United States Government Accountability Office

Report to Congressional Committees

June 2015

IRS 2016 BUDGET

IRS Is Scaling Back Activities and Using Budget Flexibilities to Absorb Funding Cuts

GAO-15-624

GAO Highlights

Highlights of GAO-15-624, a report to congressional committees.

June 2015

IRS 2016 BUDGET

IRS Is Scaling Back Activities and Using Budget Flexibilities to Absorb Funding Cuts

Why GAO Did This Study

The financing of the federal government depends largely upon IRS's ability to collect taxes, including providing taxpayer services that make voluntary compliance easier and enforcing tax laws to ensure compliance with tax responsibilities. For fiscal year 2016, the President requested $12.9 billion in appropriations for IRS; the request is almost $2 billion (18 percent) more than IRS's fiscal year 2015 appropriation.

Because of the size of IRS's budget and the importance of its service and compliance programs for all taxpayers, GAO was asked to review the fiscal year 2016 budget request for IRS and the effects of recent budget constraints. In February 2015, GAO reported interim information on IRS's budget. This report (1) analyzes select IRS business units' budget and staffing; (2) describes how IRS is managing in a constrained budget environment; (3) assesses key data for IT investments; and (4) describes IRS progress in implementing selected GAO open recommendations. To conduct this work, GAO reviewed the fiscal year 2016 CJ, IRS and Office of Management and Budget guidance, and IRS data from fiscal years 2010 to 2014, and interviewed IRS officials.

What GAO Recommends

GAO recommends that IRS implement controls to ensure that information reported on major IT investments is accurate, define key terms in the CJ, and continue implementing previous recommendations. IRS agreed with the recommendations.

View GAO-15-624. For more information, contact James R. McTigue, Jr. at (202) 512-9110 or mctiguej@gao.gov.

What GAO Found

Business unit trends. Internal Revenue Service (IRS) total appropriations declined from a high of $12.1 billion in fiscal year 2010 to $11.3 billion in fiscal year 2014, a reduction of about 7 percent. GAO selected business units with large declines in obligations—both dollar amount and percent—from fiscal year 2010 to fiscal year 2014, the most current spending data available. To absorb budget cuts, the business units GAO reviewed—Human Capital Office, Office of Chief Counsel, and Small Business/Self-Employed Division—each reduced staff (full-time equivalents or FTEs) by 16 to 30 percent. According to officials, they also prioritized legally required programs, such as tax litigation, and reduced some programs or services, such as limiting non-filer investigations, postponing software acquisitions, and delaying approximately 24,000 employee background reinvestigations. Such scaled back activities potentially reduce program effectiveness or increase risk to IRS and the federal government.

Change in Full-Time Equivalents at Selected Business Units, Fiscal Years 2010-2014

Business unit	Fiscal year 2014 FTEs	Change in FTEs from fiscal year 2010 to 2014	Percent change in FTEs from fiscal year 2010 to 2014
Human Capital Office	1,205	-506	-29.6%
Office of Chief Counsel	2,101	-402	-16.1%
Small Business/Self-Employed	21,681	-5,417	-20.0%

Source: GAO analysis of IRS data. | GAO-15-624

Budget environment. IRS's budget decreased by an additional $346 million from fiscal year 2014 to fiscal year 2015. IRS used its flexibility to absorb this reduction by allocating user fee revenue, which comprised 3.4 percent of its budget, or $416 million, in fiscal year 2014. Additionally, to increase agency-wide coordination of budget decisions, IRS formed a new office and committee to inform budget formulation and execution decisions.

Information technology data. IRS requested $3.2 billion for information technology (IT) investments. This accounted for 23 percent of IRS's budget request for fiscal year 2016. However, IRS provided inaccurate data on actual obligations to date for major IT investments in its congressional justification (CJ) for fiscal year 2016. As a result, Congress does not have accurate, reliable, and complete data on IT investments to inform its budget decisions or aid in its oversight. Additionally, IRS did not use standard definitions for "life-cycle cost" and "projected useful life of the current asset" or explain the terms in a way that could be understood and used.

Open GAO recommendations. Eighty-eight recommendations and eight matters for congressional consideration could have financial implications if implemented. IRS made progress implementing many recommendations, including two particularly important ones. First, IRS has begun to estimate return on investment for specific compliance projects within its correspondence exam program. Second, IRS's updated cost estimate for the Patient Protection and Affordable Care Act improved from previous versions and met or substantially met the criteria in three of four overall categories, but is still not reliable because it only partially met the criteria in the overall credibility category.

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Abbreviations

Counsel	Office of Chief Counsel
CJ	congressional justification
FTE	full-time equivalent
HCO	Human Capital Office
IRS	Internal Revenue Service
IT	information technology
OMB	Office of Management and Budget
PPAC	Planning, Programming, and Audit Coordination
PPACA	Patient Protection and Affordable Care Act
ROI	return on investment
SB/SE	Small Business Self-Employed Division

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June 24, 2015

The Honorable John Boozman
Chairman
The Honorable Chris Coons
Ranking Member
Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate

The Honorable Charles Boustany, Jr.
Chairman
Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

The Honorable Peter Roskam
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 (IRS), which collected 93 percent of federal receipts in fiscal year 2014. IRS's mission is to provide taxpayers top-quality services by helping them understand and meet their tax responsibilities and to enforce the law with integrity and fairness to all. The President proposes a budget that reflects how IRS plans to use its resources to accomplish these tasks, while also continuing to invest in modernizing its information systems, among other things. In February 2015, we reported that IRS's fiscal year 2015 appropriations ($10.9 billion) and staffing levels (81,279 full-time equivalents, or FTEs) continue a decline that has occurred over several years and are now below fiscal year 2009 levels.[1] Since fiscal year 2010, IRS's annual appropriations have declined by $1.2 billion (9.9 percent), and staffing has declined by about 13,000 FTEs (14.1 percent).[2] For fiscal year 2016, the President requested $12.9 billion in appropriations for IRS to support 90,524 FTEs. The President's Budget request is almost $2 billion (18 percent) and about 9,200 FTEs (11 percent) more than the fiscal year 2015 appropriation.

Because of the size of IRS's budget and the importance of its service and compliance programs for taxpayers, you asked us to review its fiscal year 2016 budget request and the effects of recent budget constraints. In this report we (1) analyze IRS's business units' budgets for fiscal years 2010 through 2014 and for selected units, describe staffing and programs changes; (2) describe how IRS plans to absorb fiscal year 2015 budget cuts and the steps IRS has taken to improve agency-wide coordination on budget decisions; (3) summarize and assess key performance information for IRS's major information technology (IT) investments; and (4) describe our open recommendations and prior work that, if implemented, could improve IRS operations or have a financial impact or that relate to legislative proposals.

We selected three business units or fund centers—Human Capital Office (HCO), Office of Chief Counsel (Counsel), and Small Business/Self-Employed Division (SB/SE)—to determine how they managed their budget and to identify examples of the effects of budget reductions. We selected business units with large declines in obligations—both dollar amount and percent—from fiscal year 2010 to fiscal year 2014, the most current spending data available. One business unit was selected from each category of fund center: support (HCO), functional (Counsel), and operating (SB/SE). We also analyzed IRS's Financial Management Codes Handbooks and conducted interviews and reviewed documentation from Corporate Budget and each of the selected business units. In addition, we reviewed documentation about IRS's budget execution process and IRS's fiscal year 2016 congressional justification (CJ).

[1] GAO, *Internal Revenue Service: Observations on IRS's Operations, Planning, and Resources*, GAO-15-420R (Washington, D.C.: Feb. 27, 2015).

[2] All numbers presented in this report are nominal and not adjusted for inflation unless otherwise noted.

To examine planned reductions for 2015, we reviewed IRS documents on its proposed fiscal year 2015 budget savings and reductions. To describe IRS's user fee funding, we reviewed IRS's authority to collect and spend user fees, and the President's Budget requests from fiscal years 2013 through 2016. To describe efforts to increase coordination, we reviewed IRS documents on the Program and Budget Advisory Committee and the Planning, Programming, and Audit Coordination (PPAC) office. In addition, we interviewed IRS officials in Corporate Budget.

We analyzed reported cost and schedule data for major IT investments and interviewed agency officials to assess the accuracy of these data and the procedures used to report information to Congress. We compared key performance data reported in the fiscal year 2015 and 2016 CJs to other IRS data and assessed the extent to which IRS reporting complied with Office of Management and Budget (OMB) guidance and GAO internal control standards.[3]

We interviewed IRS officials and analyzed documentation on the status of open recommendations to determine if the recommendations were implemented, including interviewing IRS officials about calculating and using return on investment (ROI) data to inform resource allocation decisions. We also compared IRS's current Patient Protection and Affordable Care Act (PPACA)[4] cost estimate (version 3) to the characteristics of a high-quality cost estimate as identified in the GAO Cost Guide.[5]

As applicable for each objective, we interviewed 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 December 2014 to June 2015 in accordance with

[3]GAO, *Standards for Internal Control in the Federal Government,* GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov. 1999). We updated the *Standards for Internal Control in the Federal Government* in September 2014. The revised standards will be effective beginning in fiscal year 2016.

[4]Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010), which we refer to collectively as PPACA. IRS refers to PPACA by the acronym for the Affordable Care Act, ACA.

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

generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

IRS Budget Formulation and Execution Structures

IRS formulates its budget at three levels: (1) appropriation account, (2) budget activity, and (3) program activity. IRS requests funding by appropriation accounts, which align broadly with its strategic goals, which are to (1) deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance; and (2) effectively enforce the law to ensure compliance with tax responsibilities and combat fraud. IRS's CJ presents funding and FTE information at the appropriation account and budget activity levels. In addition, it provides descriptions of program activities within each budget activity. IRS has four appropriation accounts (fiscal year 2015 appropriation listed in parentheses):[6]

- **Enforcement** ($4.86 billion): Funds activities such as determining and collecting owed taxes, providing legal and litigation support, and conducting criminal investigations.
- **Operations Support** ($3.64 billion): Funds activities including rent and facilities expenses, IRS-wide administration activities, and IT maintenance and security.
- **Taxpayer Services** ($2.16 billion): Funds taxpayer service activities and programs, including pre-filing assistance and education, filing and account services, and taxpayer advocacy services.
- **Business Systems Modernization** ($290 million): Funds the planning and capital asset acquisition of IT to modernize IRS business systems.

[6]In addition to the amount appropriated to these four accounts, IRS supplements its budgetary resources through collections, such as reimbursables and user fees, which are not appropriated annually.

Budget activities divide appropriation accounts into additional functions. For example, the Enforcement appropriation is broken into three budget activities: Investigations, Exam and Collections, and Regulatory. Each budget activity, in turn, has multiple program activities. For example, Exam and Collections has 20 program activities, such as Tax Reporting Compliance – Field Exam; Earned Income Tax Credit Management and Administration; and Whistleblower Office. In addition to program activities, the lower levels of the budget formulation and budget execution structures include business units and other areas of interest, which are not discrete categories. For example, Wage and Investment is one division within IRS and can be referred to as a business unit, while identity theft would be considered an area of interest that crosses divisions within IRS.

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. IRS executes its budget across 18 fund centers, which manage and distribute funds.

Budget Flexibility

IRS has some flexibility in how it allocates its resources. IRS may shift resources among program activities (activities within a budget activity). For example, IRS could shift resources among any of the 20 program activities within the Exam and Collection budget activity without congressional approval or notification. Additionally, IRS may reprogram funds among budget activities within certain limits.[7]

While IRS cannot transfer resources from one appropriation account to another without specific statutory authority to do so, the agency still has some flexibility because fund centers may receive funds from more than one appropriation account.[8] Over half of IRS fund centers or business

[7]Reprogramming shifts funds within an appropriation account and agencies may reprogram without additional statutory authority. IRS is restricted from reprogramming funds within appropriation accounts without committee approval if the reprogramming will, among other things, augment existing programs, projects, or activities (which IRS refers to as budget activities) in excess of $5 million or 10 percent, whichever is less.

[8]Subject to committee approval, IRS was authorized in fiscal year 2015 to transfer up to 5 percent of appropriated funds across accounts.

units receive funding and obligate funds from multiple appropriation accounts. IRS management allocates funds to each business unit (subject to transfer and reprogramming limitations) and has more flexibility when there are multiple accounts from which it may fund a business unit.

IRS also has flexibility in how it allocates user fees because it determines the amount of funds transferred to each appropriation account.[9] In fiscal year 2014, IRS transferred $416 million in user fee funds to its appropriations accounts to be spent. IRS collects user fees for various activities such as assisting taxpayers in complying with their tax liabilities, clarifying the application of the tax code to particular circumstances, and ensuring the quality of paid preparers of tax returns.

Information Technology

IT comprises a significant portion of IRS's budget and plays a critical role in enabling IRS to carry out its mission and responsibilities. The fiscal year 2015 appropriation includes about $2.5 billion for IT investments; this represents over 20 percent of the total IRS budget. IRS relies on information systems to process tax returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities, including the taxpayer toll-free access to tax information, among other things.

IT investments are funded through both the Operations Support and the Business Systems Modernization appropriation accounts as well as through user fees. The President's fiscal year 2016 budget request includes $3.24 billion for IRS IT investments. Of that amount, $2.26 billion

[9]For fiscal year 1995 and thereafter, IRS was granted authority to retain new or increased fee receipts to supplement its annual appropriation. Pub. L. No. 103-329, title I, § 3, 108 Stat. 2382 (Sept. 30, 1994), as amended by Pub. L. No. 109-115, div. A, title II, § 209, 119 Stat. 2396 (Nov. 30, 2005). IRS retains only those user fees that were implemented after Sept. 30, 1994, or the portion of the fee that has been increased since Sept. 30, 1994, for those fees that were in effect prior to that date. For example, fees for installment agreements were established after Sept. 30, 1994, and therefore IRS retains the full amount of the fee collected. However, the fee for enrolling as an actuary is divided between IRS and the General Fund of the Treasury because this user fee existed when the grant of authority to retain certain user fees under Pub. L. No. 103-329 was enacted. See GAO-12-193 for more information on IRS user fees.

is for 20 major IT investments.[10] These major IT investments are subject to additional reporting requirements.

Funding Declined for Most IRS Business Units and Tradeoffs to Manage Reductions May Affect Some Programs' Effectiveness and Increase Risk

Fifteen of Eighteen Business Units Decreased Spending

IRS's total appropriations declined from a high of $12.1 billion in fiscal year 2010 to $11.3 billion in fiscal year 2014, a reduction of about 7 percent.[11] Reflecting IRS's overall budget decline, spending fell in 15 of the 18 fund centers or business units from fiscal year 2010 to fiscal year 2014, and spending in 9 fund centers declined 10 percent or more.[12] For example, SB/SE, which was the largest business unit in fiscal year 2010, experienced a 14 percent decrease in obligations—from $2.6 billion to $2.3 billion—from fiscal year 2010 to fiscal year 2014. Over half of IRS fund centers or business units receive appropriations from multiple accounts. As shown in figure 1, of the 18 fund centers, 11 obligate funds

[10]Department of Treasury guidance defines a major investment as one that costs $10 million in either the current year or budget year, costs $50 million over the 5-year period extending from the prior year through two years after the budget year, or meets other specific criteria established by Treasury or OMB, such as having significant program or policy implications. OMB has instructed agencies not to categorize IT capital planning and Chief Information Officer function investments as major IT investments.

[11]See appendix I for more information on how IRS's budget and FTEs have changed since fiscal year 2009.

[12]From fiscal year 2010 through 2014, IRS did not have significant organizational changes or changes to the structure of its accounting system that could result in changes to obligations. The two fund centers that did not experience a decline between fiscal year 2010 and 2014 include: Chief Financial Officer and Executive Leadership and Direction. Privacy, Governmental Liaison and Disclosure was not established in fiscal year 2010; therefore, a percent change was not calculated.

from two or more of IRS's four appropriation accounts.[13] In addition, 7 fund centers obligate funds from only one account and 5 of those 7 serve in an operational support capacity, such as Agency Wide Shared Services, HCO, and Chief Financial Officer. Of the 9 fund centers that experienced a decline in obligations of at least 10 percent, 5 receive funding from only one appropriation account. Business units that receive funds from more than one appropriation account may have increased flexibility because IRS can balance reductions in one account with resources from another account, provided that any shifts in funding do not violate appropriation, transfer or reprogramming restrictions.

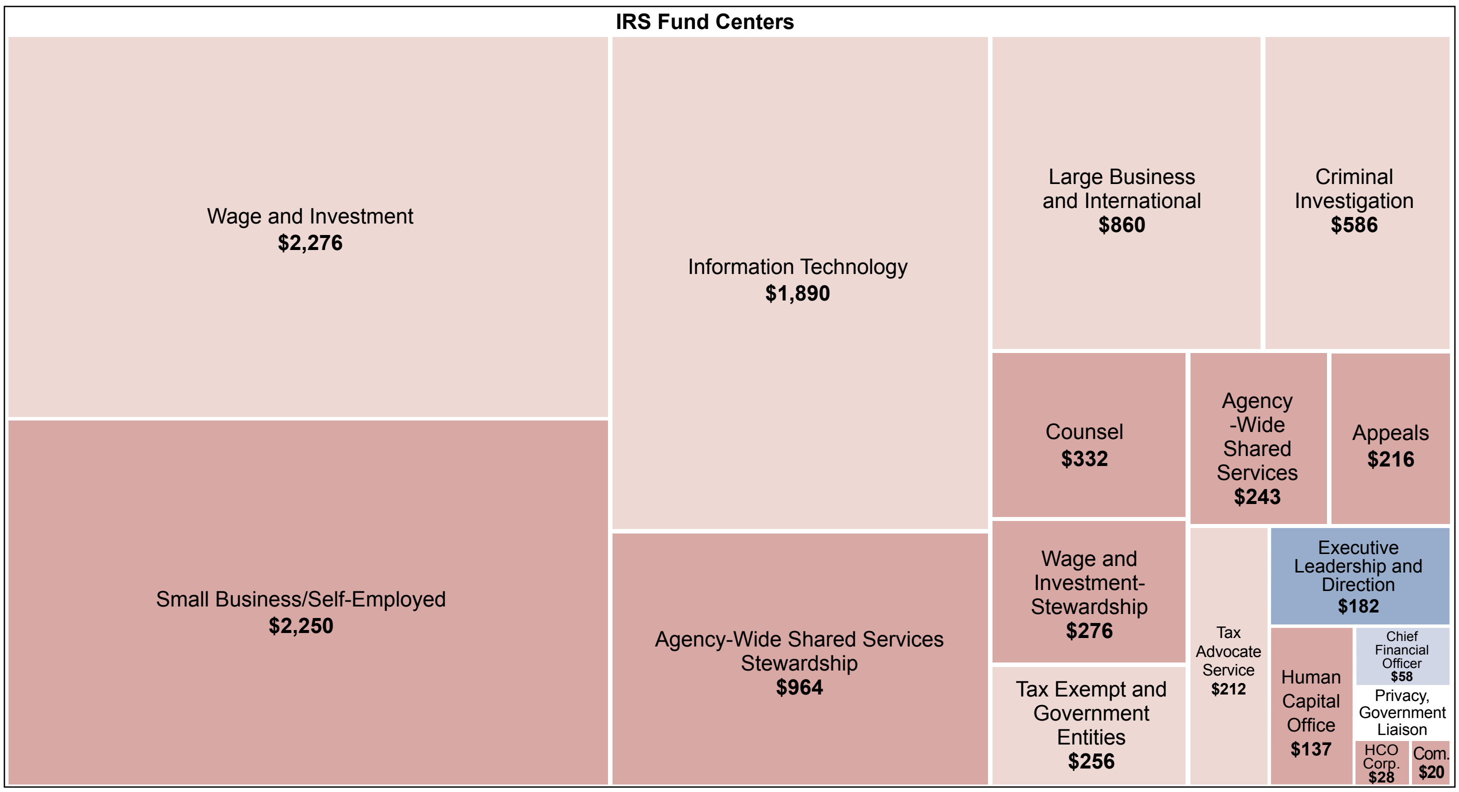
[13]See appendix II for the non-interactive version of figure 1.

Interactive graphic

Figure 1: Fiscal Year 2014 Obligations by Fund Center and Percentage Change from Fiscal Year 2010

Directions:

Roll over each **Fund Center Name** to see fiscal year 2014 obligations by appropriation account *(dollars in millions)* and percent change in total obligations from fiscal year 2010 to fiscal year 2014.



Percentage change in obligations, fiscal year 2010 to fiscal year 2014

- Less than or equal to -10%
- Greater than -10% to 0%
- Greater than 0% to less than 10%
- Greater than or equal to 10%
- No fiscal year 2010 data because fund center was not established until fiscal year 2011.

Source: GAO analysis of IRS obligations data. | GAO-15-624

Notes: Numbers may not add due to rounding.
We did not include in our analysis the Centralized Payments fund center, which is for unemployment and worker's compensation.

This figure does not include obligations less than $1 million. In fiscal year 2014, 4 fund centers obligated less than $1 million from additional accounts: Counsel ($222,000 from Operations Support); Communications & Liaison ($92,000 from Taxpayer Services and $6,000 from Enforcement); Criminal Investigations ($38,000 from Operations Support); and Privacy, Governmental Liaison and Disclosure ($29,000 from Enforcement).

Print instructions | To print text version of this graphic, go to appendix II.

Selected Business Units Scaled Back Activities, Potentially Reducing Program Effectiveness or Increasing Risk to IRS and the Federal Government

Each business unit we examined—HCO, Office of Chief Counsel, and SB/SE—took actions to absorb budget reductions. One common element among each of the business units examined is that they spend 80 percent or more of their funds on labor. When IRS receives its budget, the Corporate Budget Office coordinates with business units to ensure that each business unit has sufficient funding to support FTEs already onboard. The review of FTEs aligns anticipated salary and benefit costs to available appropriated funding for each business unit. As seen in Table 1, from fiscal year 2010 to fiscal year 2014, FTEs declined through attrition in each of the business units examined.

Table 1: Change in Full-Time Equivalents (FTEs) from Fiscal Year 2010 through Fiscal Year 2014 for Selected Business Units

Business Unit	Fiscal year 2014 FTEs	Change in FTEs from fiscal year 2010 to 2014 (number)	Change in FTEs from fiscal year 2010 to 2014 (percent)
Human Capital Office	1,205	-506	-29.6%
Office of Chief Counsel	2,101	-402	-16.1%
Small Business/Self-Employed	21,681	-5,417	-20.0%

Source: GAO analysis of IRS data. | GAO-15-624

Because labor comprises the majority of these business units' expenses, unit managers are limited in how they implement budget cuts. According to business unit officials, budget reductions were often implemented by decreasing the amount or type of activity performed. One key factor that influenced business units' decisions about how to prioritize activities was whether the activity was statutorily mandated. According to IRS officials, statutorily mandated activities—such as tax litigation in the Office of Chief Counsel—remained a priority.

Examples of Programs and Services Reduced or Eliminated

- **Non-filer investigations.** SB/SE significantly reduced the individual and business non-filer cases it pursues. IRS detects taxpayers that failed to file—non-filers—by matching third party information with tax returns for individuals, and relying on open filing requirements and third party information for businesses. In tax year 2010, IRS started 3.5 million individual non-filer cases and 4.3 million business non-filer cases. In tax year 2014 non-filer cases dropped to 2.0 million for individuals and 1.8 million for businesses, a reduction of 43 percent and 58 percent, respectively. According to SB/SE officials, detecting and pursuing non-filers is not mandatory. By not pursing non-filers, however, IRS misses the opportunity to bring a noncompliant taxpayer into the tax system, and the government could forego potential revenue from taxes, penalties and interest payments.

- **Private letter rulings.** The Office of Chief Counsel limited the number and scope of private letter rulings—a written statement issued by IRS at the request of a taxpayer that interprets and applies tax laws to the taxpayer's represented set of facts. Private letter rulings decreased by 30 percent—from 935 to 651—from fiscal year 2010 through 2014. The drop in private letter rulings means that fewer taxpayers receive a ruling prior to filing, causing uncertainty for them and the tax community. According to Counsel officials, one benefit of the private letter rulings is that they can alert IRS attorneys to nascent tax issues. Private letter rulings are not mandatory and IRS charges a user fee for the service to offset the cost of the service. However, since there are a limited number of FTEs, IRS decided to scale back work in the area in order to shift those FTEs to other activities, such as issuing regulations and public guidance.

- **Bankruptcy program.** According to Counsel officials, a bankruptcy program supported by approximately 30 FTEs was eliminated. IRS attorneys supporting the program were appointed as Special Assistant United States Attorneys to represent IRS in bankruptcy court instead of Department of Justice attorneys. The program was identified as low priority because it was not required by statute.

Examples of Deferred Programs or Acquisitions

- **Software acquisitions.** According to officials in the Office of the Chief Counsel, the limited budget for litigation-related information technology has prevented Counsel from acquiring modern, industry standard electronic discovery software. Such software is used to capture and preserve documents for the discovery phase of tax and other litigation. According to Counsel officials, the outcome of tax litigation cases has been impacted because IRS does not have the software. For example, parties to a lawsuit frequently request emails and other computer files related to a particular topic or keywords, and the software thoroughly and efficiently identifies the files, minimizing the need for time-intensive manual review of the files. IRS was recently sanctioned in court and ordered to reimburse a plaintiff $12,500 for the cost of depositions because it did not have the technical capability to produce appropriate documents for discovery. This issue has been raised with IRS management through the Enterprise Risk Management and budget processes. Counsel officials stated that IRS has funded other high-priority IT systems, but that there has not been sufficient funding to acquire e-discovery software or support an effective e-discovery function. IRS estimates the cost of the software is $10 million.

- **Background reinvestigations.** IRS has postponed reinvestigations for moderate risk employees since fiscal year 2013. Almost half of IRS's FTEs, approximately 38,000 employees, are identified as moderate risk, and 24,000 reinvestigations have been postponed. In November 2011, the Office of Personnel Management amended its regulations to direct that federal employees occupying positions of public trust (those designated as high or moderate risk) undergo a background reinvestigation every 5 years.[14] Periodic reinvestigations allow agencies to determine if employees are still suitable for U.S. government employment, or still eligible to hold a sensitive position. IRS completed reinvestigations in fiscal year 2012 at a cost of approximately $3.9 million. For fiscal year 2016, the President's Budget requests $3.5 million and 11 FTEs for IRS to implement federal investigative standards, which includes reinvestigations of employees.

IRS Is Using Its Budgeting Flexibility and Taking Steps to Improve Agency-Wide Coordination of Budget Decisions

IRS Has Flexibility in Spending User Fee Revenue

In fiscal year 2015, IRS plans to allocate less user fee revenue to the taxpayer services account than in previous years ($49 million, compared to around $180 million in fiscal years 2012, 2013, and 2014). IRS plans to allocate a larger amount to the operations support account ($411 million, compared to $132 million, $183 million, and $218 million in fiscal years 2012, 2013, and 2014, respectively). According to IRS officials, management decided to allocate more user fee funds to operations support in fiscal year 2015, in part because that year's appropriation for operations support was $161 million (4.2 percent) less than fiscal year 2014, while taxpayer services was not reduced during that time frame. According to IRS officials, user fee revenue allocated to operations support will be used to meet requirements to implement PPACA and fund

[14] 5 C.F.R. § 731.106(d)(1).

IRS User Fees The Secretary of the Treasury may establish new fees or raise existing fees for services provided by IRS to increase receipts, where such fees are authorized by another law, and may spend the new or increased fee receipts to supplement appropriations made available to IRS appropriations accounts. See GAO-12-193 for additional information about IRS user fees.

Source: Pub. L. No. 103-329, § 3 and GAO. | GAO-15-624

investment in the design, development, and deployment of mainframe and server investments which can help IRS better respond to taxpayers. IRS officials said that user fees allocated to operations support reduce system downtime, which positively affects IRS's ability to respond to taxpayers, process returns, collect revenue and issue refunds.

Although IRS services and operations are primarily funded through annual appropriations, IRS has the flexibility to supplement its appropriations with other resources, such as user fees. IRS deposits user fees that it is authorized to retain into its Miscellaneous Retained Fees Fund before transferring funds to an appropriation account to be spent. In fiscal year 2014, $677 million was available in the account. IRS transferred $416 million of that money to its appropriation accounts which accounted for 3.4 percent of IRS's total available resources. Remaining funds are carried over to the next fiscal year. Table 2 shows user fee funds transferred to IRS's appropriation accounts during recent fiscal years. For fiscal year 2015, IRS plans to transfer a total of $481 million.

Table 2: IRS User Fee Transfers to Appropriation Accounts (Dollars in Millions)

	Fiscal year					
Appropriation account	**2011**	**2012**	**2013**	**2014**	**2015 (planned)**	**2016 (estimated)**
Taxpayer Services	$129	$174	$190	$183	$49	$56
Operations Support	79	132	183	218	411	379
Business Systems Modernization	89	-	-	-	-	-
Enforcement	13	20	20	15	21	16
Total transferred	**$310**	**$326**	**$394**	**$416**	**$481**	**$451**

Source: President's Budget from fiscal year 2013 through 2016 and IRS data. | GAO-15-624

Note: Some numbers do not add due to rounding.

IRS Planning Efforts Informed the Management of $346 Million in Budget Reductions

IRS managed reductions by strictly limiting hiring, overtime, and overhead costs. The reductions were informed by a December 2014 planning exercise. In this exercise, IRS prepared for how it would absorb a hypothetical 5 percent budget reduction. Business unit managers identified funding requirements for current activities and categorized programs as high, medium, or low priority, including how the proposed reduction would affect program spending and FTE counts. Business unit officials identified and documented legally or contractually required activities and also identified potential risks and the potential performance impact of cutting or not funding each activity. Ultimately, IRS's budget decreased $346 million from fiscal year 2014 to fiscal year 2015, a 3.1 percent decline. IRS considered furloughing employees for up to 2 days in fiscal year 2015 to help absorb the budget cuts; it since determined that furlough days will not be necessary because it is able to absorb the reductions in other areas.

Following the planning exercise, in January 2015, IRS identified the following actions to absorb this budget reduction.

- **External hiring freeze:** IRS plans to replace few employees who leave the agency. In an agency with over 80,000 FTEs, all requests for external hiring in fiscal year 2015 must be approved by a direct report to the Commissioner. Specifically, requests for new hires are reviewed by the Deputy Commissioner for Operations Support, Deputy Commissioner for Services and Enforcement, and in certain cases, the Chief of Staff.

- **Internal hiring restrictions:** New policies require that resources be available to cover both current year and annualized future costs for any internal hiring, permanent promotions, or reassignments. These policies ensure that employee transfers are consistent with the workflow needs of the agency.

- **Overtime restrictions:** Overtime was eliminated except for a small amount to support the tax filing season or for mission critical needs. IRS uses overtime frequently during the tax filing season to process tax returns and provide taxpayers service, such as by telephone or at assistance centers. All overtime requests were to be approved by the Deputy Commissioners or the Chief of Staff to the Commissioner. According to IRS officials, limitations on overtime are estimated to save approximately $75 million.

- **Overhead cost reductions:** Spending on travel and training, contracts, and supplies and printing is restricted and business unit heads are required to review the priorities for contract spending and identify lower cost alternatives.

IRS Is Working to Increase Agency-Wide Coordination in Budget Decisions in Response to Constrained Budget Environment

Recently, IRS launched two efforts to increase management coordination in budget formulation and execution decisions. In one effort, IRS established the Program and Budget Advisory Committee to help it improve its process for determining agency-wide priorities and for allocating resources to fund those priorities. According to IRS officials, this committee was formed in October 2014. It is intended to prevent resources from being allocated on a first come, first served basis or on some other arbitrary method. Members of the committee include executives from Strategy and Finance, Budget Execution, Systems and Analysis, and Corporate Budget; the Commissioner and Deputy Commissioners have decision-making authority. According to IRS, the committee will be responsible for overseeing and reviewing IRS's budget execution and making recommendations on all matters relating to its financial operations. These include making recommendations for allocating funds, prioritizing mission critical needs, and assessing and reporting risk with regard to expending resources. IRS expects the outcomes to include a detailed decision-making process for prioritizing IRS-wide requirements that are aligned with its strategy and resource needs, open communication and transparency, and identification of risk and requirements in excess of available funds.

In another effort, responding in part to our June 2014 recommendation,[15] IRS established the Planning, Programming, and Audit Coordination (PPAC) office[16] in 2014 to improve coordination of (1) current and completed audits of IRS activities and (2) resource decision making and strategic planning. According to IRS, PPAC is to facilitate coordination among business units and operating divisions to improve resource allocation and planning as part of the budget formulation process. PPAC is to drive long-term planning for resource allocation to be seen first in the fiscal year 2017 budget. As envisioned, the new strategic approach is to include consideration of short-term trade-offs with long-term investments along with post-evaluation of investments.

[15]See GAO, *IRS 2015 Budget: Long-Term Strategy and Return on Investment Data Needed to Better Manage Budget Uncertainty and Set Priorities*, GAO-14-605 (Washington, D.C.: June 12, 2014), in which we recommended that IRS develop a long-term strategy to address operations amidst an uncertain budget environment.

[16]In March 2015, the name changed from the Planning, Programming, and Audit Oversight office to the Planning, Programming, and Audit Coordination office.

IRS Reported on Major IT Investments in Its Fiscal Year 2016 Congressional Justification, but Some Information Was Inaccurate or Unclear

IRS Provided Inaccurate Data to the Congress

In its fiscal year 2016 CJ, IRS provided detailed information about its major IT investments, as it did in the 2014 and 2015 CJs; however, the information provided on actual obligations to date was inaccurate, due to potential deficiencies in some internal controls over the preparation of the CJ. IT is a significant portion—about 23 percent—of the total IRS budget request for fiscal year 2016. The request includes approximately $2.26 billion to fund 20 major IT investments and approximately $976 million for other IT investments. In the fiscal year 2016 CJ, IRS defines "actual obligations to date" as the actual obligations through fiscal year 2014 specific to each asset.[17] However, despite this definition, the numbers reported for most investments only include obligations through fiscal year 2013. Because the CJ reports inaccurate information about amounts obligated to date for most of the 20 listed major IT investments, Congress does not have accurate, reliable, and current data to inform its budget decisions or aid in its oversight.

IRS increased the amount of information it reported on major IT investments in recent years' CJs, and the fiscal year 2015 and 2016 CJs included information under the label "actual obligations to date" for each investment. Beginning with the fiscal year 2014 CJ, IRS reported detailed and precise quantitative and qualitative information on the cost and

[17] An obligation is defined as "A definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States." GAO, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP (Washington, D.C.: September 2005).

duration of its major IT investments. Information reported included life-cycle costs, projected useful life of the current asset, and anticipated benefits for each investment. In the fiscal year 2015 CJ, IRS added information on actual obligations to date for each of the major IT investments listed in the CJ. IRS provided this additional information in response to a recommendation we made in September 2013 for all major IT investments.[18]

IRS reported inaccurate information on actual obligations to date for many of the major IT investments in the fiscal year 2016 CJ. The CJ states that these amounts represent obligations through fiscal year 2014. However, for all of the major IT investments listed in the CJ, with the exception of one newly added major investment, the amounts reported for actual obligations to date through fiscal year 2014 were the same as the amounts reported in the previous year's CJ as actual obligations through fiscal year 2013. Data obtained separately from IRS show that amounts were obligated for all of these investments in fiscal year 2014, which indicates that the data were not updated in the CJ.

Officials in IRS's Corporate Budget office stated that the data may not have been updated since they used last year's information as a starting point in preparing the fiscal year 2016 CJ. According to the officials, staff in the Information Technology office prepare this section of the CJ and send it to Corporate Budget for inclusion in the final submission. Corporate Budget officials relied on data provided by the Information Technology staff without using any internal control procedure, such as checking the data against a reliable source, to confirm that these data were correct before including them in the CJ.

Standards for Internal Control in the Federal Government calls for agencies to ensure that ongoing monitoring occurs during the course of normal operations. Monitoring should be performed continually and be ingrained in the agency's operations; it includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.[19] Without such controls, IRS risks

[18]GAO, *IRS 2014 Budget: Improvements Made to Budget Request and Cost Estimate, but Further Actions Needed*, GAO-13-835 (Washington, D.C.: Sept. 26, 2013).

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

continued errors in the information on IT investments reported in its CJ. Such errors could negatively affect Congress' ability to obtain accurate information on major IT investments needed to inform future budget decisions and oversight.

Some IT Investment Information Was Unclear Because IRS Did Not Use Standard Definitions

IRS reported information on "life-cycle cost" and "projected useful life of the current asset" for each major IT investment in the fiscal year 2016 CJ, but did not use standard definitions for these terms or define or explain the terms in such a way that they could be understood and used. Agencies are required to use standard terms established by the Comptroller General, in consultation with OMB, in providing fiscal, budget, and program information to Congress.[20] The Comptroller General has established the following definition of life-cycle cost: "The overall estimated cost, both government and contractor, for a particular program alternative over the time period corresponding to the life of the program, including direct and indirect initial costs plus any periodic or continuing costs of operation and maintenance."[21] OMB's Capital Programming Guide applies this definition to capital assets: "The cost of a capital asset is its full life-cycle cost, including all direct and indirect costs for planning, procurement (purchase price and all other costs incurred to bring it to a form and location suitable for its intended use), operations and maintenance (including service contracts), and disposal."[22]

IRS did not report data that are consistent with the required definition of "life-cycle cost" or offer an alternative definition. IRS Information Technology officials told us that the reported amounts represent estimates of full life-cycle costs for some major IT investments. For other investments, these amounts represent estimated costs for the current fiscal year and 2 future fiscal years. According to IRS officials responsible for preparing this portion of the CJ, they did not consider how long the investment was expected to last when deciding which estimates to report. Instead, they reported full life-cycle cost estimates when such estimates were available. When such estimates were not available, the officials

[20] 31 U.S.C. § 1112(d).

[21] GAO-05-734SP, 64.

[22] Office of Management and Budget, *Capital Programming Guide: Supplement to Circular A-11* (Washington, D.C.: Nov. 25, 2014).

reported 3-year estimates. However, the CJ identifies all investments' reported life-cycle costs as representing full life-cycle costs.

In addition, IRS did not explain the meaning of the term "projected useful life of the current asset" in the CJ. In the Financial Services and General Government Appropriations Act, 2015, Congress directed IRS to include in its fiscal year 2016 CJ a summary of cost and schedule performance information for its major IT systems. In order for this performance information to be useful to Congress, the metrics reported in the CJ need to have the basic attributes of successful performance measures. As we previously reported, one of these attributes is clarity: a measure of performance has clarity when it is clearly stated and the name and definition are consistent with the methodology used for calculating it.[23] IRS officials told us the dates reported under "projected useful life of the current asset" are not based on a projection about the date at which the current assets will no longer be useful, but are instead arbitrary dates several years in the future and do not represent projections of the useful life of IT investments.[24] According to IRS officials, the years reported for most investments represent an arbitrary number of years, such as 3 or 5, after the current year. In some cases, the reported year may represent a projection of the useful life of the investment. However, according to an official in IRS's Information Technology office, different people are responsible for reporting on different investments, and they may report information according to different understandings of the meaning of the term "projected useful life of the current asset." The years reported in the CJ under "projected useful life of the current asset" for the 20 listed major IT investments are the following: 2017 (1 investment), 2018 (2 investments), 2019 (10 investments), 2020 (5 investments), 2021 (1 investment), and 2034 (1 investment).

As a result of this arbitrary process for reporting projected useful life, some of the information reported in the CJ is inconsistent with IRS's plans for its major IT investments. For example, according to IRS Information Technology officials, they plan to continue using the Return Review

[23]GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

[24]The term 'useful life' has an established meaning in the field of accounting, where it is used for the purposes of calculating depreciation and is defined as the "typical operating service life of an asset for the purpose it was acquired."

Program after the Electronic Fraud Detection System is no longer in use. However, the fiscal year 2016 CJ reports a "projected useful life of the current asset" of 2020 for the Return Review Program and a later date, 2021, for the Electronic Fraud Detection System. This sequence of dates is inconsistent with the plan to stop using the Electronic Fraud Detection System while continuing to use the Return Review Program. For another major IT investment, the Affordable Care Act Administration investment, IRS's Estimation Program Office has estimated costs for the investment through fiscal year 2026. This estimate indicates that IRS plans to use the Affordable Care Act Administration investment through fiscal year 2026. However, the CJ reports that the "projected useful life of the current asset" for the Affordable Care Act Administration investment is 2018.

Without clear and consistent definitions of these terms, the information IRS is reporting is of limited usefulness. As a result, Congress and other stakeholders do not have reliable information to make budget decisions about IT investments.

IRS Is Taking Steps to Implement GAO Recommendations, Including Those Related to Greater Use of Return on Investment Data and Improvements in the PPACA Cost Estimate

As of February 2015, we have 88 open recommendations and 8 matters for congressional consideration that could have financial implications if implemented. Since we last reviewed open recommendations to IRS and matters for congressional consideration during the fiscal year 2015 budget review, 19 recommendations to IRS were closed as implemented. For more information on open recommendations, see appendixes IV and V.

Additionally, we have conducted work related to 17 of the 35 legislative tax proposals included in the fiscal year 2016 CJ for IRS. For information about legislative proposals related to our open recommendations, see appendix VI.

Calculating and Using Return on Investment Data to Inform Resource Allocation Decisions Is a Long-Term Effort for IRS

In June 2014, we recommended that IRS use actual return on investment (ROI) calculations as part of resource allocation decisions.[25] IRS has made progress in response to this recommendation. Specifically, IRS's Research, Analysis, and Statistics Division has begun to estimate marginal direct revenue and marginal cost—the two key elements used to calculate return on investment data—attributable to specific compliance projects within its correspondence exam program. It plans to incorporate these estimates for use by SB/SE and Wage and Investment business unit managers for exam selection into the Exam Planning Scenario Tool, which is being developed by the Office of Compliance Analytics. That tool is intended ultimately to enable exam planners and business unit management to explore a wide range of potential exam plan scenarios and to compare the alternative effects on various enforcement objectives, including revenues collected and reduced taxpayer burden. Considerable work remains to be done on the multiple components of this long-term effort.

We also recommended that IRS calculate actual ROI for implemented initiatives.[26] IRS agreed that having this information would be useful. However, IRS noted that determining the impact of an initiative will always rely on estimates, as the results of an initiative are the difference between actual results and what would have occurred in the absence of the initiative, which cannot be measured. Given that IRS is unable to attribute revenues to specific employees hired under an initiative, officials believe that any feasible estimate would need to be based on numerous assumptions and, therefore would be too uncertain to be useful. For this reason, IRS does not consider this additional analysis an effective use of its scarce research resources. However, we believe that IRS should be able to provide some information to Congress, such as whether funds that were requested for initiatives were used in the manner that IRS originally proposed.

[25]See GAO-14-605. For related recommendations, see *Tax Gap: IRS Could Significantly Increase Revenue by Better Targeting Enforcement Resources*, GAO-13-151; (Washington, D.C.: Dec. 5, 2012).

[26]See GAO-14-605.

Updated PPACA Cost Estimate Showed Improvement and Met or Substantially Met Criteria in Three of Four Overall Categories, but Is Still Not Considered Reliable

IRS's PPACA cost estimate identifies the costs of planning, developing and implementing the IT systems needed to support its role in implementing PPACA. In February 2015, IRS released version 3 of the PPACA cost estimate as part of its ongoing practice to refine its cost estimate and address our prior recommendation. The cost estimate totals $2.72 billion (adjusted for inflation) from mid-fiscal year 2014 through fiscal year 2026; when prior years are included, the estimate increases to $3.43 billion from fiscal years 2010 through 2026 (adjusted for inflation). This updated cost estimate is a significant increase from the previous total of $1.89 billion (not adjusted for inflation) from fiscal years 2010 through 2026.[27] According to IRS officials, this increase is due to a change in the scope of PPACA implementation activities which resulted in additional releases. For example, the new releases respond to regulatory changes in the requirements for the Small Business Health Options Program, add in the cost of sending preliminary notices to employers not offering employee coverage, and take into account the implementation of the excise tax on high-cost health plans that will begin in 2018. However, IRS has not finalized the scope of work for Release 7.1 and beyond, which raises questions about IRS's ability to estimate costs for these releases.

According to the GAO *Cost Guide*, a reliable cost estimate must be comprehensive, well documented, accurate, and credible.[28] In September 2013, we reported that version 1 of IRS's cost estimate for PPACA did not fully meet best practices for a reliable cost estimate and recommended actions IRS should take to improve its cost estimate.[29] The updated cost estimate–version 3—reflects best practices to a greater extent, as shown in table 3. The cost estimate met or substantially met the criteria in three of four overall categories; however, a cost estimate must meet or substantially meet the criteria in all four overall categories to be considered reliable. From our assessment of version 1 of the cost estimate, of 20 sub-scores, 12 increased, 3 decreased, and 5 were constant. See appendix VII for a table of the sub-scores. Notably, IRS has improved documentation of how cost drivers for its sensitivity analysis

[27] In GAO-13-835, we found that the cost estimate was not fully adjusted for inflation and so reported the nominal estimate, not adjusted for inflation.

[28] See GAO-09-3SP.

[29] See GAO-13-835. We did not review version 2 of the PPACA cost estimate because its release was delayed and the more current version 3 cost estimate was available.

were selected with the score improving from partially meets to meets. As outlined below, there are several areas related to our open recommendation where IRS could continue to improve the cost estimate to better meet best practices outlined in the GAO *Cost Guide*.

- **Earned value management:** We previously recommended that IRS use earned value management—a process for capturing actual costs and comparing them to estimated costs—to capture actual costs and use them as a basis for future updates. According to IRS officials, earned value management is not being used to track costs. Because of this, actual costs are not regularly being used to update the estimate and to determine where and why variances are occurring when there is still time to mitigate their effect on the program's cost and/or schedule in a manner that is consistent with best practices. This issue affects multiple elements of the accuracy of the cost estimate assessment.

- **Variance from prior estimate:** The estimate includes a general discussion of cost and schedule variance and gives an overview of how staffing and cost estimates have changed from the previous cost estimate; however, it does not offer a detailed discussion of the reasons why. A proper risk and uncertainty analysis is necessary to correctly assess the variability in the cost estimate due to program risks. In this area, the cost estimate improved from "minimally meets" to "partially meets."

- **Risk and uncertainty analysis:** IRS conducted a risk and uncertainty analysis but did not provide evidence that showed all of the steps they took to conduct the risk analysis, so we cannot verify that they followed best practices. Our assessment scored this element as "partially meets"—which is the same as our assessment of the earlier version of the cost estimate.

- **Validating the estimate:** IRS did not obtain a second cost estimate and there is no program office estimate to use for comparison. 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. Our assessment scored this element as "minimally meets"—which is the same as our assessment of the earlier version of the cost estimate.

Table 3: Overall Assessment of Patient Protection and Affordable Care Act Cost Estimate Alignment with Best Practices

		Overall Assessment		
Best Practice	**Description**	**October 2010[a]**	**Version 1 December 2012**	**Version 3 February 2015**
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.

Source: GAO analysis of IRS February 2015 PPACA cost estimate (version 3). | GAO-15-624

[a]IRS completed a cost estimate in October 2010 that it did not label with a version number.

Conclusions

Over the last 5 years, IRS took steps to manage budget reductions; however, many were short-term actions, such as strictly limiting hiring and curtailing overtime. Some of these actions could result in future disruptions in taxpayer services and diminished administration of our tax system. IRS has some flexibility in how it allocates resources—including user fee revenue—within and across business units to achieve its mission and goals. IRS reprioritized many activities since fiscal year 2010 to address budget reductions. Activities and services that were scaled back remain important and may have benefits, including a positive return on investment or enhanced compliance with the tax system. IRS tradeoffs could lead to negative outcomes such as reduced program effectiveness and increased risk to IRS and the federal government. This highlights the importance of Congress and IRS working together to reexamine IRS's mission and priorities. To improve transparency and inform decision-making, accurate information on IT investments in the CJ is imperative.

Recommendations for Executive Action

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

- Implement internal controls to ensure the accuracy of information on major information technology investments reported in the annual congressional justification, such as obligations data.
- To the extent possible, report information about major information technology investments in the congressional justification in accordance with the standard terms published by the Comptroller General in the Budget Glossary (GAO-05-734SP).
- When using key terms that are not defined in the Budget Glossary or in OMB guidance, or when using a modification of these terms, provide definitions of key terms used to report information about major information technology investments in the congressional justification.

Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue for comment. In written comments reproduced in appendix VIII, IRS agreed with our recommendations. IRS plans to conduct a comprehensive review of its capital planning and investment control activities, with particular emphasis on investment controls. As part of this review, IRS plans to identify any gaps in the use of standard terms, make recommendations for changes to standard terms, and define terms not included in the Budget Glossary. We agree that identifying gaps and implementing changes to enhance the budget will improve data quality. IRS also provided technical comments on our draft report, which we incorporated as appropriate.

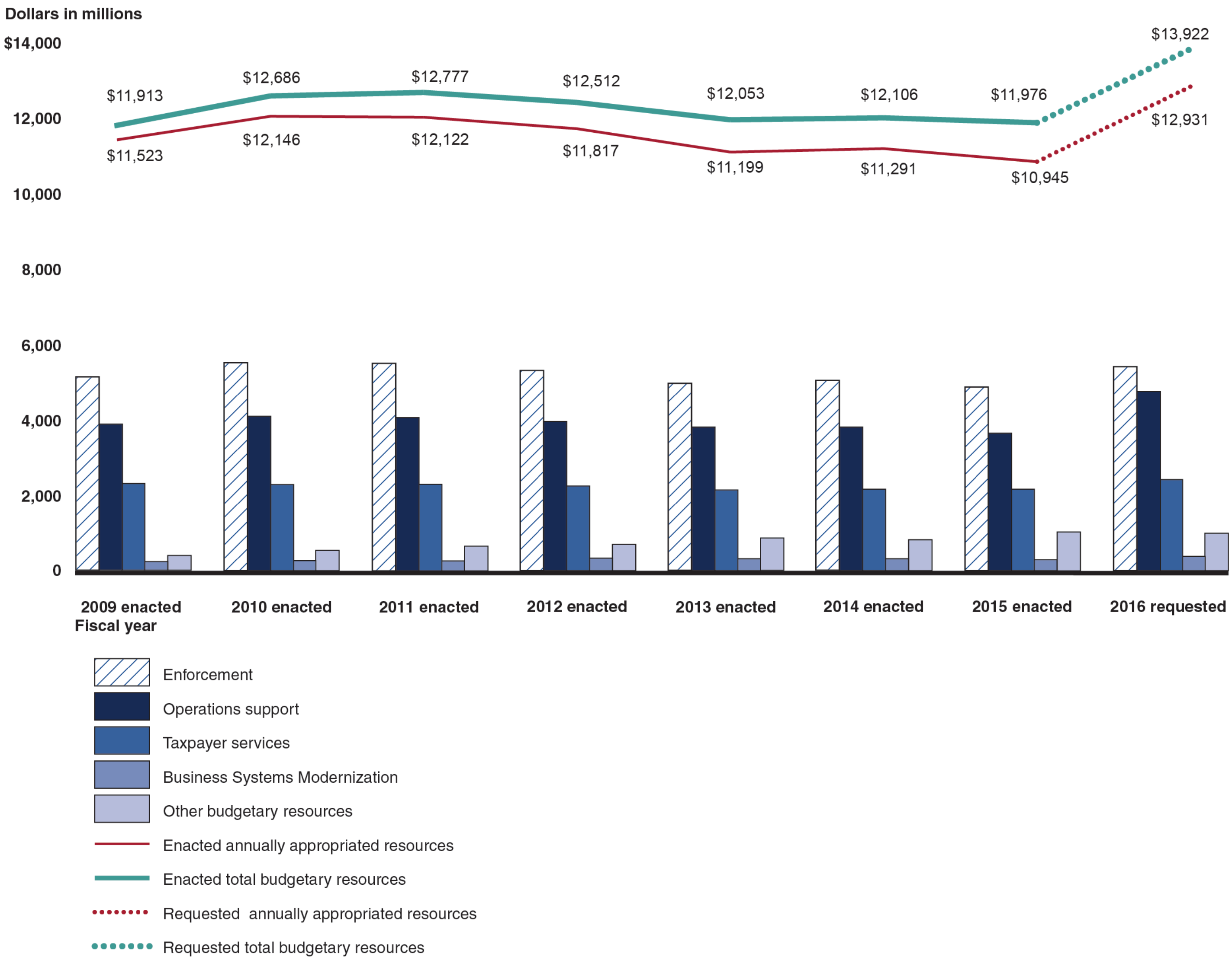
As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Chairman and Ranking Members of Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

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

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

Appendix I: IRS Funding and FTE Data from Fiscal Year 2009 through Fiscal Year 2016

Figure 2: Fiscal Years 2009 through 2015 Enacted and Fiscal Year 2016 Budget Request for IRS (Dollars in Millions)



Source: Congressional justification for IRS, fiscal years 2011 through 2016. | GAO-15-624

Note: All numbers in the figure are nominal and not adjusted for inflation. IRS funded government-wide wage and salary and employer health-insurance premium increases for its employees over this period.

Table 4: Fiscal Years 2009 through 2015 Enacted and Fiscal Year 2016 Budget Request for IRS

Dollars in millions

Appropriations account	Fiscal year 2009 enacted	Fiscal year 2010 enacted	Fiscal year 2011 enacted	Fiscal year 2012 enacted	Fiscal year 2013 enacted[a]	Fiscal year 2014 enacted	Fiscal year 2015 enacted	Fiscal year 2016 requested	Dollar change fiscal year 2015 enacted compared to fiscal year 2016 requested	Percent change fiscal year 2015 enacted compared to fiscal year 2016 requested
Enforcement	$5,117	$5,504	$5,493	$5,299	$4,949	$5,022	$4,860	$5,400	$540	11.11
Operations support	3,867	4,084	4,057	3,947	3,801	3,799	3,638	4,743	1,105	30.36
Taxpayer services	2,293	2,279	2,293	2,240	2,136	2,157	2,157	2,409	252	11.70
Business Systems Modernization	230	264	263	330	313	313	290	379	89	30.75
Health Insurance Tax Credit Administration (HITCA)[b]	15	16	15	0	0	0	0	0	0	0
Subtotal	**11,523**	**12,146**	**12,122**	**11,817**	**11,199**	**11,291**	**10,945**	**12,931**	**1,986**	**18.15**
Other resources, such as user fees	390	539	655	695	855	815	1,031	991	-40	-3.86
Total funding available for obligations	**$11,913**	**$12,686**	**$12,777**	**$12,512**	**$12,053**	**$12,106**	**$11,976**	**$13,922**	**$1,946**	**16.25**

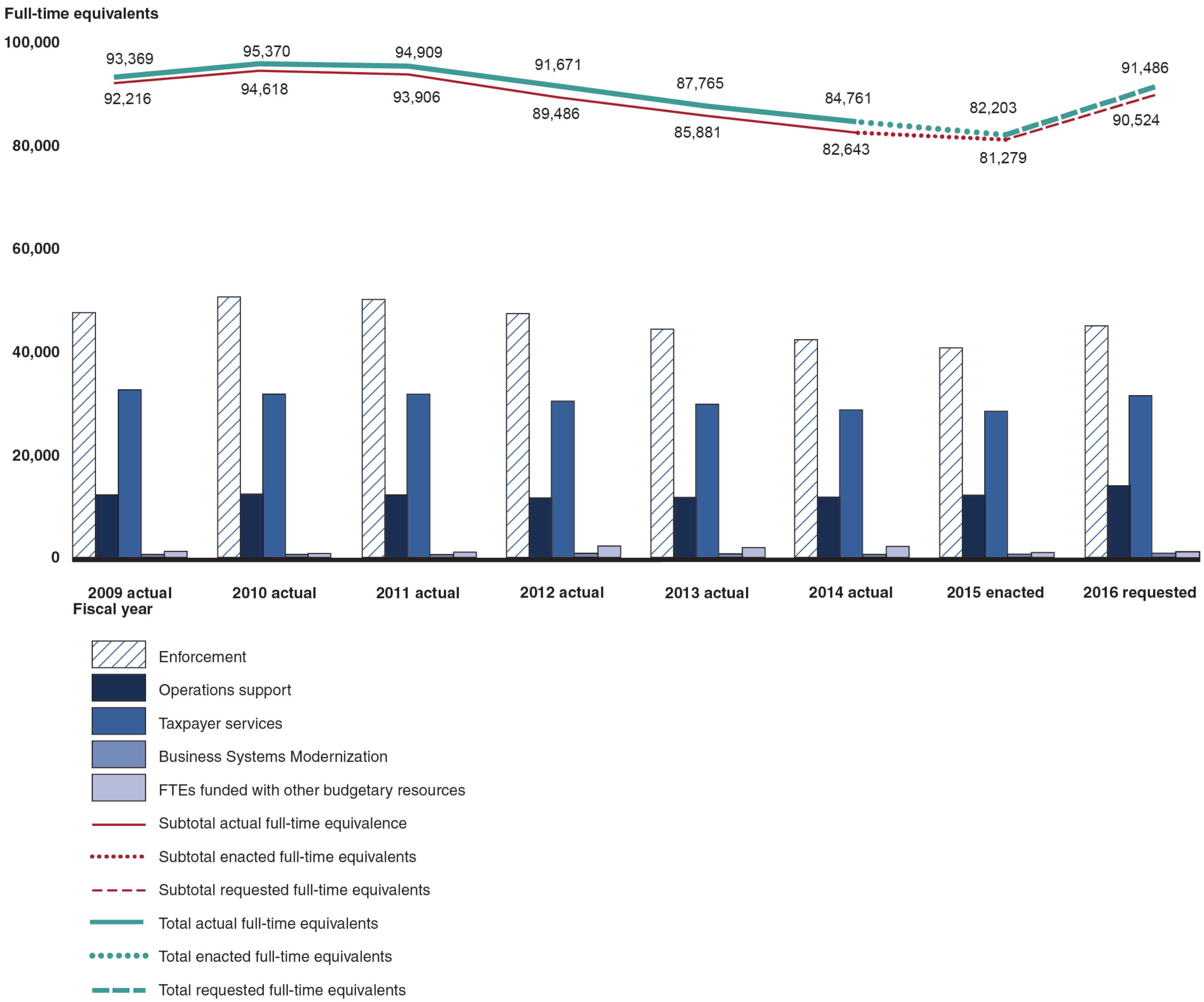
Source: Congressional justifications for IRS, fiscal years 2011 through 2016. | GAO-15-624

Notes: Dollars are nominal and not adjusted for inflation, and numbers may not add due to rounding.

[a]Fiscal year 2013 enacted represents the operating level after applying across-the-board rescission and reductions required by sequestration.

[b]In fiscal year 2012 and thereafter, amounts appropriated for HITCA, which had been a separate account, were moved to the Taxpayer Services appropriation.

Figure 3: IRS Full-time Equivalents, Fiscal Years 2009 through 2014 Actual, 2015 Enacted, and 2016 Requested



Source: Congressional justifications for IRS, fiscal years 2011 through 2016. | GAO-15-624

Table 5: IRS Full-time Equivalents, Fiscal Years 2009 through 2014 Actual, 2015 Enacted, and 2016 Requested

Appropriations account	Fiscal year 2009 actual	Fiscal year 2010 actual	Fiscal year 2011 actual	Fiscal year 2012 actual	Fiscal year 2013 actual	Fiscal year 2014 actual	Fiscal year 2015 enacted	Fiscal year 2016 requested	FTE change fiscal year 2015 enacted compared to fiscal year 2016 requested	Percent change fiscal year 2015 enacted compared to fiscal year 2016 requested
Enforcement	47,361	50,400	49,920	47,189	44,174	42,119	40,564	44,800	4,236	10.4
Operations support	12,101	12,262	12,103	11,499	11,610	11,652	12,043	13,863	1,820	15.1
Taxpayer services	32,422	31,607	31,574	30,236	29,646	28,535	28,274	31,285	3,011	10.7
Business Systems Modernization	322	337	309	562	451	337	398	576	178	44.7
Health Insurance Tax Credit Administration (HITCA)[a]	10	12	0	0	0	0	0	0	0	0
Subtotal	**92,216**	**94,618**	**93,906**	**89,486**	**85,881**	**82,643**	**81,279**	**90,524**	**9,245**	**11.4**
Other resources, such as user fees	1,153	752	1,003	2,185	1,884	2,118	924	962	38	4.1
Total	**93,369**	**95,370**	**94,909**	**91,671**	**87,765**	**84,761**	**82,203**	**91,486**	**9,283**	**11.3**

Source: Congressional justifications for IRS, fiscal years 2011 through 2016. | GAO-15-624

[a]The administrative resources for HITCA were moved to the Taxpayer Services appropriation.

Appendix II: Non-interactive Version of Figure 1 - Fiscal Year 2014 Obligations by Fund Center and Percentage Change from Fiscal Year 2010

Dollars in Millions

	Fiscal year 2014 obligations by account						
Fund center	**Taxpayer services**	**Enforcement**	**Operations support**	**Business Systems Modernization**	**Total fiscal year 2014 obligations**	**Total fiscal year 2010 obligations**	**Percent change in obligations, fiscal year 2010 to 2014**
Large Business and International	$7	$845	$8	$0	$860	$941	-9
Small Business/Self Employed	22	2,219	10	0	2,250	2,613	-14
Wage and Investment	1,795	432	49	0	2,276	2,411	-6
Wage and Investment - Stewardship	69	0	208	0	276	373	-26
Tax Exempt and Government Entities	11	243	1	0	256	277	-8
Appeals	0	216	0	0	216	247	-12
Counsel	12	320	0	0	332	369	-10
Criminal Investigation	0	586	0	0	586	619	-5
Taxpayer Advocate Service	212	0	0	0	212	222	-4
Communications and Liaison	0	0	20	0	20	26	-22
Agency-Wide Shared Services (AWSS)	0	0	243	0	243	290	-16
AWSS - Stewardship	0	0	964	0	964	1,081	-11
Information Technology	0	0	1,744	145	1,890	1,980	-5
Executive Leadership and Direction	17	54	111	0	182	109	67
Privacy, Governmental Liaison and Disclosure[a]	0	0	51	0	51	- [a]	- [a]
Human Capital Office	0	0	137	0	137	182	-25
Human Capital Office - Corporate Programs	0	0	28	0	28	60	-53
Chief Financial Officer	0	0	58	0	58	58	1

Source: GAO analysis of IRS obligations data. | GAO-15-624

Note: Numbers may not add due to rounding.

[a]Privacy, Governmental Liaison and Disclosure was not established in fiscal year 2010 therefore obligations data did not exist and a percent change was not calculated.

This table does not include obligations less than $1 million. In fiscal year 2014, 4 fund centers obligated less than $1 million from additional accounts: Counsel ($222,000 from Operations Support); Communications & Liaison ($92,000 from Taxpayer Services and $6,000 from Enforcement); Criminal Investigations ($38,000 from Operations Support); and Privacy, Governmental Liaison and Disclosure ($29,000 from Enforcement).

Appendix III: Summary of Major Information Technology Investments Reported in IRS's Fiscal Year 2016 Congressional Justification

Dollars in Millions

Investment name	Description	Start date of investment	Obligations from start date through end of fiscal year 2014	Planned spending for fiscal year 2015
Account Management Services	Enhances customer support by providing applications that enable IRS employees to access, validate, and update individual taxpayer accounts on demand.	2009	$120.4	$17.7
Affordable Care Act Administration	Encompasses the planning, development, and implementation of IT systems needed to support IRS's tax administration responsibilities associated with the Patient Protection and Affordable Care Act.	2010	$992.4	$373.0
Customer Account Data Engine 2	Provides timely access to authoritative individual taxpayer account information and enhances IRS's ability to address security, financial material weaknesses, and long-term architectural planning and viability.	2009	$789.3	$130.9
Electronic Fraud Detection System	Detects fraud at the time that tax returns are filed in order to eliminate the issuance of fraudulent tax refunds.	1996	$128.3	$18.6
e-Services	Comprises several web-based self-assisted services that are intended to allow authorized individuals to do business with the IRS electronically.	1999	$183.1	$5.3
Foreign Account Tax Compliance Act	Intended to implement provisions of the Foreign Account Tax Compliance Act regarding financial institutions reporting to IRS information about financial accounts held by U.S. taxpayers, or foreign entities in which U.S. taxpayers hold a substantial ownership interest.	2011	$58.1	$62.6
Individual Master File	Represents the authoritative data source for individual tax account data, supporting other IRS information systems and providing a critical component of IRS's ability to process tax returns.	1999	$128.6	$12.9
Information Reporting and Document Matching	Intended to establish a new business information matching program in order to increase voluntary compliance and accurate income reporting.	2009	$99.5	$5.5
Integrated Customer Communication Environment	Includes several projects that are intended to simplify voluntary compliance using telephone applications, Internet, and other computer technology.	1992	$496.3	$13.1
Integrated Data Retrieval System	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.	1973	$217.1	$16.0

Dollars in Millions

Investment name	Description	Start date of investment	Obligations from start date through end of fiscal year 2014	Planned spending for fiscal year 2015
Integrated Financial System	Provides budget, payroll, accounts payable/receivable, general ledger functions, and financial reporting; also used to manage budgets by fiscal year.	2001	$429.3	$14.2
Integrated Submission and Remittance Processing System	Processes paper tax returns, and updates tax forms to comply with tax law changes.	1998	$153.6	$10.2
IRS End User Systems and Services	Supports products and services necessary for daily functions for IRS employees at headquarters and field sites.	1970	$883.1	$187.5
IRS Main Frames and Servers Services and Support	Supports the design, development, and deployment of server storage infrastructures, software, databases, and operating systems.	1970	$4,649.3	$535.9
IRS Telecommunications Systems and Support	Supports IRS's broad and local network infrastructure such as servers, and switches for voice, data, and video servicing of IRS sites.	1970	$1,279.1	$247.6
IRS.gov - Portal Environment	Provides web-based services to internal and external users, such as IRS employees and other government agencies, taxpayers, and business partners.	1996	$559.1	$73.5
Modernized e-File	Provides a secure web-based platform for electronic tax filing of individual and business tax and information returns by registered Electronic Return Originators.	2001	$424.9	$76.8
Return Review Program	Aims to maximize detection of fraud, including identity theft fraud, at the time that tax returns are filed, to eliminate issuance of questionable refunds.	2010	$151.0	$63.6
Service Center Recognition/Image Processing System	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 an electronic format.	1991	$167.7	$9.1
Web Applications	Provides online tools for taxpayers, such as Where's My Refund and Get Transcript; supports search function and design of IRS.gov.	2013	$2.2	$16.5

Source: IRS's fiscal year 2016 congressional justification and IRS budget obligations data. | GAO-15-624

Note: In prior years we reported the life-cycle costs and projected useful life of each major IT investment; however, we are not reporting those data because we found them to be unclear. According to Department of the Treasury guidance, a major investment is one that costs $10 million in either the current year or budget year, or $50 million over the 5-year period extending from the prior year through 2 years after the budget year. OMB has instructed agencies not to categorize IT capital planning and Chief Information Officer function investments as major IT investments. We determined that the data reported in this table were sufficiently reliable based upon written explanations and documentation submitted to us by officials from IRS and the Department of the Treasury responsible for maintaining the systems from which these data were obtained.

Appendix IV: GAO Budget-Related Recommendations to IRS That Remain Open

Report	Recommendations	Benefit	Status
GAO-12-603	*Conduct cost-effectiveness analyses* 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 Patient Protection and Affordable Care Act (PPACA) projects.	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.	As of February 2015, IRS officials reported that for the fiscal year 2017 budget formulation process, they have developed new instructions and procedures for conducting cost-effectiveness analyses, which include considering trade-offs and alternatives of proposed investments. Also, they plan to conduct cost-effectiveness analyses for future significant nonenforcement initiatives when there are alternative approaches to achieving a given benefit and there is sufficient time to conduct the analyses, according to officials. IRS actions are consistent with what we recommended in June 2012; however, we cannot obtain documentation for the fiscal year 2017 budget formulation process because it is considered pre-decisional. When the data is available we will assess it.
GAO-12-603	*Develop a quantitative measure of scope* At a minimum, develop a quantitative measure of scope for its major IT investments, in order to have complete information on the performance of these investments.	A quantitative measure of scope is a good practice as it provides an objective measure of whether an investment delivered the functionality that was paid for.	No executive action taken. IRS officials stated that they agreed with the recommendation when we made it in June 2012. However, in October 2013, IRS said it did not plan to develop a quantitative measure of scope for its major information technology investments. In June 2014 and again in March 2015, IRS reported that it has practices and processes in place that provide performance information on its investments, including quarterly reports to Congress and a baseline change request process. However, neither approach includes a quantitative measure. For this reason, we maintain that the recommendation is still warranted.
GAO-13-835	*Improve budget formulation guidance* 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.	Expanding internal guidance for pre-selection budget formulation templates facilitates more complete information for internal budget decision-making.	IRS updated budget formulation guidance for the fiscal year 2016 budget formulation process. Guidance instructed business units to identify the expected benefit of the proposed budget initiative. We requested examples of completed templates to confirm the guidance was implemented by business units; however, as of mid-May, 2015 we have not received them. Once we receive the data, we will assess it.

<table>
<tr><th>Report</th><th>Recommendations</th><th>Benefit</th><th>Status</th></tr>
<tr><td>GAO-13-835</td><td>Further refine updates to the PPACA cost estimate
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.
• 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.</td><td>Developing a cost estimate that meets additional best practices, will foster accountability, improve insight, and provide objective information.</td><td>In February 2015, IRS released version 3 of the PPACA cost estimate, which reflects best practices to a greater extent, as shown in appendix VII; however, IRS has taken action on only 2 of 5 elements of the recommendation. IRS has improved documentation of how cost drivers for its sensitivity analysis were selected with the score improving from “partially meets” to “meets.” While the score for variance from prior estimate improved, it went from “minimally meets” to “partially meets.” IRS has not improved its practices related to the use of earned value management, risk and uncertainty analysis, or validating the estimate.</td></tr>
<tr><td>GAO-14-605</td><td>Develop a long-term strategy
Develop a long-term strategy to address operations amidst an uncertain budget environment. As part of the strategy, IRS should take steps to improve its efficiency, including
• Reexamine programs, related processes, and organizational structures to determine whether they are effectively and efficiently achieving the IRS mission.
• Streamline or consolidate management or operational processes and functions to make them more cost-effective.</td><td>Developing a long-term strategy will enhance budget planning and improve decision making and accountability.</td><td>In June 2014, IRS established the Planning, Programming, and Audit Coordination office to, in part, improve long-term planning for resource allocation and decision making, and strategic planning. The Planning, Programming, and Audit Coordination office efforts will inform the fiscal year 2017 budget formulation process. We will continue to monitor IRS’s progress and will assess a strategy once it is developed.</td></tr>
</table>

Report	Recommendations	Benefit	Status
GAO-14-605	*Enhance calculation and use of actual return on investment (ROI) data* • Calculate actual ROI for implemented initiatives, compare the actual ROI to projected ROI, and provide the comparison to budget decision makers for initiatives where IRS allocated resources. • Use actual ROI calculations as part of resource allocation decisions.	Enhanced calculation of ROI provides greater insight on the productivity of a program and can inform decision making.	IRS's Research, Analysis, and Statistics Division has begun to estimate marginal direct revenues and marginal costs attributable to specific compliance projects within its correspondence exam program. It plans to use these estimates to inform potential exams, but considerable work remains in this long-term effort. Additionally, while IRS agreed that having actual ROI data would be useful, it did not believe it could determine a feasible estimate. We believe that IRS should be able to provide some information such as whether funds requested were used in the manner originally proposed. We will continue to monitor IRS's progress.

Source: GAO analysis of IRS data. | GAO-15-624

Appendix V: List of Open Matters for Congressional Consideration and Recommendations to IRS That Could Result in Potential Savings or Increased Revenues

The 44 GAO products listed below contain 88 recommendations and 8 matters for congressional consideration that could have a financial impact if implemented.

Table 6: List of Open Matters for Congressional Consideration and Recommendations to IRS

Report Title and Number	Potential Financial Impact
Enhancing budget requests and implementing Patient Protection and Affordable Care Act (PPACA)	
IRS 2014 Budget: Improvements Made to Budget Request and Cost Estimate, but Further Actions Needed (GAO-13-835)	Increase Savings, Indirect Financial Benefit
IRS 2013 Budget: Continuing to Improve Information on Program Costs and Results Could Aid in Resource Decision Making (GAO-12-603)	Increase Savings, Indirect Financial Benefit
Enhancing electronic filing	
E-Filing Tax Returns: Penalty Authority and Digitizing More Paper Return Data Could Increase Benefits (GAO-12-33)	Increase Savings, Increase Savings and Revenue
Electronic Tax Return Filing: Improvements Can Be Made before Mandate Becomes Fully Implemented (GAO-11-344)	Increase Savings
Enhancing electronic filing and improving accuracy of paid preparers	
Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (GAO-09-297)	Increase Financial Benefit
Enhancing internal controls	
Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Controls (GAO-14-433R)	Indirect Financial Benefit
Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Controls (GAO-13-420R)	Increase Savings, Indirect Financial Benefit
Enhancing online taxpayer services	
IRS Website: Long-Term Strategy Needed to Improve Interactive Services (GAO-13-435)	Increase Savings, Indirect Financial Benefit
Enhancing private pension disclosures	
Private Pensions: Targeted Revisions Could Improve Usefulness of Form 5500 Information (GAO-14-441)	Increase Savings
Private Pensions: Clarity of Required Reports and Disclosures Could Be Improved (GAO-14-92)	Increase Financial Benefit
Enhancing oversight of charitable organizations	
Tax-Exempt Organizations: Better Compliance Indicators and Data, and More Collaboration with State Regulators Would Strengthen Oversight of Charitable Organizations (GAO-15-164)	Increase Savings
Enhancing taxpayer services	
2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively (GAO-13-156)	Increase Savings and Revenue
2011 Tax Filing: Processing Gains, but Taxpayer Assistance Could Be Enhanced by More Self-Service Tools (GAO-12-176)	Increase Savings and Revenue

Report Title and Number	Potential Financial Impact
Enhancing treatment of appraisals issues	
Appraised Values on Tax Returns: Burdens on Taxpayers Could Be Reduced and Selected Practices Improved (GAO-12-608)	Increase Savings, Increase Savings and Revenue
Enhancing verification of tax returns	
Tax Refunds: IRS Is Exploring Verification Improvements, but Needs to Better Manage Risks (GAO-13-515)	Indirect Financial Benefit
Expanding use of math error authority or third party data	
2011 Tax Filing: IRS Dealt with Challenges to Date but Needs Additional Authority to Verify Compliance (GAO-11-481)	Increase Revenue
Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed (GAO-10-349)	Increase Savings and Revenue
2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved (GAO-10-225)	Increase Revenue, Increase Savings and Revenue
Tax Administration: IRS's 2008 Filing Season Generally Successful Despite Challenges, although IRS Could Expand Enforcement during Returns Processing (GAO-09-146)	Increase Savings and Revenue
Implementing Information Reporting and Document Matching (IRDM) system	
IRS Management: Cost Estimate for New Information Reporting System Needs to be Made More Reliable (GAO-12-59)	Indirect Financial Benefit
Information Reporting: IRS Could Improve Cost Basis and Transaction Settlement Reporting Implementation (GAO-11-557)	Indirect Financial Benefit
Implementing Patient Protection and Affordable Care Act (PPACA)	
Patient Protection and Affordable Care Act: IRS Should Expand Its Strategic Approach to Implementation (GAO-11-719)	Indirect Financial Benefit
Improving accuracy of returns completed by paid preparers	
Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors (GAO-14-467T)	Indirect Financial Benefit
Improving allocation of enforcement resources	
IRS 2015 Budget: Long-Term Strategy and Return on Investment Data Needed to Better Manage Budget Uncertainty and Set Priorities (GAO-14-605)	Increase Savings and Revenue
Tax Gap: IRS Could Significantly Increase Revenues by Better Targeting Enforcement Resources (GAO-13-151)	Increase Revenue
Improving administration of installment agreements	
2013 Tax Filing Season: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources (GAO-14-133)	Increase Savings
Improving collection of unpaid taxes from Medicaid providers	
Medicaid: Providers in Three States with Unpaid Federal Taxes Received Over $6 Billion in Medicaid Reimbursements (GAO-12-857)	Increase Savings
Improving corporate tax compliance	
Corporate Tax Compliance: IRS Should Determine Whether Its Streamlined Corporate Audit Process Is Meeting Its Goals (GAO-13-662)	Increase Savings

Report Title and Number	Potential Financial Impact
Improving examinations of tax returns	
Tax Administration: IRS Could Improve Examinations by Adopting Certain Research Program Practices (GAO-13-480)	Increase Revenue
Improving individual or corporate tax compliance	
Partnerships and S Corporations: IRS Needs to Improve Information to Address Tax Noncompliance (GAO-14-453)	Increase Revenue, Increase Savings and Revenue
Virtual Economies and Currencies: Additional IRS Guidance Could Reduce Tax Compliance Risks (GAO-13-516)	Increase Revenue
Federal Tax Collection: Potential for Using Passport Issuance to Increase Collection of Unpaid Taxes (GAO-11-272)	Increase Revenue
Improving management of enforcement audits	
Large Partnerships: With Growing Number of Partnerships, IRS Needs to Improve Audit Efficiency (GAO-14-732)	Increase Revenue, Increase Savings and Revenue, Indirect Financial Benefit
IRS Correspondence Audits: Better Management Could Improve Tax Compliance and Reduce Taxpayer Burden (GAO-14-479)	Increase Savings, Indirect Financial Benefit
Improving management of information technology (IT) investments	
Investment Management: IRS Has a Strong Oversight Process but Needs to Improve How It Continues Funding Ongoing Investments (GAO-11-587)	Increase Savings, Indirect Financial Benefit
Improving offshore compliance	
Offshore Tax Evasion: IRS Has Collected Billions of Dollars, But May be Missing Continued Evasion (GAO-13-318)	Increase Revenue
Improving rental real estate compliance	
Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance (GAO-08-956)	Increase Revenue
Improving sole proprietors' compliance	
Tax Gap: Limiting Sole Proprietor Loss Deductions Could Improve Compliance but Would Also Limit Some Legitimate Losses (GAO-09-815)	Indirect Financial Benefit
Improving tax credit administration	
Small Employer Health Tax Credit: Factors Contributing to Low Use and Complexity (GAO-12-549)	Increase Savings and Revenue
Improving third party compliance	
Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (GAO-09-238)	Increase Revenue, Indirect Financial Benefit
Preventing tax refund fraud	
Identify and Tax Fraud: Enhanced Authentication Could Combat Refund Fraud, but IRS Lacks an Estimate of Costs, Benefits and Risks (GAO-15-119)	Increase Savings and Revenue
Identity Theft: Additional Actions Could Help IRS Combat The Large, Evolving Threat Of Refund Fraud (GAO-14-633)	Increase Savings, Increase Savings and Revenue
Promoting effective use of third-party data	
Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (GAO-10-950)	Increase Revenue

Report Title and Number	Potential Financial Impact
Promoting retirement savings while reducing noncompliance	
Individual Retirement Accounts: IRS Could Bolster Enforcement on Multimillion Dollar Accounts, but More Direction from Congress Is Needed (GAO-15-16)	Increase Revenue, Increase Savings and Revenue, Indirect Financial Benefit
Reducing tax evasion	
Tax Gap: IRS Can Improve Efforts to Address Tax Evasion by Networks of Businesses and Related Entities (GAO-10-968)	Indirect Financial Benefit

Source: GAO analysis. | GAO-15-624

Appendix VI: IRS Legislative Tax Proposals Related to Prior GAO Work

We conducted work related to 17 of the 35 legislative tax proposals included in the fiscal year 2016 congressional justification for IRS.

Table 7: IRS Legislative Tax Proposals Related to Prior GAO Work

Dollars in Millions

IRS legislative proposal related to prior GAO work	Projected costs over 3 years	Projected revenues over 10 years	Related GAO reports
Modify reporting of tuition expenses and scholarships on Form 1098-T, Tuition Statement	$0.2	-$172	GAO-10-225
Provide for reciprocal reporting of information in connection with the implementation of the Foreign Account Tax Compliance Act.	4.2	No revenue effect	GAO-12-484; GAO-12-403
Require greater electronic filing of returns	0.6	10[a]	GAO-14-453
Increase certainty with respect to worker classification	1.9	10,170	GAO-09-717
Increase levy authority for payments to Medicare providers with delinquent tax debt	0.1	514	GAO-12-857
Streamline audit and adjustment procedures for large partnerships	2.5	2,407	GAO-14-732; GAO-14-746T
Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a scannable code	14.6	10[a]	GAO-08-38; GAO-09-297
Allow IRS to absorb credit and debit card processing fees for certain tax payments	9.6	20	GAO-10-11
Provide IRS with greater flexibility to address correctable errors	1.4	639	GAO-09-146; GAO-09-1026; GAO-10-225; GAO-11-481
Authorize the Department of Treasury to require additional information to be included in electronically filed Form 5500 annual reports and electronic filing of certain other employee benefit plan reports	11.2	10[a]	GAO-05-491
Impose a penalty on failure to comply with electronic filing requirements	2.5	10[a]	GAO-12-33
Improve the whistleblower program	0.0	Negligible revenue effect	GAO-11-683
Index all penalties for inflation	.8	Negligible revenue effect	GAO-07-1062
Extend paid preparer Earned Income Tax Credit (EITC) due diligence requirements to the child tax credit	20.2	Negligible revenue effect	GAO-02-290R; GAO-05-92; GAO-07-1110
Combat tax-related identity theft	2.7	Negligible revenue effect	GAO-14-633; GAO-13-132T; GAO-15-119

Dollars in Millions

IRS legislative proposal related to prior GAO work	Projected costs over 3 years	Projected revenues over 10 years	Related GAO reports
Explicitly provide that the Department of Treasury and IRS have authority to regulate all paid return preparers	Not available	427	GAO-14-467T; GAO-06-563T; GAO-11-336; GAO-08-781
Rationalize tax return filing due dates so they are staggered	1.0	1,630	GAO-13-515

Source: GAO analysis based on IRS fiscal year 2016 congressional justification and Department of the Treasury, General Explanations of the Administrations Fiscal Year 2016 Revenue Proposals (Washington, D.C.: February 2015). | GAO-15-624

[a]The Department of Treasury includes this legislative proposal under “Enhance Electronic Filing of Returns” and provides a single projected revenue for this proposal, as well as several others.

Appendix VII: PPACA Cost Estimate Assessment

The updated PPACA cost estimate–version 3—reflects best practices to a greater extent, as shown below. The cost estimate met or substantially met the criteria in three of four overall categories; however, a cost estimate must meet or substantially meet the criteria in all four overall categories to be considered reliable. Of 20 subscores, 12 increased, 3 decreased, and 5 were constant from our assessment of version 1 of the cost estimate.

Table 8: Sub Scores of PPACA Cost Estimate Alignment with Best Practices

	Sub-scores	
Characteristic and Best Practice	**Version 1 December 2012**	**Version 3 February 2015**
Comprehensive		
The cost estimate includes all life cycle costs.	●	◑
The cost estimate completely defines the program, reflects the current schedule, and is technically reasonable.	◕	●
The cost estimate work breakdown structure is product-oriented, traceable to the statement of work/objective, and at an appropriate level of detail to ensure that cost elements are neither omitted nor double-counted.	●	◕
The estimate documents all cost-influencing ground rules and assumptions.	◕	●
Well documented		
The documentation should capture the source data used, the reliability of the data, and how the data were normalized.	◕	●
The documentation describes in sufficient detail the calculations performed and the estimating methodology used to derive each element’s cost.	◕	●
The documentation describes step by step how the estimate was developed so that a cost analyst unfamiliar with the program could understand what was done and replicate it.	◕	●
The documentation discusses the technical baseline description and the data in the baseline is consistent with the estimate.	●	●
The documentation provides evidence that the cost estimate was reviewed and accepted by management.	◕	◕
Accurate		
The cost estimate results are unbiased, not overly conservative or optimistic, and are based on an assessment of most likely costs.	◕	●
The estimate has been adjusted properly for inflation.	◑	●
The estimate contains few, if any, minor mistakes.	◕	◕
The cost estimate is regularly updated to reflect significant changes in the program so that it is always reflecting current status.	◑	◕
Variances between planned and actual costs are documented, explained, and reviewed.	◔	◑

	Sub-scores	
Characteristic and Best Practice	**Version 1 December 2012**	**Version 3 February 2015**
The estimate is based on a historical record of cost estimating and actual experiences from other comparable programs.	◕	●
The estimating technique for each cost element was used appropriately.	◕	●
Credible		
The cost estimate includes a sensitivity analysis that identifies a range of possible costs based on varying major assumptions, parameters, and data inputs.	◑	●
A risk and uncertainty analysis was conducted that quantified the imperfectly understood risks and identified the effects of changing key cost driver assumptions and factors.	◑	◑
Major cost elements were cross checked to see whether results were similar.	◕	◑
An independent cost estimate was conducted by a group outside the acquiring organization to determine whether other estimating methods produce similar results.	◔	◔

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.

Source: GAO analysis of IRS February 2015 PPACA cost estimate (version 3). | GAO-15-624

Appendix VIII: Comments from the Internal Revenue Service

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

DEPUTY COMMISSIONER

June 12, 2015

Mr. James R. McTigue, Jr.
Director, Tax Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. McTigue:

Thank you for the opportunity to review the draft GAO report, IRS 2016 BUDGET: IRS Is Scaling Back Activities and Using Budget Flexibilities to Absorb Funding Cuts (GAO-15-624). We are pleased the GAO recognizes the significant funding reductions we have experienced since fiscal year 2010 and the impact those reductions have had on our staffing and performance as well as the steps that we have taken in recent years to reduce spending.

Below are the IRS's comments on each specific recommendation.

Recommendation #1: Implement internal controls to ensure the accuracy of information on major information technology investments reported in the annual congressional justification, such as obligations data.

Comment:
We agree with this recommendation. In addition to addressing this specific recommendation around accuracy in obligations data, we are taking a more holistic approach to address the issue. We are leveraging the expertise of staff throughout the Service and all of our available resources, to the extent possible, to conduct a comprehensive review of our capital planning and investment control (CPIC) activities, with particular emphasis on investment controls. The review will take into consideration current guidance governing the process and controls and will focus on our people resources, processes, and technology currently in place. We believe this comprehensive review by a multi-functional team will provide valuable recommendations for improvement and opportunities for more maturity in this area.

Recommendation #2: To the extent possible, report information about major information technology investments in the congressional justification in accordance with the standard terms published by the Comptroller General in the Budget Glossary (GAO 05-734SP).

2

Comment:
We agree with this recommendation. As part of our comprehensive review of our CPIC activities, any gaps in the use of standard terms will be identified and recommendations for changing to standard terms or improvements will be implemented.

Recommendation #3: When using key terms that are not defined in the Budget Glossary or in OMB guidance or when using a modification of these terms, provide definitions of key terms used to report information about major information technology investments in the congressional justification.

Comment:
We agree with this recommendation. As part of our comprehensive review of our CPIC activities, any gaps in the use of key terms will be identified and if we find any terms that are not defined in the Budget Glossary, we will provide the definitions of those terms.

If you have any questions, please contact me, or a member of your staff may contact Jeffrey V. Zottola, Associate Chief Financial Officer for Corporate Budget, at (202) 317-4038.

Sincerely,

J. Stuart Burns
Acting Deputy Commissioner for
Operations Support

Appendix IX: GAO Contact and Staff Acknowledgments

GAO Contact

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

Staff Acknowledgments

In addition to the individual named above, the following staff made key contributions to this report: Libby Mixon, Assistant Director; Theodore Alexander; Amy Bowser; John E. Dicken; Jennifer K. Echard; Emile Ettedgui; Charles Fox; Robert Gebhart; Carol Henn; Melissa King; Edward Nannenhorn; Sabine Paul; Karen Richey; Bradley Roach; Robert Robinson; Erinn L. Sauer; Cynthia M. Saunders; Robyn Trotter; and Jim Wozny.

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