) IT Dashboard. We also interviewed IRS and Treasury officials to obtain their views on PPACA management and reporting. To

⁴Because it is IRS's policy to treat paper-filed returns the same as electronically filed returns, IRS does not use data that is not transcribed from paper returns in its classification process. This process determines, in part, whether a return should be selected for examination, what issues should be examined, and how the examination should be conducted.

⁵See GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs* (Supersedes [GAO-07-1134SP](#)), [GAO-09-3SP](#) (Washington, D.C.: Mar. 2, 2009).

perform our assessment, we used relevant criteria on reporting capital investment information, including the Clinger-Cohen Act of 1996 and the OMB Capital Programming Guide.⁶

To summarize IRS's major IT investments (defined by Treasury as investments costing \$10 million in either current year or budget year, or \$50 million over the 5-year period extending from the prior year through the budget year +2) and to assess the type of information available in the congressional justification, we reviewed fiscal year 2013 and 2014 congressional budget justifications, Exhibit 300s—capital asset summaries—prepared by IRS for major IT investments, as well as IRS and OMB guidance on preparing those documents, such as the *Office of Management and Budget Guidance on Exhibits 53 and 300—Information Technology and E-Government*. We identified the type of information that is available across budget documents, in particular key information such as cost to date, full time equivalents, life-cycle costs, start date and end date.

To describe IRS's progress in implementing our prior budget-related recommendations, we obtained information from various IRS officials and reviewed relevant documentation, including the fiscal year 2014 congressional budget justification and IRS's Joint Audit Management Enterprise System (JAMES) reports, which track IRS actions taken to implement GAO recommendations. We then determined which recommendations were implemented.

We conducted our work in Washington, D.C., where key IRS officials involved with the budget and IT systems are located.

We conducted this performance audit from October 2012 to September 2013 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.

⁶40 U.S.C. § 11302(c). Office of Management and Budget, *Capital Programming Guide: Planning, Budgeting, and Acquisition of Capital Assets*, Supplement to Circular A-11, (Washington, D.C.: August 2011).

Appendix II: Non-Interactive Version of Figure 1: IRS's Budget Formulation Structure

Budget activity	Program activities
Pre-filing taxpayer assistance and education	<ul style="list-style-type: none"> • Pre-filing services management • Taxpayer communication and education • Media and publications • Taxpayer advocacy • Account management and assistance, field assistance • Taxpayer advocate case processing • Wage and investment headquarters management and administration • National distribution center
Filing and account services	<ul style="list-style-type: none"> • Filing and account services management • Submission processing • Account management and assistance, electronic and correspondence assistance • Electronic products and services support • Electronic tax administration • Pre-refund • Health insurance tax credit administration • Joint operations center • Files most efficient organization • Emergency response funds
Investigations	<ul style="list-style-type: none"> • General management and administration • Criminal investigations • Criminal tax legal support • International investigations
Exam and collections	<ul style="list-style-type: none"> • Compliance services management • Payment compliance, correspondence collection • Automated collection and support • Payment compliance, field collection • Tax reporting compliance, document matching • Tax reporting compliance, electronic and correspondence exam • Tax reporting compliance, field exam • Fraud and Bank Secrecy Act • Appeals • Litigation • Specialty programs, exams • International collection • International exams • Unit general management and administration • Earned income tax credit management and administration • Accounts management taxpayer assurance program • Whistleblower • Communications and liaison

**Appendix II: Non-Interactive Version of Figure
1: IRS's Budget Formulation Structure**

Budget activity	Program activities
Regulatory	<ul style="list-style-type: none"> • Tax law interpretation and published guidance • General legal services • Rulings and agreements • International regulatory legal support • Return preparer strategy • Office of professional responsibility • Emergency response funds
Infrastructure	<ul style="list-style-type: none"> • Building delegation • Rent • Space and housing, non-information technology equipment • Security
Shared services and support	<ul style="list-style-type: none"> • National headquarters management and administration • Real estate and facilities management • Procurement • Equity, diversity, and inclusion field services • Communications and liaison • Employee support services • Treasury complaint centers • Shared support not provided by agency-wide shared services • Printing and postage, media and publications • Statistics of income • Research • Security administration and management • Wage and investment business modernization support • Benefit payments • Shared services

**Appendix II: Non-Interactive Version of Figure
1: IRS's Budget Formulation Structure**

Budget activity	Program activities
Information services	<ul style="list-style-type: none"> • Security services • Tier B • Management services • National headquarters information technology management • Affordable Care Act program management office • Information technology executive oversight • Application development • Enterprise operations • Enterprise network • Enterprise services • User and network services • Strategy and planning • Information technology security certification and accreditation • Disaster recovery • Information technology security training • Information technology homeland security Presidential Directive 12 • Information technology infrastructure • Treasury working capital fund • Integrated document solutions enterprise • Emergency response funds
Information technology investments	<ul style="list-style-type: none"> • Business systems modernization management • Tier A • Customer account data engine II • Move toward more timely service and enforcement • Integrated financial systems • Custodial accounting project • E-Services • Filing and payment compliance • Modernized e-file • Customer account data engine • Infrastructure • Program level initiatives • Management reserve • Accounts management services

Source: GAO analysis of IRS documents.

Note: The number of program activities varies from one fiscal year to the next as IRS adjusts its budget formulation structure to address emerging priorities. Program activities are described in detail in the fiscal year 2014 congressional budget justification for IRS.

Appendix III: Figure 8: Pre-selection Budget Formulation Process—Sample Template

Rough Order Of Magnitude Template (Sample)

Proposed FY 2014 Initiative Requests

Proposed Initiative & Affected Programs	Position Types					Resource Request		Description – one or two sentences describing the purpose of new resources. Note other important factors.	Estimated Impact ²
	RA	TE	RO	Mgr	SPT	FTE	Cost (\$000) ¹		
Program XX								General overview of need/activity/impact.	

1. Estimated costs will be calculated by Finance using the FY 2013 Unit Cost Rates. Finance will also assist to determine managers and support if necessary

2. Estimated increase in number of closures or estimated LOS

Source: IRS.

Note: Acronyms are as follows: RA = Revenue Agent; TE = Tax Examiner; RO = Revenue Officer; Mgr = Manager; SPT = Specialists; FTE = Full Time Equivalent; and LOS = Level of Service

Appendix IV: Reliability of Patient Protection and Affordable Care Act Cost Estimate

Figures 9 through 12 outline our assessment of the extent to which IRS's updated, December 2012 Patient Protection and Affordable Care Act (PPACA) cost estimate meets best practices. This information is repeated in table 7, following the graphics.

Interactive graphic

Figure 9: PPACA Cost Estimate Alignment with Best Practices for Comprehensiveness





Directions:

Rollover each  below to see further information on cost estimation best practices.

Overall assessment:

Substantially meets best practices for a comprehensive cost estimate.

A comprehensive cost estimate:

Best practices characteristics		Assessment of whether best practices are met	Effect
Includes all life-cycle costs.		The cost estimate included both government and contractor costs of the program over its full life cycle, from inception of the program through development, deployment, and operation and maintenance to its eventual retirement. Meets	(a)
Completely defines the program, reflects the current schedule, and is technically reasonable.		Documentation included a description of technical requirements for all affordable care act components, with sufficient detail on the system's purpose and performance characteristics. It did not explain how the system fit into certain other aspects of program management, such as personnel requirements. Additionally, risks and their specific effects on cost elements, were not documented in sufficient detail. Substantially meets	(a)
Has a product-oriented work breakdown structure (WBS), traceable to the program's technical scope at an appropriate level of detail.		The WBS clearly outlined the end product and major work of the program. It is standardized so that cost data can be collected and used for estimating future programs. IRS provided a generic dictionary that discussed major WBS elements. Meets	(a)
Documents all cost-influencing ground rules and assumptions.		The cost estimate documentation defined and documented ground rules and assumptions. However, the estimate did not explain how risks trace to specific WBS elements and did not consider the effects of schedule and funding delays. Substantially meets	(a)

Source: GAO analysis of IRS's updated December 2012 PPACA cost estimate and GAO-09-3SP.

GAO overall assessment ratings:

Does not meet	IRS provided no evidence that satisfies any of the criterion
Minimally meets	IRS provided evidence that satisfies a small portion of the criterion
Partially meets	IRS provided evidence that satisfies about half of the criterion
Substantially meets	IRS provided evidence that satisfies a large portion of the criterion
Meets	IRS provided complete evidence that satisfies the entire criterion.

^aWe did not describe effects for characteristics scored as "meets" or "substantially meets."

Interactive graphic

Figure 10: PPACA Cost Estimate Alignment with Best Practices for Being Well Documented






Directions:

Rollover each  below to see further information on cost estimation best practices.

Overall assessment:

Substantially meets best practices for a well documented cost estimate.

A well documented cost estimate should:

Best practices characteristics	Assessment of whether best practices are met	Effect
Capture the source data used, the reliability of the data, and how the data were made compatible with other data in the estimate.	 IRS used two commercially available software models to develop the estimate. IRS documented some inputs, including labor rates and support activities, but GAO could not confirm whether inputs to the software models were appropriate for the program. Substantially meets	(^a)
Describe the calculations and the methodology used to derive each element's cost.	 The cost estimate provided a general summary of the methodologies used to create it. IRS used some actual data from parts of the program that it already developed, and documented how those data were adjusted, but did not explain why the data were adjusted. Substantially meets	(^a)
Describe how the estimate was developed.	 The estimate showed inputs to the software models, including data provided by subject matter experts. However, IRS used an incorrect method to calculate confidence levels for the estimate. Substantially meets	(^a)
Discuss the technical baseline description.	 IRS developed a technical baseline description that is consistent with the cost estimate. Meets	(^a)
Provide evidence of management review and acceptance.	 IRS provided evidence that staff briefed management on the cost estimate multiple times, and provided email documentation of management feedback and approval, but the briefings did not contain technical details of the cost estimate. Substantially meets	(^a)

Source: GAO analysis of IRS's updated December 2012 PPACA cost estimate and GAO-09-3SP.

GAO overall assessment ratings:

- Does not meet** IRS provided no evidence that satisfies any of the criterion
- Minimally meets** IRS provided evidence that satisfies a small portion of the criterion
- Partially meets** IRS provided evidence that satisfies about half of the criterion
- Substantially meets** IRS provided evidence that satisfies a large portion of the criterion
- Meets** IRS provided complete evidence that satisfies the entire criterion.

^aWe did not describe effects for characteristics scored as "meets" or "substantially meets."

Interactive graphic

Figure 11: PPACA Cost Estimate Alignment with Best Practices for Accuracy








Directions:

Rollover each  below to see further information on cost estimation best practices.

Overall assessment:

Partially meets best practices for an accurate cost estimate.

An accurate cost estimate:

Best practices characteristics	Assessment of whether best practices are met	Effect
Produces unbiased results.	 <p>IRS developed the cost estimate at an 80 percent confidence level, which is slightly conservative compared to best practices, which call for estimates to fall between 55 percent and 65 percent confidence levels.</p> <p>Substantially meets</p>	(^a)
Is properly adjusted for inflation.	 <p>IRS adjusted future costs for inflation, and documented inflation rates, but reported past costs in current year dollars.</p> <p>Partially meets</p>	Adjusting for inflation is important because in the development of an estimate, cost data must be expressed in like terms. If a mistake is made or the inflation amount is not correct, cost overruns can result.
Contains few mistakes.	 <p>Our assessment detected only one minor mistake, and IRS confirmed that it was a typographical error.</p> <p>Substantially meets</p>	(^a)
Is regularly updated to reflect significant program changes.	 <p>IRS updates the PPACA cost estimate annually. The estimate included sunk costs incurred through September 2012. IRS did not use Earned Value Management, which would enable it to continuously incorporate actual cost and schedule information.</p> <p>Partially meets</p>	If a cost estimate is not properly updated on a regular basis, it cannot provide decision makers with accurate information for assessing alternative decisions.
Documents and explains variances between planned and actual costs.	 <p>The estimate showed how it varies from a previous estimate, but it did not explain factors behind the variances.</p> <p>Minimally meets</p>	Without a documented comparison between the current estimate (updated with actual costs) and the old estimate, cost estimators cannot determine the level of variance between the two estimates. That is, the estimators cannot see how well they are estimating and how the program is changing over time.
Reflects cost estimating experiences from comparable programs.	 <p>IRS collected sunk cost data from the program's initiation in fiscal year 2010 through September 2012 and used those data to inform the estimate. IRS also used historical data from other comparable programs.</p> <p>Substantially meets</p>	(^a)
The estimating technique for each cost element was used appropriately.	 <p>IRS used commercially available models to estimate software development costs, which is a reasonable method.</p> <p>Substantially meets</p>	(^a)

Source: GAO analysis of IRS's updated December 2012 PPACA cost estimate and GAO-09-3SP.

GAO overall assessment ratings:

- Does not meet** IRS provided no evidence that satisfies any of the criterion
- Minimally meets** IRS provided evidence that satisfies a small portion of the criterion
- Partially meets** IRS provided evidence that satisfies about half of the criterion
- Substantially meets** IRS provided evidence that satisfies a large portion of the criterion
- Meets** IRS provided complete evidence that satisfies the entire criterion.

^aWe did not describe effects for characteristics scored as "meets" or "substantially meets."

Interactive graphic

Figure 12: PPACA Cost Estimate Alignment with Best Practices for Credibility





Directions:

Rollover each  below to see further information on cost estimation best practices.

Overall assessment:

Partially meets best practices for a credible cost estimate.

A credible cost estimate includes:

Best practices characteristics		Assessment of whether best practices are met	Effect
A sensitivity analysis that identifies a range of possible costs based on varying inputs.		IRS assessed two cost drivers for its sensitivity analysis: labor mix and development team capability. However, it is not clear how those cost drivers were identified. Partially meets	Without a sensitivity analysis that reveals how the cost estimate is affected by a change in a single assumption, the cost estimator will not fully understand which variable most affects the cost estimate.
A risk and uncertainty analysis.		IRS developed multiple risk management plans and conducted a risk and uncertainty analysis, but it is unclear how the risk management plans are applied to address the risks identified in the cost estimate. In addition, IRS incorrectly treated the total funding risk for the entire program as equal to the sum of the risks of individual elements. Partially meets	For management to make good decisions, the program estimate must reflect the degree of uncertainty, so that a level of confidence can be given about the estimate. An estimate without risk and uncertainty analysis is unrealistic because it does not assess the variability in the cost estimate from such effects as schedules slipping, missions changing, and proposed solutions not meeting users' needs.
Cross-checking of major cost elements.		IRS provided a table showing how cost elements were cross-checked, but did not provide supporting documentation. Substantially meets	^(a)
A comparison to an independent cost estimate conducted by another organization.		IRS did not prepare a second cost estimate to validate the original estimate and thus provide assurance of its quality. Minimally meets	Preparing two cost estimates is considered one of the best and most reliable methods for validation. It provides an independent view of expected program costs that tests the original estimate for reasonableness. Without a second cost estimate, decision makers will lack insight into a program's potential costs because cost estimates frequently use different methods.

Source: GAO analysis of IRS's updated December 2012 PPACA cost estimate and GAO-09-3SP.

GAO overall assessment ratings:

- Does not meet** IRS provided no evidence that satisfies any of the criterion
- Minimally meets** IRS provided evidence that satisfies a small portion of the criterion
- Partially meets** IRS provided evidence that satisfies about half of the criterion
- Substantially meets** IRS provided evidence that satisfies a large portion of the criterion
- Meets** IRS provided complete evidence that satisfies the entire criterion.

^aWe did not describe effects for characteristics scored as "meets" or "substantially meets."

Table 7: Non-Interactive Version of Figures 9 through 12: PPACA Cost Estimate Alignment with Best Practices Outlined in the GAO Cost Guide

Best practices characteristics	Overall assessment	Assessment of whether best practices are met	Effect
(1) A comprehensive cost estimate:	Substantially meets best practices for a comprehensive cost estimate		
<p><i>Includes all life-cycle costs.</i></p> <p>A life-cycle cost estimate provides a complete and structured accounting of all resources and associated cost elements required to develop, produce, deploy, and sustain a particular program. It should cover the inception of the program through its retirement.</p>		The cost estimate included both government and contractor costs of the program over its full life cycle, from inception of the program through development, deployment, and operation and maintenance to its eventual retirement. (Meets.)	(^a)
<p><i>Completely defines the program, reflects the current schedule, and is technically reasonable.</i></p> <p>The cost estimate should be based on a documented technical baseline description, which provides a common definition of the program, including detailed technical, program, and schedule descriptions of the system.</p>		Documentation included a description of technical requirements for all affordable care act components, with sufficient detail on the system's purpose and performance characteristics. It did not explain how the system fits into certain other aspects of program management, such as personnel requirements. Additionally, risks and their specific effects on cost elements were not documented in sufficient detail. (Substantially meets.)	(^a)
<p><i>Has a product-oriented work breakdown structure (WBS), traceable to the program's technical scope at an appropriate level of detail.</i></p> <p>A WBS provides a basic framework for a variety of related activities like estimating costs, developing schedules, identifying resources and potential risks, and providing the means for measuring program status using earned value management (EVM). It is product-oriented if it allows a program to track cost and schedule by defined deliverables, such as a hardware or software component.</p>		The WBS clearly outlined the end product and major work of the program. It is standardized so that cost data can be collected and used for estimating future programs. IRS provided a generic dictionary that discussed major WBS elements. (Meets.)	(^a)

**Appendix IV: Reliability of Patient Protection
and Affordable Care Act Cost Estimate**

Best practices characteristics	Overall assessment	Assessment of whether best practices are met	Effect
<p><i>Documents all cost-influencing ground rules and assumptions.</i></p> <p>Cost estimates are typically based on limited information and therefore need to be bound by ground rules and assumptions. Ground rules are a set of estimating standards that provide guidance and common definitions, while assumptions are judgments about past, present, or future conditions that may affect the estimate. Any risks associated with assumptions should be identified and traced to specific WBS elements.</p>		<p>The cost estimate documentation defined and documented ground rules and assumptions. However, the estimate did not explain how risks trace to specific WBS elements and did not consider the effects of schedule and funding delays. (Substantially meets.)</p>	(^a)
<p>(2) A well documented cost estimate should:</p>	<p>Substantially meets best practices for a well documented cost estimate.</p>		
<p><i>Capture the source data used, the reliability of the data, and how the data were made compatible with other data in the estimate.</i></p> <p>Data should be collected from primary sources. The source, content, time, and units should be adequately documented. Further, data should be analyzed to determine accuracy and reliability, and to identify cost drivers.</p>		<p>IRS used two commercially available software models to develop the estimate. IRS documented some inputs, including labor rates and support activities, but GAO could not confirm whether inputs to the software models were appropriate for the program. (Substantially meets.)</p>	(^a)
<p><i>Describe the calculations and the methodology used to derive each element's cost.</i></p> <p>Documentation should describe what calculation methods are used, as well as how they were applied, and explain any anomalies.</p>		<p>The cost estimate provided a general summary of the methodologies used to create it. IRS used some actual data from parts of the program that it already developed, and documented how those data were adjusted, but did not explain why the data were adjusted. (Substantially meets.)</p>	(^a)
<p><i>Describe how the estimate was developed.</i></p> <p>The data supporting the estimate should be available and adequately documented so that the estimate can be easily updated to reflect actual costs or program changes.</p>		<p>The estimate showed inputs to the software models, including data provided by subject matter experts. However, IRS used an incorrect method to calculate confidence levels for the estimate. (Substantially meets.)</p>	(^a)

**Appendix IV: Reliability of Patient Protection
and Affordable Care Act Cost Estimate**

Best practices characteristics	Overall assessment	Assessment of whether best practices are met	Effect
<p><i>Discuss the technical baseline description.</i></p> <p>A technical baseline description provides a common definition of the program, including detailed technical, program, and schedule descriptions of the system, for a cost estimate to be built on. The data in the technical baseline should be consistent with the cost estimate.</p>		IRS developed a technical baseline description that is consistent with the cost estimate. (Meets.)	^(a)
<p><i>Provide evidence of management review and acceptance.</i></p> <p>There should be a briefing to management, including a clear explanation of how the cost estimate was derived. Management's acceptance of the cost estimate should be documented.</p>		IRS provided evidence that staff briefed management on the cost estimate multiple times, and provided email documentation of management feedback and approval, but the briefings did not contain technical details of the cost estimate. (Substantially meets.)	^(a)
(3) An accurate cost estimate:	Partially meets best practices for an accurate cost estimate.		
<p><i>Produces unbiased results.</i></p> <p>Cost estimates should have an uncertainty analysis, which determines where the estimate falls against the range of all possible costs.</p>		IRS developed the cost estimate at an 80 percent confidence level, which is slightly conservative compared to best practices, which call for estimates to fall between 55 percent and 65 percent confidence levels. (Substantially meets.)	^(a)
<p><i>Is properly adjusted for inflation.</i></p> <p>Cost data should be adjusted for inflation to ensure that comparisons and projections are valid. Data should also be normalized to constant year dollars to remove the effects of inflation. Also, inflation assumptions must be well documented.</p>		IRS adjusted future costs for inflation, and documented inflation rates, but reported past costs in current year dollars. (Partially meets.)	Adjusting for inflation is important because in the development of an estimate, cost data must be expressed in like terms. If a mistake is made or the inflation amount is not correct, cost overruns can result.
<p><i>Contains few mistakes.</i></p> <p>Results should be checked for accuracy, double counting, and omissions. Validating that a cost estimate is accurate requires thoroughly understanding and investigating how the cost model was constructed.</p>		Our assessment detected only one minor mistake, and IRS confirmed that it was a typographical error. (Substantially meets.)	^(a)

**Appendix IV: Reliability of Patient Protection
and Affordable Care Act Cost Estimate**

Best practices characteristics	Overall assessment	Assessment of whether best practices are met	Effect
<p><i>Is regularly updated to reflect significant program changes.</i></p> <p>The cost estimate should be updated to reflect significant program changes, such as changes to schedules or other assumptions. Updates should also reflect actual costs so that the estimate always reflects the current program status.</p>		<p>IRS updates the PPACA cost estimate annually. The estimate included sunk costs incurred through September 2012. IRS did not use Earned Value Management, which would enable it to continuously incorporate actual cost and schedule information. (Partially meets.)</p>	<p>If a cost estimate is not properly updated on a regular basis, it cannot provide decision makers with accurate information for assessing alternative decisions.</p>
<p><i>Documents and explains variances between planned and actual costs.</i></p> <p>Variances between planned and actual costs should be documented, explained, and reviewed. For any elements whose actual costs or schedules differ from the estimate, the estimate should discuss variances and lessons learned.</p>		<p>The estimate showed how it varies from a previous estimate, but it did not explain factors behind the variances. (Minimally meets.)</p>	<p>Without a documented comparison between the current estimate (updated with actual costs) and the old estimate, cost estimators cannot determine the level of variance between the two estimates. That is, the estimators cannot see how well they are estimating and how the program is changing over time.</p>
<p><i>Reflects cost estimating experiences from comparable programs.</i></p> <p>The estimate should be based on historical cost estimation data and actual experiences from other comparable programs. These data should be reliable and relevant to the new program.</p>		<p>IRS collected sunk cost data from the program's initiation in fiscal year 2010 through September 2012 and used those data to inform the estimate. IRS also used historical data from other comparable programs. (Substantially meets.)</p>	<p>^(a)</p>
<p><i>The estimating technique for each cost element was used appropriately.</i></p> <p>A variety of techniques can be used to estimate costs, including extrapolating from actual costs, expert opinion, and analogy to other programs. Estimators should use an appropriate technique for each cost element.</p>		<p>IRS used commercially available models to estimate software development costs, which is a reasonable method. (Substantially meets.)</p>	<p>^(a)</p>
<p>(4) A credible cost estimate includes:</p>	<p>Partially meets best practices for a credible cost estimate.</p>		

**Appendix IV: Reliability of Patient Protection
and Affordable Care Act Cost Estimate**

Best practices characteristics	Overall assessment	Assessment of whether best practices are met	Effect
<p><i>A sensitivity analysis that identifies a range of possible costs based on varying inputs.</i></p> <p>A sensitivity analysis examines how changes to key assumptions and inputs affect the estimate. The estimate should identify key cost drivers, examine their parameters and assumptions, and re-estimate the total cost by varying each parameter between its minimum and maximum range.</p>		IRS assessed two cost drivers for its sensitivity analysis: labor mix and development team capability. However, it is not clear how those cost drivers were identified. (Partially meets.)	Without a sensitivity analysis that reveals how the cost estimate is affected by a change in a single assumption, the cost estimator will not fully understand which variable most affects the cost estimate.
<p><i>A risk and uncertainty analysis.</i></p> <p>A risk and uncertainty analysis recognizes the potential for error and attempts to quantify it by identifying the effects of changing key cost drivers.</p>		IRS developed multiple risk management plans and conducted a risk and uncertainty analysis, but it is unclear how the risk management plans are applied to address the risks identified in the cost estimate. In addition, IRS incorrectly treated the total funding risk for the entire program as equal to the sum of the risks of individual elements. (Partially meets.)	For management to make good decisions, the program estimate must reflect the degree of uncertainty, so that a level of confidence can be given about the estimate. An estimate without risk and uncertainty analysis is unrealistic because it does not assess the variability in the cost estimate from such effects as schedules slipping, missions changing, and proposed solutions not meeting users' needs.
<p><i>Cross-checking of major cost elements.</i></p> <p>A cross-check is done by using a different cost estimation method to see if it produces similar results.</p>		IRS provided a table showing how cost elements were cross-checked, but did not provide supporting documentation. (Substantially meets.)	^(a)
<p><i>A comparison to an independent cost estimate conducted by another organization.</i></p> <p>A second, independent cost estimate should be performed to validate the original cost estimate. It should be based on the same technical baseline, ground rules, and assumptions as the original estimate.</p>		IRS did not prepare a second cost estimate to validate the original estimate and thus provide assurance of its quality. (Minimally meets.)	Preparing two cost estimates is considered one of the best and most reliable methods for validation. It provides an independent view of expected program costs that tests the original estimate for reasonableness. Without a second cost estimate, decision makers will lack insight into a program's potential costs because cost estimates frequently use different methods.

Source: GAO analysis of IRS's updated December 2012 PPACA cost estimate and [GAO-09-3SP](#).

Note: We determined the overall assessment rating by assigning the following ratings: Does Not Meet – IRS provided no evidence that satisfies any of the criterion, Minimally Meets – IRS provided evidence that satisfies a small portion of the criterion, Partially Meets – IRS provided evidence that satisfies about half of the criterion, Substantially Meets – IRS provided evidence that satisfies a large portion of the criterion, Meets – IRS provided complete evidence that satisfies the entire criterion.

^aWe did not describe effects for characteristics scored as "meets" or "substantially meets."

Appendix V: Summary of IRS's Major Information Technology (IT) Investments

Investment name	Fiscal year 2013 FTEs	Fiscal year 2013 funding type ^a	Total obligations through fiscal year 2012 (in millions)	Lifecycle costs (in millions)	Percent of lifecycle costs obligated through fiscal year 2012	Start Date	Projected useful life
Account Management Services (AMS)							
Enhances customer support by providing applications that enable IRS employees to access, validate, and update individual taxpayer accounts on demand.	82	O&M	\$89.0	\$212.0	42.0%	2009	2019
Customer Account Data Engine 2 (CADE 2)							
Provides timely access to authoritative individual taxpayer account information and enhances IRS's ability to address technology, security, financial material weaknesses, and long-term architectural planning and viability.	536	O&M and DME	\$540.0	\$1,479.0	36.5%	2009	2019
Electronic Fraud Detection System (EFDS)							
Assists in detecting fraud at the time that tax returns are filed in order to eliminate the issuance of fraudulent tax refunds.	44	O&M	\$92.0	\$150.0	61.3%	1996	2015
e-Services (e-SVS)							
Comprises several web-based self-assisted services that are intended to allow authorized individuals to do business with the IRS electronically.	37	O&M and DME	\$162.0	\$211.0	76.8%	1999	2019
Foreign Account Tax Compliance Act (FATCA)							
Intended to implement provisions of the Foreign Account Tax Compliance Act that require financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.	31	DME	\$8.0	\$91.0	8.8%	2011	2019
Implement Return Review Program (RRP) (Replaces EFDS)							
Currently under development, is intended to maximize fraud detection at the time that tax returns are filed in order to eliminate issuance of questionable refunds.	78	DME	\$60.0	\$169.0	35.5%	2010	2019

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Investment name	Fiscal year 2013 FTEs	Fiscal year 2013 funding type ^a	Total obligations through fiscal year 2012 (in millions)	Lifecycle costs (in millions)	Percent of lifecycle costs obligated through fiscal year 2012	Start Date	Projected useful life
Individual Master File (IMF) Represents the authoritative data source for individual tax account data. All other IRS information systems that process IMF data depend on output from this source. This investment is a critical component of IRS's ability to process tax returns.	37	O&M and DME	\$71.0	\$108.0	65.7%	1970	2019
Information Reporting and Document Matching (IRDM) Intended to establish a new business information matching program in order to increase voluntary compliance and accurate income reporting.	76	O&M and DME	\$70.0	\$186.0	37.6%	2009	2019
Integrated Customer Communication Environment (ICCE) Includes several projects that are intended to simplify voluntary compliance using voice response, Internet, and other computer technology such as the Modernized Internet Employee Identification Number, which allows third parties to act on the behalf of taxpayers.	73	O&M and DME	\$467.0	\$534.0	87.5%	1996	2019
Integrated Data Retrieval System (IDRS) Intended to provide systemic review, improve consistency in case control, alleviate staffing needs, issue notices to taxpayers, and allow taxpayers to see status of refunds. It is a mission-critical system used by 60,000 IRS employees.	129	O&M and DME	\$186.0	\$322.0	57.8%	1973	2019
Integrated Financial System/CORE Financial System (IFS) Used by IRS for budget, payroll, accounts payable/receivable, general ledger functions, and financial reporting; also used to report on the cost of operations and to manage budgets by fiscal year.	11	O&M and DME	\$398.0	\$483.0	82.4%	2001	2019

**Appendix V: Summary of IRS's Major
Information Technology (IT) Investments**

Investment name	Fiscal year 2013 FTEs	Fiscal year 2013 funding type^a	Total obligations through fiscal year 2012 (in millions)	Lifecycle costs (in millions)	Percent of lifecycle costs obligated through fiscal year 2012	Start Date	Projected useful life
Integrated Submission and Remittance Processing System (ISRP) Processes paper tax returns, and updates tax forms to comply with tax law changes.	16	O&M and DME	\$132.0	\$192.0	68.8%	1998	2019
IRS End User Systems and Services (EUSS) Supports products and services necessary for daily functions for over 100,000 IRS employees at headquarters and field sites.	1155	O&M	\$511.0	\$1,684.0	30.3%	1970	2025
IRS Main Frames and Servers Services and Support (MSSS) Intended to support the design, development, and deployment of server storage infrastructures, software, databases, and operating systems.	1586	O&M	\$3,620.0	\$6,016.0	60.2%	1970	2025
IRS Telecommunications Systems and Support (TSS) Supports IRS's broad and local network infrastructure, such as servers and switches for voice, data, and video servicing of about 1,000 IRS sites.	425	O&M	\$710.0	\$2,583.0	27.5%	2002	2021
IRS.Gov - Portal Environment Provides web-based services (such as tax filing and refund tracking) to internal and external users, such as IRS employees and other government agencies, taxpayers, and business partners.	17	O&M and DME	\$403.0	\$612.0	65.8%	2009	2020
Modernized e-File (MeF) Provides a secure web-based platform for electronic tax filing of individual and business tax and information returns by registered Electronic Return Originators.	77	O&M and DME	\$304.0	\$575.0	52.9%	2001	2019

Appendix V: Summary of IRS's Major
Information Technology (IT) Investments

Investment name	Fiscal year 2013 FTEs	Fiscal year 2013 funding type ^a	Total obligations through fiscal year 2012 (in millions)	Lifecycle costs (in millions)	Percent of lifecycle costs obligated through fiscal year 2012	Start Date	Projected useful life
Service Center Recognition/Image Processing System (SCRIPS)							
Used as a data capture, management, and image storage system using high-speed scanning and digital imaging to convert data from the 940, 941, K-1, and paper returns from Information Returns Processing into electronic format.	15	O&M and DME	\$145.0	\$195.0	74.4%	1993	2019

Source: GAO analysis of IRS's fiscal year 2014 congressional budget justification and Exhibit 300A data.

^aO&M = Operations and Maintenance; DME = Development, Modernization, and Enhancement.

Appendix VI: Comments from the Internal Revenue Service

IRS Agency Comments
on the
Draft Report: GAO-13-835
IRS 2014 BUDGET: Improvements Made to Budget Request and Cost Estimate, but
Further Actions Needed

Recommendation #1: Improve guidance given to business units for the pre-selection budget formulation process, emphasizing the importance of information on the estimated impact—qualitative or quantitative—of proposed budget initiatives.

Comments: The IRS agrees with this recommendation. For the FY 2016 budget formulation cycle, the IRS will provide the business units with more detailed instructions on completing the pre-selection templates, emphasizing the importance of providing information on the estimated impact – qualitative or quantitative – of proposed budget initiatives.

Recommendation #2: Improve the accuracy and credibility of future updates to the PPACA cost estimate by taking the following actions to more closely follow best practices outlined in the GAO Cost Guide:

- Use earned value management to capture actual costs and use them as a basis for future updates.
- Explain why variances between the current estimate and previous estimates occurred.
- Document how cost drivers are selected for future sensitivity analyses.
- Conduct future risk and uncertainty analyses consistent with best practices, and develop and document plans to address risks.
- Validate the original cost estimate by preparing a second, independent cost estimate.

Comments: The IRS agrees with the majority of the actions in this recommendation. We partially disagree with the action concerning the use of the Earned Value Management (EVM) data as a best practice and we disagree with the action to have a second organization, outside of the Estimation Program Office (EPO) and the Affordable Care Act (ACA) Program Management Office (PMO), conduct a second, independent cost estimate.

As previously stated in the GAO report, *Information Technology: Consistently Applying Best Practices Could Help IRS Improve the Reliability of Reported Cost and Schedule Information*, GAO-13-401, EVM is not part of our current program management processes since we believe the cost and burden to use it outweigh the value added. However, we agree that we should capture actual costs and use them as a basis for future updates by using a pragmatic approach that is consistent with IRS information technology (IT) management best practices.

The IRS does not support having a second organization, outside of EPO and ACA PMO, provide a second, independent cost estimate of the same scope as the Patient Protection Affordable Care Act (PPACA) estimate that was the subject of the GAO audit since the cost and burden to have an external organization develop an estimate outweighs the value added. Additionally, we believe that outside vendors would lack the historical knowledge of IRS IT development practices and their associated costs to produce reasonable estimates. There would be a tremendous learning curve for any vendor to produce an independent estimate and they would likely end up heavily leveraging EPO for information which would call their independence into question.

Recommendation #3: Report publicly the ACA IT investment as a major investment on the OMB IT Dashboard and the fiscal year 2015 budget request, including standard cost, schedule, and performance information.

Comments: The IRS agrees with this recommendation. The IRS has completed a FY 2015 Exhibit 300 for the ACA IT investment. The ACA IT investment, including standard cost, schedule and performance information, will be reported publicly as a major investment on the OMB Dashboard and in the fiscal year 2015 budget request.

Recommendation #4: Report key data on major IT investments in one consolidated document, such as the Congressional Justification, in consultation with congressional stakeholders.

Comments: The IRS agrees with this recommendation. In the FY 2014 Congressional Justification, the IRS included the following useful information related to its portfolio of Major IT Investments:

- Name and Description
- Immediate cost (defined as the base FY 2013 budget plus FY 2014 request)
- Full life cycle cost of the asset
- Projected useful life of the current asset
- Timeframe for the “development, modernization, and enhancement” (DME) or “operations and maintenance” (O&M) phase of the investment
- Anticipated benefit(s) of the investment
- How performance will be measured and evaluated

In order to include all IT investment key data in one place, as requested by congressional stakeholders, the IRS plans to also include information from the Exhibit 300s in the upcoming year’s congressional justification, adding:

- Start date of Major IT Investment
- Actual obligations for the investment to date

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Libby Mixon, Assistant Director; Remmie Arnold, Amy Bowser, Jennifer Echard, Emile Ettedgui, Mary Evans, Chuck Fox, Paul Middleton, Donna L. Miller, Edward Nannenhorn, Karen O'Connor, Sabine Paul, Laurel Plume, Karen Richey, Erinn L. Sauer, Cynthia Saunders, and Robert Yetvin made major contributions to this report.

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