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Report to the Chairman, Committee on Governmental Affairs, U.S. Senate

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MANAGING IRS

Important Strides Forward Since 1988 but More Needs to Be Done

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The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report was prepared in response to your request. It discusses the Internal Revenue Service's (IRS) progress in implementing recommendations in our October 1988 report on the joint GAO/IRS management review.

As arranged with the Committee, we are sending copies of this report to other congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, the Director of the Office of Management and Budget, and other interested parties.

The major contributors to this report are listed in appendix III. Please contact me on (202) 272-7904 if you or your staff have any questions concerning this report.

Sincerely yours,

Paul L. Posner

Paul L. Posner
Associate Director, Tax Policy
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Executive Summary

Purpose

This is an important time for the Internal Revenue Service (IRS). It faces many challenges, including (1) a burgeoning work load that threatens the capacity of its antiquated computer systems, (2) increasing demands to do more at a time of fiscal austerity, and (3) a quest for solutions to a tax gap of over $100 billion in taxes owed but not paid and a growing accounts receivable inventory. In October 1988, GAO recommended steps to help IRS meet those challenges.[1] This report discusses IRS' progress in implementing those recommendations GAO believes would have the greatest impact on improving efficiency, managerial accountability, and quality.

Background

GAO's 1988 report included 41 recommendations to IRS that dealt with (1) improving management direction, (2) improving management of information resources, (3) strengthening financial management, (4) improving human resource management, (5) engraining quality into daily operations, and (6) effectively overseeing a decentralized tax administration process. To assess IRS' progress in implementing the selected recommendations, GAO interviewed IRS officials and analyzed IRS documentation.

Results in Brief

Since 1988, IRS has taken steps to establish a leadership framework that will better enable it to address the challenges it faces. Among the more important steps were establishing the positions of Chief Financial Officer (CFO), Controller, and Chief Information Officer and establishing a business review process. By taking these important steps, IRS has mechanisms in place that provide a solid foundation for future advances. A CFO and Controller give IRS the leadership to meet long-standing financial management challenges. A Chief Information Officer provides the leadership to guide IRS through a major modernization of its information systems. Business reviews will help IRS measure performance in its field offices and hold managers accountable for meeting IRS-wide goals.

GAO has identified actions that IRS needs to take to better ensure that those mechanisms are effective. For example, if IRS' new financial leadership is to successfully deal with the financial challenges facing IRS, it has to be responsible for all of IRS' financial matters. That is not now the

[1] Managing IRS: Actions Needed to Assure Quality Service in the Future (GAO/GGD-89-1, Oct. 14, 1988).

case. Also, if the Chief Information Officer is to successfully guide modernization, IRS needs to support him by enhancing the technical expertise of its senior managers and executives. And before IRS can effectively measure performance and hold managers accountable, it has to develop measurable performance goals. IRS is working toward that end.

Although progress has been made in developing an agencywide strategic planning process, GAO is concerned about IRS' progress in developing a plan for identifying and meeting its future human resource needs. IRS officials said redefining the occupations and skills needed to carry out the agency's mission will not be finished until September 1994, postponing implementation of recruiting, training, and retention initiatives until the mid-1990s.

Principal Findings

Effectiveness of New Leadership Could Be Enhanced

When GAO issued its 1988 report, IRS did not have the leadership to adequately address its financial and technological needs. In response to GAO's recommendations, IRS appointed a Chief Information Officer, a CFO, and a Controller. IRS now has the leadership framework it needs to carry out vital information and financial management initiatives.

IRS is modernizing its information systems, a massive effort that will take most of the 1990s and several billion dollars to complete. The leadership of a Chief Information Officer is key to effective completion of that effort. Since his appointment, IRS has issued a draft master modernization plan that should help resolve some of the uncertainty that has surrounded modernization.

IRS' move into an era of modern technology, however, will test the Chief Information Officer's leadership. Systems must be integrated and implemented on time to provide enough capacity to process a growing work load, technological challenges and constraints inherent in the procurement process will have to be overcome, and congressional support will have to be maintained to provide the requisite funding over several years.

IRS' senior managers and executives also have an important role in formulating IRS' technology objectives and deciding on the technical and economic feasibility of strategies for acquiring that technology. With that in mind, GAO recommended in 1988 that IRS develop a strategy for adding technical expertise to its managerial and executive ranks. IRS has since filled some technical management and executive positions but has not developed a clear strategy for sustaining progress in this area. IRS needs a strategy that includes a comprehensive assessment of IRS' needs for additional technical experience and a program to satisfy those needs. (See pp. 36 to 45.)

The CFO and Controller have taken several actions directed at improving IRS' financial management. They (1) developed strategies for improving the use of financial resources; (2) appointed a manager to direct development of an automated financial system; and (3) convened task forces to examine IRS' current financial management system and propose a new financial management structure.

The CFO and Controller could better direct IRS' financial activities if they were responsible for all such activities. The actions previously noted were focused on accounting for and control over IRS' own funds. But IRS must also account for about $1 trillion in annual tax revenues. The Assistant Commissioner for Returns Processing is responsible for those revenue accounting activities. With the need to resolve issues surrounding IRS' accounting for unpaid taxes and a legislative mandate to prepare financial statements, IRS would be well served by consolidating all financial activities under the CFO. (See pp. 48 to 54.)

IRS' Strategic Management Process Is Evolving

IRS is a decentralized organization. Because the challenges facing IRS call for an agencywide response, however, it is critical that IRS have processes to help ensure that everyone has a common understanding of the agency's priorities and is moving in unison toward meeting them. In recognition of that need, IRS developed a strategic management process with a Strategic Business Plan as a centerpiece. That plan described how IRS will carry out its mission by establishing long-range objectives and strategies that can be updated each year to reflect changing priorities and events.

In 1988, GAO said that IRS needed to (1) establish a way to effectively measure progress toward meeting the objectives set forth in the Strategic Business Plan and (2) establish a human resource management plan as a derivative of the business plan. Subsequently, IRS developed a business review process to assess performance and completed the first reviews of its regional offices in September 1990. For such reviews to be fully effective, IRS has to develop measurable goals and define how performance will be measured against those goals. IRS has established some goals and is developing others. This is a process that could take several years. (See pp. 12 to 18.)

One aspect of performance that IRS has emphasized for the past few years is quality. IRS has involved many employees in hundreds of quality improvement projects. IRS was also testing a model to build quality into its processes to prevent errors. The performance measures IRS was developing will help it better assess the effect of these quality initiatives on performance. (See pp. 24 to 32.)

According to milestones in the Strategic Business Plan, IRS was several years away from developing the data needed to construct a human resource management plan. The Strategic Business Plan called for redefining, by September 1994, the required occupations and skills necessary to accomplish the most critical IRS work. Until then, IRS will be unable to develop a plan that lays out specific steps to recruit, train, and retain the right kinds of people. (See pp. 19 to 21.)

Recommendations

IRS should (1) transfer responsibility for revenue accounting activities to the CFO and the Controller, (2) develop and implement a strategy for providing additional technical expertise at senior decisionmaking levels, and (3) reconsider the human resource related milestones in its Strategic Business Plan. (See pp. 22, 46, and 54.)

Agency Comments

In commenting on a draft of this report, the Commissioner of Internal Revenue agreed in principle with most of the recommendations and discussed relevant actions that IRS had taken or would be taking to implement them. While agreeing that it was critical for IRS to assess its human resource needs, the Commissioner said that IRS would not be changing the human resource related milestones in the Strategic Business Plan. He explained that although the final effort will not be completed until September 30, 1994, skills assessments are being done in specific areas along the way. Such interim assessments would be consistent with the intent of GAO's recommendation. (See pp. 23, 35, 46, and 55.)

Contents

Abbreviations

ADP	automated data processing
AFS	Automated Financial System
CFO	Chief Financial Officer
IRS	Internal Revenue Service
NTEU	National Treasury Employees Union
QIIS	Quality Improvement Information System
SBP	Strategic Business Plan
TSM	Tax Systems Modernization

Introduction

In October 1988, we reported on the results of a joint GAO/Internal Revenue Service (IRS) management review of IRS.[1] That report included 41 recommendations aimed at (1) improving management direction to prepare for the future, (2) improving the management of information resources, (3) strengthening financial management and accountability, (4) ingraining quality into IRS' daily operations, (5) improving human resource management, and (6) maintaining effective oversight of a decentralized tax administration process.

Those recommendations take on added significance considering the critical issues facing IRS in the 1990s. Among other things, IRS is faced with (1) a burgeoning work load that continues to threaten the capacity of its antiquated computer systems, (2) increasing demands that it do more and do it better at a time of fiscal austerity, (3) a continuing quest for solutions to a tax gap of over $100 billion in taxes owed but not paid, and (4) a continual growth in accounts receivable. This report discusses IRS' progress in implementing many of the 1988 recommendations that we consider key if these issues are to be addressed aggressively and effectively.

Chapter 2 discusses IRS' revamped Strategic Management Process. Specifically, it focuses on the new business review process that began in fiscal year 1990 in IRS' seven regions and IRS' efforts to (1) develop a human resource management plan and (2) strengthen its Internal Audit function.

Chapter 3 concentrates on IRS' quality improvement efforts. It addresses IRS' progress in (1) developing a quality planning process that focuses on building quality into its processes so that the right job is done right the first time, (2) developing a performance measurement system, (3) implementing an information system to monitor and assess its quality improvement projects, and (4) integrating its productivity and quality improvement efforts.

Chapter 4 highlights IRS' progress in information management. The chapter discusses IRS' establishment of a Chief Information Officer position and its efforts to (1) consolidate telecommunications responsibility, (2) hire information managers who have technical backgrounds, (3) increase the technical awareness of its executives, and (4) assess its

[1] Managing IRS: Actions Needed to Assure Quality Service in the Future (GAO/GGD-89-1, Oct. 14, 1988).

information systems planning. Chapter 4 also discusses the need to complete actions to improve the administration of automated data processing (ADP) contracts.

Chapter 5 discusses IRS' progress in financial management. It focuses on (1) IRS' establishment of financial leadership through the appointment of a Chief Financial Officer (CFO) and an Assistant Commissioner (Finance)/Controller and (2) the major challenges facing that leadership.

Objectives, Scope, and Methodology

Our overall objective was to assess IRS' progress in implementing the recommendations in our 1988 report that we considered most central to the agency's ability to improve efficiency, managerial accountability, and the quality of service to taxpayers. Our specific objectives in reviewing the selected recommendations were to validate those that IRS considers to be implemented and assess IRS' progress in implementing the others.

To achieve these objectives, we

- interviewed IRS executives and their staffs to assess IRS' progress in implementing selected recommendations in our 1988 report;
- analyzed documentation provided by IRS to support its progress in implementing the selected recommendations;
- administered a structured interview to five of IRS' seven regional commissioners to assess specific actions related to a number of the report's recommendations;
- analyzed (1) the three latest versions of IRS' Strategic Business Plan, including the most recent version, which extends through fiscal year 1996; (2) IRS' new business review process; and (3) IRS' quality improvement process and its newly redesigned Quality Improvement Information System (QIIS).

IRS provided written comments on a draft of this report. Those comments are included in appendix II and are summarized and evaluated at the end of each of the next four chapters.

We did our audit work from March 1989 through August 1990 in accordance with generally accepted government auditing standards.

The Strategic Management Process Is a Good Foundation on Which IRS Needs to Continue Building

IRS is faced with increasing demands to do more—process more returns, answer more telephone calls, collect more delinquent taxes, match more information documents, audit more taxpayers, generate more revenues. In attempting to meet those demands, IRS relies on a decentralized organization of 7 regional offices, 10 service centers, and 63 district offices. Yet the challenges facing the agency call for a unified agencywide response as both Congress and the public hold the Commissioner accountable for achieving such objectives as promoting tax compliance and providing quality service. It is critical, therefore, that IRS have the processes in place to help ensure that everyone has a common understanding of the agency's priorities and expectations and that everyone is moving in unison toward meeting them.

As noted in our 1988 report, IRS has initiated a strategic management process that promises to provide the requisite central leadership. The process is intended to help top management set agencywide goals, establish mission priorities, guide budget decisions, and create a benchmark for measuring the progress of each of the agency's functions and offices toward achieving objectives. While recognizing that the strategic management process represented a sound conceptual approach, we noted that IRS needed to (1) establish a process to effectively measure and monitor agency progress toward achieving the objectives set forth in the Strategic Business Plan (SBP) and (2) establish an agencywide human resource management plan as a derivative of the SBP. We also pointed to the need for IRS to better evaluate field operations and recommended, among other things, that IRS provide its Internal Audit function with sufficient staff and funds to provide audit coverage that extends to all critical field and National Office activities.

IRS has taken steps to address the issues we raised. It developed a business review process, for example, to better evaluate field office performance and hold managers accountable for meeting agency goals. It also identified, as part of the SBP, a few top priority objectives, called corporate critical success factors, that provide a specific set of goals against which to evaluate performance.

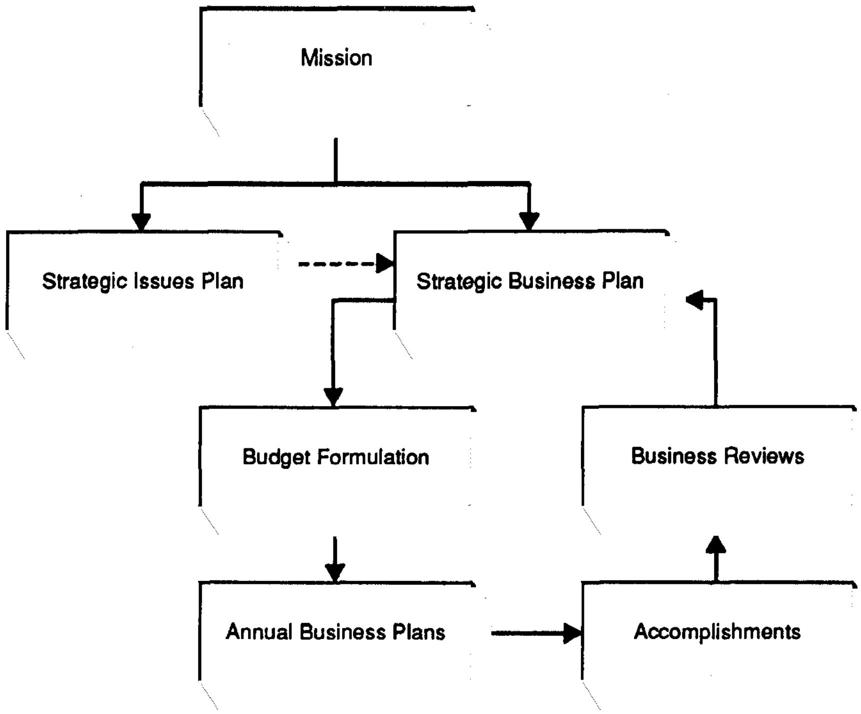
We recognize that development of an effective strategic management process will take several years, and we have seen progress in each iteration of that process. For example, each annual update of the SBP has been more specific, making it easier for managers to know what is expected of them and for top management to assess progress. Developing measurable objectives is the critical next step in using the process to hold managers accountable. There is still much to be done in that regard, and IRS management appears to be committed to that end. One aspect of IRS' performance is troubling, however. It has made unsatisfactory progress, in our opinion, in developing a human resource management plan.

IRS Enhanced Its Strategic Management Process to Improve Accountability and Oversight

The decentralized nature of IRS has at times constrained the ability of Congress, the Commissioner, and the public to hold the agency accountable in meeting particular goals or objectives. We have reported in the past that the agency sometimes lacked necessary management information on the results of its enforcement programs. For example, IRS could not report the magnitude of the levies it uses in collecting unpaid taxes or indicate the dollars at stake for each issue raised in its large corporate examination program.

IRS, recognizing the need for improved management direction, established a strategic management process in 1984. This process was intended to help the Commissioner more effectively formulate his vision of the agency's mission and to ensure that all components of the agency work together to implement common goals. At the time of the joint GAO/IRS review, this process consisted of a Strategic Issues Plan, an SBP, budget formulation, and annual business plans. In response to a recommendation in our 1988 report that IRS improve the nationwide assessment of its field operation, IRS enhanced this process by adding annual business reviews. Figure 2.1 shows the strategic management process as it now exists.

Figure 2.1: IRS' Strategic Management Process



Source: IRS.

The underlying principle of the strategic management process is IRS' mission statement, which says that IRS' purpose is to collect the proper amount of tax revenues at the least cost to the public and in a manner that warrants the highest degree of public confidence in IRS' integrity, efficiency, and fairness. The strategic management process is a framework within which planning, budgeting, and performance evaluation can be systematically accomplished, thereby translating the IRS mission into attainable objectives and actions for the future.

IRS developed the Strategic Issues Plan in 1984 as the first element of the strategic management process. As described by IRS, the Strategic Issues Plan focuses on developing innovative approaches to address major issues. The Plan is organized into five broad categories that deal with (1) balancing efficiency and effectiveness, (2) enhancing recruitment and retention of employees, (3) strengthening voluntary compliance, (4) developing an information management strategy, and (5) committing to quality service.

In 1987, IRS refined its strategic management process by adding the SBP—an annually updated long-range plan that is intended to improve IRS planning activities, strengthen the link between planning and budgeting, and enhance accountability. According to IRS, the SBP describes how IRS will carry out its mission by establishing long-range, comprehensive, IRS-wide objectives and strategies that can be updated each year to reflect changing priorities and events. The current SBP (which covers the period through fiscal year 1996) includes the following six objectives: (1) increase voluntary compliance; (2) improve customer satisfaction, quality of products and services, and productivity; (3) reduce burden on taxpayers; (4) employ, retain, develop, and support a quality work force; (5) improve use of financial resources; and (6) improve and increase the availability and use of information resources.

Each of the SBP objectives is supported by a group of strategies—which are more specific statements that are designed to tie together, from a IRS-wide perspective, IRS' efforts to achieve the objectives. In total, the most recent SBP contains 24 strategies in support of the 6 objectives. Among the five strategies supporting the improved customer satisfaction objective in the current SBP, for example, is one that calls for instituting, by September 30, 1998, a fully tested approach that will provide resolution of 95 percent of taxpayers' issues or problems through a single contact with IRS.

As a final part of the SBP, IRS' senior executives identify corporate critical success factors, which IRS defines as the "critical few" activities required to ensure progress on the SBP objectives and strategies for the coming fiscal year. Selecting a limited number of activities each year can help focus agency efforts on the Commissioner's highest priority goals. Among the 13 corporate critical success factors identified for fiscal year 1991, for example, is one that calls for IRS' Taxpayer Service function to provide an accuracy rate of 85 percent or greater for telephone responses as measured by the Integrated Test Call Survey System[1] and to provide a 75- to 80-percent level of service on a weekly basis during fiscal year 1991.

[1]IRS designed the Integrated Test Call Survey System to measure the quality of service provided through IRS' toll-free telephone system by scoring the accuracy of telephone assistors' answers to a sample of tax law test questions.

The next step in the strategic management process involves formulation of IRS' budget. Ideally, budget formulation decisions should be driven by SBP priorities, which are established by IRS' senior executives.

Following budget formulation, each IRS function (such as Examination, Collection, Taxpayer Service, and Returns Processing) develops an annual business plan to translate the SBP into day-to-day operations. In doing so, each function builds on the corporate critical success factors with its own more specific functional success factors. Using Returns Processing as an example,

- one of the corporate critical success factors for fiscal year 1991 calls, in part, for improving the critical accuracy rate of service center correspondence dealing with adjustments to taxpayers' accounts to not less than 85 percent. The critical accuracy rate measures the extent to which correspondence is being sent to taxpayers with errors that IRS has determined to be serious.
- in its annual business plan for fiscal year 1991, Returns Processing provided guidance to the service centers as to how achievement of the 85-percent critical accuracy rate would be determined. It directed that service centers whose average critical accuracy rate on outgoing letters for February through June 1990 was less than 90 percent would be expected to improve by at least 3 percentage points, with a minimum accuracy rate of 80 percent, while centers that had already reached or exceeded 90 percent would be expected to maintain their rates.

The functions' annual business plans are a key link between national goals and field office performance. They provide guidance to field and National Office management for achieving the SBP's objectives and strategies and are to be used as a basis for evaluating regional performance during the annual business reviews. The overall objective of the annual business reviews is to evaluate each region's contribution to the accomplishment of the annual business plans and the objectives of the SBP. The corporate and functional critical success factors are the criteria against which the regions are to be assessed during the business reviews. IRS completed its first round of reviews in September 1990. Reports on those reviews were not available for us to analyze at the time of our work. After the reports were prepared and distributed, according to officials in IRS' Planning Division, (1) conferences were held between IRS' most senior officials and cognizant regional officials to discuss each region's performance and (2) each region developed an action plan for addressing the report's recommendations.

The business review process will be expanding in fiscal year 1991. In November 1990, for example, the Deputy Commissioner distributed procedures for the regional offices to follow in reviewing district office and service center operations. Later, in January 1991, the Deputy Commissioner distributed a memorandum in which he discussed the need to consider accomplishment of SBP strategies and corporate critical success factors when evaluating managers and management officials. As noted by the Deputy Commissioner, "by incorporating SBP goals into performance plans, we will provide the key link to establishing managerial accountability for implementing the Strategic Management Process directly to managerial performance."

IRS Is Making Progress in Developing a More Specific SBP

As is clear from the preceding discussion, the SBP may be the most vital part of IRS' strategic management process. In our 1988 report, we concluded that the SBP represented a good beginning at clearly setting an agencywide agenda for the future. We noted, however, that IRS needed a way of measuring progress toward accomplishing SBP objectives in order to hold managers accountable for results. Although the annual business reviews provide a vehicle for evaluating performance and holding managers accountable, they will not be fully effective, in our opinion, until IRS has developed clear and measurable goals and has defined how performance will be measured for comparison against those goals.

Our review of IRS' most recent SBP and its critical success factors for fiscal year 1991 indicated that IRS has made progress in developing clear and quantifiable goals. Its fiscal year 1991 critical success factors, for example, included ones that call for (1) providing an accuracy rate of 85 percent or more for responses given to taxpayers through IRS' Toll-Free Telephone Assistance Program as measured by the Integrated Test Call Survey System; (2) ensuring a successful filing season by, among other things, improving the forms distribution accuracy rate to 94 percent; and (3) completing the pilot test of the Automated Financial System by May 1991.

The toll-free telephone assistance example just discussed represents the ideal—a clear and quantifiable goal (85 percent accuracy) and a defined tool for measuring achievement of that goal (the Integrated Test Call Survey System). In many areas, such as the forms distribution example, IRS has a clear and quantifiable goal (94 percent accuracy) but has not defined how achievement of that goal will be measured.[2]

Overall, IRS' most recent SBP and critical success factors provide significantly more specificity than earlier iterations. Compare, for example, the toll-free telephone assistance example with IRS' corresponding critical success factor for fiscal year 1990, which said, "check and improve, through sampling, the accuracy of telephone responses to taxpayers' requests for assistance . . .."

IRS recognizes the need to establish additional goals and has specifically cited their establishment as another of its critical success factors. Specifically, IRS is requiring each function to complete developing, by June 30, 1991, "measures of accuracy, timeliness, quality, and customer satisfaction for key products and or services." IRS recognizes, however, that the development of such measures for all its functions could take several years and is realistically expecting the development of some, but not all, measures to be completed by June 30.

To demonstrate how measures could be developed, in 1988 the Taxpayer Service function went through the process of developing critical success factors, goals, and measures for its Toll-Free Telephone Assistance Program. Appendix I contains an example of what Taxpayer Service eventually developed. Taxpayer Service's results are now serving as a model for the other functions.

The specific measures chosen for each of IRS' functions will be critical in providing managers with operational indicators of desired performance levels. They will also play a large role in driving performance because units will tend to work to the performance levels specified in the measures. Accordingly, the extent to which the selected measures adequately and reliably reflect the outcomes desired by management and by IRS' various external customers (such as Congress and the public) will be a critical variable in determining the success of IRS' strategic management approach.

[2]We discussed the need for such a measurement system in a report on IRS' performance during the 1990 tax return filing season entitled Tax Administration: IRS' 1990 Filing Season Performance Continued Recent Positive Trends (GAO/GGD-91-23, Dec. 27, 1990). We said that (1) IRS needed to develop a statistically valid survey of its ability to fill mail and telephone orders for tax materials and (2) the survey should, among other things, include measures that are consistent from year to year, thus allowing measurement of performance over time, and provide the basis for establishing annual goals.

IRS Has Made Little Progress in Developing a Human Resource Management Plan

As of September 30, 1990, IRS had about 120,000 employees—a larger staff than almost any other federal agency. It is clear, therefore, that IRS' success in doing business in the 1990s depends in large part on its ability to recruit and retain quality staff, managers, and executives.

In our 1988 report, we noted the key human resource challenges facing IRS. We said that IRS must (1) attract and retain quality employees in an employment environment where disincentives to considering a career in the federal service, such as noncompetitive pay, appear to be increasing; (2) maintain an efficient and effective work force in an increasingly automated environment; and (3) maintain an effective group of quality senior executives as retirements increase. We pointed out that IRS had initiated a number of efforts aimed at strengthening its human resource management capabilities and that IRS needed to establish an agencywide human resource management plan to ensure that those efforts are effectively maintained.

In a September 1990 internal IRS report on the status of our October 1988 recommendations, IRS said that it had established an agencywide human resource management plan and, thus, had implemented our recommendation. We disagree. The document referred to in the status report as the human resource management plan is one in which IRS identified various human resource related issues. As IRS acknowledged in issuing that document and as indicated by milestones laid out in the most recent SBP, IRS views itself as being years away from having a plan to address those issues.

IRS needs to revise its status report to more accurately reflect its progress in developing a human resource management plan and, more importantly, needs to reconsider what we think are unreasonably long time frames for taking certain human resource related actions identified in the SBP.

IRS Has Identified Various Human Resource Issues

In response to our 1988 recommendation, IRS developed a Human Resource Planning Proposal for fiscal years 1991 through 1995. That document, which was issued in March 1990, identified 17 IRS-wide human resource concerns involving such things as (1) the negative effects of budget cuts; (2) the need for improved work force information; (3) problems in recruitment, retention, and training; and (4) the unknown impacts of technological change.

The Planning Proposal also recommended several courses of action to address those issues, including (1) enhancing the forms and value of compensation, (2) expanding recruitment efforts and inducements, (3) building an IRS-wide work force information capacity, (4) implementing education and training policies and programs to meet the needs of the 1990s, (5) developing the future skills profile of IRS in parallel with the emergence of information systems architectures, and (6) developing a consistent plan for improving IRS' public image as an organization and an employer. The Human Resource Planning Proposal did not identify any priorities among the many recommended actions.

IRS Appears to Be Several Years Away From a Human Resource Management Plan

As acknowledged by the Assistant Commissioner for Human Resources Management and Support in March 1990, when he transmitted the Planning Proposal to other IRS executives, the Proposal itself was not a Human Resource Plan. As described by the Assistant Commissioner, the recommended courses of action in the Planning Proposal "must be viewed as a menu from which to select strategies for inclusion in future [SBPS]." The Planning Proposal itself states that IRS' Human Resource Plan will come into being when strategies and corporate critical success factors bearing on IRS' human resources are incorporated into the SBP.

The current SBP, which covers through fiscal year 1996, includes an objective, four strategies, and one corporate critical success factor bearing on IRS' human resources.[3] According to milestones in the primary human resource related strategy, however, IRS is several years away from developing the specific data needed to construct a human resource plan. The strategy says the following:

> "By September 30, 1994, redefine the required occupations and skills necessary to accomplish the most critical IRS work. Annually reassess skills and occupations; expand recruitment efforts and inducements by 1996; implement training initiatives, and education and training policies and programs by 1993 to develop people to meet the needs of the 1990s."

The fiscal year 1991 annual business plan prepared by IRS' Human Resources Management and Support function provided some elaboration on how that strategy will be accomplished. It says in part that fiscal year 1991 will be devoted to "gathering the reservoir of data necessary to determine the action needed to redefine occupations and skills" and

[3]The human resource related corporate critical success factor calls on all IRS executives to implement the recommendations for which they are responsible in an internal IRS report dealing with minorities and women in IRS.

that fiscal year 1992 and beyond will be devoted to the development and implementation of an action plan "to deliver a redefinition of the Service workforce by September 30, 1994." Until IRS determines the occupations and skills needed to accomplish its work, it will be unable to develop a plan that lays out specific steps IRS will have to take to recruit, train, and retain the right kind of people to meet those needs. The impending modernization of IRS' tax processing and administration systems, for example, calls for different mixes of skills to successfully operate in an automated environment. As discussed further in chapter 4, IRS has not yet undertaken a systematic assessment of the human resources needed to successfully achieve this critical modernization. Considering the important issues involved, we do not think it unreasonable to expect IRS to identify its human resource needs in less than 4 years or to expand recruitment efforts and inducements well before 1996.

We are also concerned about another of IRS' human resource related SBP strategies—the one that calls for (1) revalidating the results of earlier strategic initiatives directed at enhancing the recruitment and retention of employees, (2) identifying the "vital recommendations" deriving from those initiatives, and (3) implementing the recommendations in accordance with approved action plans. In December 1989, 5 and 1/2 years after those initiatives had begun, we reported that IRS had been slow in moving forward on the initiatives' results.[4] The SBP strategy in question indicated to us that IRS has continued to make little progress, since meaningful action is being delayed even longer while it revalidates earlier findings and develops more action plans.

Increase in Internal Audit Staffing Should Improve IRS' Oversight Capabilities

In our 1988 report, we noted that between 1980 and 1988, Internal Audit Division staffing had decreased 13 percent, from 561 staff years to 488 staff years. This reduction affected the Division's ability to provide full audit coverage to many important activities such as complex information systems development projects. We recommended that IRS increase its internal audit staffing to provide broader audit coverage to all critical field and National Office activities.

In response to our recommendation, IRS increased its internal audit staffing by about 37 percent (from about 520 staff years in fiscal year 1988 to an expected level of about 710 in fiscal year 1991) and proposed

[4]Tax Administration: Need for More Management Attention to IRS' College Recruitment Program (GAO/GGD-90-32, Dec. 22, 1989).

an additional increase of 36 positions in its fiscal year 1992 budget request. We did not assess how the Internal Audit Division is using or plans to use the additional staff. We believe, however, that the staffing increase should improve the Division's ability to provide sufficient audit coverage to important IRS operations.

Conclusions

Since we issued our 1988 report, IRS has taken positive steps to improve management direction and oversight. IRS has (1) developed a business review process that should enable it to assess performance in relation to the objectives set out in the SBP and (2) specified a meaningful number of top management priorities through the delineation of corporate critical success factors.

IRS needs to continue its progress in making the SBP more specific and measurable. Measurable critical success factors are necessary to provide sound criteria for assessing performance and ultimately improving managerial accountability, and IRS is on the right track in developing such measures. IRS needs to exercise considerable care as it proceeds in that endeavor because the kinds of measures chosen will have a significant bearing on how IRS and others assess its performance. Accordingly, the measures selected in July 1991 to assess progress in meeting the critical success factors warrant careful examination by those responsible for overseeing IRS, most notably Congress.

We are not as positive about IRS' progress in developing a human resource management plan. Human resources are critical to IRS' success, and development of a human resource management plan is essential if IRS is to operate effectively in the 1990s. The need to identify skills and resources needed to successfully modernize IRS' systems makes it imperative that the agency expedite the preparation of such a plan. The long time frames associated with certain human resource related strategies in the SBP lead us to question IRS' commitment to this endeavor.

Recommendations to the Commissioner of Internal Revenue

We recommend that the Commissioner of Internal Revenue ensure that IRS (1) reconsiders the milestones it has established for the human resource related strategies in its SBP with a view toward bringing a greater sense of urgency to that effort and (2) revises its internal reports on the status of our October 1988 recommendations to accurately reflect its lack of progress in developing a human resource management plan.

Agency Comments and Our Evaluation

In commenting on a draft of this report in a March 19, 1991, letter, the Commissioner of Internal Revenue acknowledged that what IRS had been calling a human resource management plan was really a blueprint for developing such a plan and that part of the blueprint included gathering data to determine appropriate occupations and skills. While recognizing that such a needs assessment is critical, he said that IRS continues to believe that its September 30, 1994, milestone reflects what is actually feasible.

The Commissioner said that IRS shares our sense of urgency in this matter but explained that skills analysis is an extremely complex task that will require considerable time and resources, including possible outside help. Although the final effort will not be completed until September 30, 1994, the Commissioner noted that skills assessments are being completed in areas where the impact of IRS' systems modernization effort is clear and effective implementation dates are known. Because we were not made aware of these skills assessments until the end of our study, we did not have time to evaluate any to see what they involved. The fact that such assessments are already being done, however, is consistent with the intent of our recommendation, which was to ensure that they be done in time to meet IRS' needs rather than being delayed until September 1994.

Building Quality Into IRS' Services Is a Continuing Agencywide Challenge

During the 1985 filing season, IRS experienced serious problems processing millions of tax returns and related documents through its various data processing systems and issuing accurate and timely refunds to taxpayers. These problems raised serious concerns about IRS' ability to provide quality service to the public. As a result, IRS began to reexamine its emphasis on quality with an agencywide objective to make quality first among equals with production and cost.

In our 1988 report, we recognized that IRS had made significant progress since 1985 in initiating a major quality improvement effort and in getting agencywide involvement in that effort. We also noted that for IRS' quality efforts to succeed in the long term, IRS needed to (1) continually reinforce the importance of quality to managers and employees and (2) monitor and assess the agency's progress toward quality improvement. We recommended, among other things, that IRS build quality into its critical processes, develop an effective performance measurement system, and improve important aspects of its productivity improvement program.

As shown in table 3.1, IRS has taken steps to enhance quality management since our 1988 report. Most significantly, it (1) provided focused leadership to the effort by establishing the position of Assistant to the Commissioner for Quality, (2) expanded its quality improvement effort, and (3) developed a model—which is being tested—that it hopes to use in building quality into its processes and products.

Table 3.1: Elements of a Successful Quality Effort

Element	Description	IRS' actions before 1988 report	IRS' actions after 1988 report
Establish effective direction	A top level management group, such as a steering committee, should formulate an overall strategy and provide policy guidance.	Established the Joint National Quality Council.	Established the position of Assistant to the Commissioner for Quality.
Develop and sustain commitment	Proactive participation and training at all levels of the organization is crucial.	Provided agencywide quality improvement training. Established the Joint Quality Improvement Process and over 500 quality improvement teams.	Revised and strengthened quality improvement training. More than doubled the number of quality improvement projects to a total of about 1,400.
Engrain a preventive approach to quality	Identify and correct problems before they reach the customer.		Developed a quality planning model that promotes a preventive approach to quality.
Develop a quality measurement system	An effective measurement system allows the organization to assess the impact of its improvement efforts and hold managers accountable.	Started strategic initiatives related to development of a performance measurement system.	Completed strategic initiatives related to the development of a performance measurement system. Functions have begun developing performance standards and measures.
Establish management accountability for service quality	A systematic approach for holding managers accountable is a primary factor in the institutionalization of the effort.		Once developed, performance standards and measures will be incorporated into the annual business plans.
Maintain a rewards/ recognition system	Reinforcing quality performance is an important component of an effective quality system.	Established the Productivity Through Quality Innovation Enhancement Program. Established Quality Improvement Team recognition. Created special achievement awards. Developed employee suggestion program.	Sustained efforts to promote the Productivity Through Quality Innovation Enhancement Program.

Although IRS has taken several strides forward, there is still much to be done. Completion of the test of the quality planning model and implementation of such a model, depending on the test's results, would be a significant next step and one that holds great promise. The development of performance measures, as discussed in chapter 2, is another important step. These measures should provide management with the feedback necessary to assess the impact of quality improvement efforts on service delivery and establish accountability for results. In that regard, as noted in chapter 2, one of IRS' critical success factors for fiscal year 1991 calls for the development of quality measures for key products and services by June 30, 1991. IRS also needs to refine its new information system for quality improvement projects to better capture data on project benefits—a step that should help it assess the impact of those projects on performance.

IRS' Early Efforts to Establish a Quality Improvement Process

IRS prided itself for many years on operating efficiently and effectively; it had a reputation for having one of the best trained and most knowledgeable work forces in the government. The 1985 filing season, however, damaged that reputation and led to a reexamination of IRS' emphasis on quality. Recognizing the successes achieved by private companies that emphasized quality improvement as an integral part of their operating process, IRS began to develop a quality process, with a particular emphasis on quality improvement.

IRS' renewed emphasis on quality began with the establishment of a Commissioner's Quality Council in 1985. This Council, which has been renamed the Joint National Quality Council, consists of senior executives from the National Office and the field and representatives of the National Treasury Employees Union (NTEU). Formed to provide direction and guidance to IRS' quality efforts, the Council selected Dr. Joseph M. Juran, a noted quality management expert, to structure its efforts. Dr. Juran's approach emphasizes the initiation of quality improvement projects throughout the organization as a way to begin the quality improvement process.

IRS' first step in implementing Dr. Juran's approach was to provide (1) quality improvement training to all senior executives and (2) a 3-day quality leadership training course to all managers. The training introduced Dr. Juran's three principles of quality management: (1) quality improvement, (2) quality planning, and (3) quality control. Quality improvement focuses on building project teams to address specific quality related problems. Quality planning requires managers to focus on identifying customer needs and setting goals to meet those needs. Quality control emphasizes that services or output must meet acceptable standards.

Consistent with Dr. Juran's approach, IRS' initial program emphasis was on quality improvement. IRS developed over 500 teams throughout the agency to identify and eliminate chronic quality problems on a project-by-project basis. To provide direction and guidance to these teams, IRS established quality councils throughout the agency.

In an effort to gain widespread employee participation in the quality improvement effort, IRS and NTEU signed an agreement in 1987 establishing a Joint Quality Improvement Process. This agreement provided for (1) union membership involvement on all quality councils and (2) employee participation on quality improvement project teams.

IRS' Efforts to Enhance Its Quality Improvement Process Since Our 1988 Report

IRS' efforts to improve quality throughout the organization have continued since our 1988 report. The ultimate success of any organization's effort to improve quality hinges on top management's commitment to the effort. It is significant, therefore, that top management commitment has continued at IRS despite a change in Commissioners in 1989. That commitment was affirmed at a joint IRS/NTEU quality conference on December 4 through 6, 1990, when the Commissioner was quoted as saying the following:

> "Quality is the key to our future. We don't have any choice if we are to do the job we have to do . . . . Quality is in all we think, do, and talk."

Since 1988, IRS has taken steps to enhance its quality improvement process. For example, IRS appointed an Assistant to the Commissioner for Quality to (1) act as a full-time senior manager to support the Joint National Quality Council and (2) provide guidance and support to senior executives in the areas of quality improvement, quality planning, and quality control. IRS also revised its quality training. Among other things, it is providing (1) revised training courses that address the specifics of the quality improvement process for Council members, quality improvement team leaders, and facilitators and (2) quality leadership training to all NTEU officers and stewards.

Also, according to IRS statistics, the number of quality improvement projects has more than doubled since our 1988 report, with a total of 1,391 projects established between 1986 and 1990. Of the 1,391 projects, 774 were ongoing, 386 had been completed, and 231 had been discontinued as of November 1990. The scope of these projects ranged from assessments of major IRS efforts, such as the Coordinated Examination Program (through which IRS audits the tax returns of large corporations), to more mundane activities, such as mail distribution.

According to IRS, many of the quality improvement projects have resulted in significant operating improvements and savings. For example, a quality improvement project team was formed in May 1988 to identify and correct processing problems associated with erroneous estimated tax penalties. The team's solutions included modifying taxpayer forms and the accompanying instructions, revising Internal Revenue Manual instructions for tax examiners, and developing job aids for examiners' use in reviewing tax forms. As a result of these changes, IRS estimated first-year savings would be about $1.6 million. We did not verify the accuracy of that estimate. IRS reported benefits from other projects that were much smaller yet not necessarily unimportant. For example, a project team in one service center designed new carts for moving documents around the center. That design resulted in carts that IRS said were safer, more maneuverable, and generally more useful—thus improving employees' working conditions.

IRS Is Taking Steps to Assess the Impact of Its Quality Improvement Efforts

As noted earlier, one key element of a successful quality effort is a system that allows the organization to assess the impact of its effort. As discussed in chapter 2, IRS is developing quality measures for all its major functions—a process that may take several years. Those measures will be instrumental in providing a basis for IRS to assess its quality improvement efforts. IRS has also taken steps to analyze its individual quality improvement projects by implementing an information system that records and summarizes the status of all the projects. Certain refinements are needed, however, before IRS can effectively use the information generated from this system.

Certain Refinements Would Facilitate Use of Information System to Assess Quality

In 1987, IRS implemented QIIS to store and permit access to information on quality improvement projects. Use of QIIS was not mandatory. Field offices were encouraged, instead, to enter information on their projects into local computer terminals. The information was stored on a mainframe at the National Office. Because IRS did not make use of the system mandatory, IRS offices did not enter project data on a consistent basis. Furthermore, users of the system experienced difficulty in extracting data because of design limitations.

In February 1988, the Juran Institute completed an assessment of the status of IRS' quality improvement activities. Among other things, it recommended that IRS establish an information system to record and summarize the results of all quality improvement projects. The Institute noted that information such as project status, results, and actions taken by management on the team's findings would be extremely valuable for summarizing overall results and replicating remedies.

Consistent with the Institute's recommendations, IRS developed a revised version of QIIS. The revised version, which became operational in April 1990, was designed to be more user friendly than its predecessor. The Joint National Quality Council has made use of the system mandatory. Therefore, offices are now required to input data on all quality improvement projects. The team leader of the project is responsible for entering and updating data on the status of the project as it progresses through the Juran eight-step problem solving process. These data capture, among other things, (1) the project's problem statement, (2) the project's costs, (3) savings resulting from the project, and (4) a narrative description of the project's progress.

Although the revised system is an improvement over the earlier one, it is not without limitations. For example, QIIS does not yet provide accurate information on project benefits. Specifically, it does not provide reliable data on the cost of poor quality[1] and savings. Although some offices were reporting information on savings at the time of our review, IRS had not yet developed a methodology for computing the cost of poor quality. Information on the cost of poor quality is necessary in order to calculate accurate savings figures. As a result, the savings information that is being entered into the system cannot be used to accurately assess the overall costs and benefits of the effort.

IRS' New Quality Planning Model Emphasizes Prevention

Given the nature of IRS' mission and its large work load, even a small percentage of errors can affect millions of taxpayers. It is important, therefore, that IRS identify and correct errors before they affect the public. As discussed in our 1988 report, IRS has relied on a "postreview" approach to detecting errors—an approach that (1) is often too late to effectively address quality issues before errors begin to affect the public, (2) does little to help employees prevent the error the next time, and (3) is more expensive than an approach that focuses on prevention. We noted, therefore, that IRS' quality improvement process faced an important, long-term challenge—the challenge of shifting from a heavy reliance on inspection to prevention.

Since then, IRS has developed and is in the process of testing a quality planning model for building quality into IRS services. As one of Dr. Juran's three principles of quality management, quality planning involves a step-by-step structured process that is based on identifying and meeting customer needs. IRS' customers, for example, include taxpayers, Congress, and the Treasury. Based on an assessment of customer needs, processes and products are examined and redesigned, if necessary, to better align them with those needs. IRS might redesign a tax form, for example, if it is found to cause taxpayer errors.

[1] Poor quality costs are costs that may be incurred before a quality improvement project is implemented, such as those associated with reworking the product due to internal and external failures.

IRS' Efforts to Develop a Quality Planning Model

As part of its February 1988 assessment of the status of IRS' quality improvement efforts, the Juran Institute concluded that IRS had made much progress in managing for quality since 1985. Among other things, however, the Institute recommended that "pilot training and projects be undertaken in quality planning to develop proven training methods and materials as well as demonstrate the utility of quality planning for new and existing IRS processes."

In January 1989, IRS formed a group to begin developing a quality planning model. As a preliminary step to developing a model, IRS researched quality planning models that were being used in companies such as Xerox, American Telephone & Telegraph, and General Telephone & Electronics. These companies were able to significantly improve their performance through quality planning based on customer needs. IRS' research indicated that, in light of the organizational differences between IRS and these companies, IRS needed to formulate its own quality planning model.

IRS' quality planning model is based on the 10-step process shown in table 3.2. Consistent with the concept behind quality planning, as discussed earlier, this model was designed to better align products and processes with customer needs.

Table 3.2: IRS' Quality Planning Model

Step	Objective
1. Identify the product	Identify the product.
	Link the product to organizational goals and priorities.
2. Identify the process	Select the process having the greatest impact on the identified product.
	Establish roles and responsibilities.
3. Define the process	Document the current process.
	Determine the inputs/outputs.
	Document process boundaries.
	Identify current measurement systems.
	Collect baseline data.
4. Identify the customer(s)	Create a list of customers.
	Identify the "vital few" and "useful many" customers.
5. Discover customer	Identify and prioritize customer needs.
	Convert needs to a common customer/supplier language.
6. Establish measurement system	Identify what will be measured to ensure the presence of quality characteristics (based on customer needs).
	Determine how the measurement will be accomplished.
7. Design and optimize	Develop product features based on customer needs.
	Design or redesign a product/service based on product features.
	Determine product goals by optimizing the product/service.
8. Develop process	Design a process that can produce a product to meet product goals.
	Install measures to ensure that the process is in control.
9. Prove process capability	Test the process under operating conditions.
10. Transfer to operations	Achieve a smooth transfer from pilot to operations.

Source: IRS.

Before applying the model on an agencywide basis, IRS decided to test it in the Collection Division of the Buffalo District Office and in the Office of the Assistant Commissioner for Collection. According to IRS, the tests, which began in March 1990, were designed to evaluate the model's applicability to both large and small groups. Accordingly, IRS selected two test activities—the delinquent returns activity at the district level and the automated collection activity at the national level. To administer the tests, IRS assigned multifunctional teams of about 12 to 14 members at the National Office and about 6 to 8 members at the Buffalo District Office.

In preparing to train the two teams before testing the quality planning model, IRS attempted to identify training materials used in public and private sector organizations that were effectively applying quality planning. The Assistant to the Commissioner for Quality said that IRS could not find any materials that were complete enough to meet IRS' needs. Consequently, IRS decided that it would develop its own training handbook for the tests and develop a training program after completion of the testing effort.

In February 1990, IRS developed a training handbook that is being used as part of the instructional resource material for the test. In addition, IRS is using (1) Dr. Juran's book entitled Juran on Planning for Quality, (2) videotapes that accompany Dr. Juran's course on quality planning, and (3) trained facilitators who completed the Juran Quality Planning course.

As described by the Assistant to the Commissioner for Quality, the handbook is a starting point to begin the testing, not a final product. For example, the handbook does not contain a management structure for the quality planning effort. IRS officials said that it would be premature to identify the type of structure needed to manage IRS' quality planning efforts until the testing is complete. In March 1991, officials from IRS' Planning Division said that (1) the purpose of the tests is to determine if the quality planning model is sound and (2) having no prior experience with the model made it impossible to estimate when the testing might be completed.

Once the tests are complete, IRS plans to evaluate the quality planning effort to measure its effectiveness. According to the Assistant to the Commissioner for Quality, the evaluation will include assessments of, among other things, the appropriateness of the 10-step planning process and the potential benefits from and costs of using the process.

Additional Steps Needed to Improve Documentation of Productivity Improvement Projects

In addition to noting IRS' progress in improving quality, our 1988 report recognized IRS as a government leader in the application of tools and techniques to improve productivity. We cited as an example IRS' establishment of the Productivity Through Quality Innovation Program, through which funds are provided to test unique ideas that have the potential for improving productivity.

As part of the work we did in support of our 1988 report, we assessed the effectiveness of the Productivity Through Quality Innovation Program using a sample of nine completed and eight ongoing projects that accounted for over 70 percent of the total funds expended from 1984 to 1986. Our analysis showed that although six of the nine completed projects contained a final report to document the project's results, only two of these reports included any type of cost-benefit analysis. We recommended that IRS improve the documentation of completed projects, especially with some type of evaluation like a cost-benefit analysis. We stated that this type of analysis would enable IRS to determine whether project results should be disseminated IRS-wide.

Since our report, IRS has improved its documentation of completed productivity projects. We reviewed the documentation for all 49 projects that we identified as being nominated for Productivity Through Quality Innovation Program awards in fiscal year 1990. The projects involved changes, often through the use of automation, to many work processes, including (1) the use of word processors with a spelling check capability to prepare correspondence to taxpayers, (2) a change in procedures to allow telephonic rather than written responses to congressional inquiries, (3) a change that enabled broken headsets at toll-free telephone sites to be repaired more quickly and at less cost, and (4) development of a brailled overlay to make it easier for the visually impaired to use computer keyboards. Our analysis of the 49 projects showed that a final evaluation, which included some type of cost-benefit analysis, was available for 42 (86 percent) of the projects. We believe, however, that IRS could improve its efforts to track project information.

IRS keeps track of its productivity improvement projects through an information management system called the Consolidated Project Management System. Designed as an on-line database, this system provides access to information on the status of all ongoing, completed, or terminated productivity improvement projects in IRS. As described in the Internal Revenue Manual, this system provides (1) a vehicle to coordinate projects IRS-wide and (2) an ability to disseminate project results nationwide.

To keep the system current, the National Office requires that regional offices update the status of their projects every 6 months. The system's reporting requirements include information on projected costs, actual costs to implement, projected savings, and actual savings. We reviewed information in the system relating to 16 completed projects and found that required information was not always reported. We believe that IRS needs to more aggressively monitor the regions to ensure that all project information is reported. Such information, we believe, is critical to maintaining a complete database and allowing the benefits of these programs to be shared IRS-wide.

Conclusions

Since we issued our 1988 report, IRS has continued its efforts to engrain a commitment to quality throughout the agency. Top management's commitment to this effort has continued despite a change in commissioners. IRS has also continued to implant the need for improved quality throughout the agency by trying to involve as many employees as possible in its numerous quality improvement projects.

IRS' attempt to involve all employees in the quality improvement process is commendable. IRS is now moving to develop tools that will yield a better assessment of the impact of its quality program on various dimensions of performance. Most significantly, initiatives are under way in all functions to develop performance measures, which are critical components of an effective evaluation process. Implementation of QIIS was another positive move toward developing the kind of information needed for assessment purposes. Effective use of that system will not be forthcoming, however, until IRS is able to include reliable data on benefits and unless IRS ensures that complete information is provided on the status of all projects.

IRS' tests and further development of a quality planning model will move the agency closer to a more systematic approach to preventing quality problems. Evaluation of the model's implementation will be important in determining its potential utility for improving IRS operations. The significant positive impact of quality planning in the private sector suggests that its pursuit in IRS can yield great benefits for the agency and the public.

In addition, IRS needs to better ensure that the regional offices are reporting complete information on the status of productivity projects so that their benefits can be transferred agencywide.

Recommendations to the Commissioner of Internal Revenue

We recommend that the Commissioner of Internal Revenue ensure that IRS

- enhances the reliability of savings information in QIIS by developing a methodology for calculating the cost of poor quality and
- more aggressively monitors the regional offices to ensure that they are providing complete information on the status of productivity projects so that project benefits can be transferred agencywide.

Agency Comments and Our Evaluation

In his March 1991 comments on a draft of this report, the Commissioner of Internal Revenue said that IRS plans to continue and build upon its commitment to quality and productivity. He said that one of IRS' objectives is to become a total quality organization with an emphasis on quality-driven productivity gains throughout the agency.

With specific reference to our recommendations, the Commissioner said that a methodology for calculating the cost of poor quality has been developed and that feedback from a pilot training class was being incorporated into formal training course material. He said that training for executives, managers, quality councils, and others is scheduled for the third quarter of fiscal year 1991. The Commissioner also said that steps have been taken to improve the monitoring of productivity project information from the regional offices. He said that (1) reviews of regional office responses to June and December 1990 requests for updated information showed significant improvement and (2) monitoring of the regional offices would continue on a regular basis to ensure that the information being provided is complete. These actions appear to be responsive to our recommendations.

Information Resources Management Improved; Challenges Remain

IRS still processes tax returns using design concepts from the 1950s, such as batch processing and magnetic tape storage on reels. The returns processing system is paper driven and labor-intensive. As a result, data input and retrieval often take weeks, making service to taxpayers and IRS users slow and sometimes unreliable. The system prohibits ready access by employees to tax account data—access that is required to more adequately address taxpayer inquiries and meet other program needs. It also limits IRS' ability to deal with its mounting work load and hampers IRS' efforts to be more effective.

In 1986, IRS initiated a major program, called Tax Systems Modernization (TSM), to replace the antiquated and inefficient processes. Expected to cost several billion dollars and take the greater part of a decade to complete, TSM may well be the largest and most costly civilian modernization the government has ever undertaken. In our 1988 report, we noted that modernization was IRS' most critical long-term challenge and that IRS' progress in meeting this challenge had been hampered by weaknesses in its management of information resources.

To meet the challenge of planning and managing TSM and other technology programs, we recommended in our 1988 report that IRS (1) consider establishing a third Deputy Commissioner position with sole responsibility to manage information technology, (2) consolidate accountability and responsibility for managing its telecommunications program, (3) develop and implement a strategy for providing additional technical training of and expertise in its executive ranks, (4) assess the current technology and information system strategy and initiatives for redesigning the tax processing system to ensure that they support the objectives specified in the SBP and will accomplish the expected results, and (5) monitor the implementation of actions to improve the administration of ADP contracts. In a subsequent 1990 report, we concluded that IRS needs to clearly delineate the components of TSM and specify how they will be integrated into a total operating system.[1]

IRS took several steps in response to our recommendations. Most significantly, it established the position of Chief Information Officer—a step that we believe will strengthen IRS' management of information systems and technology. Under this official's leadership, IRS issued a plan in September 1990 that discussed how the individual projects comprising TSM will be sequenced and integrated.

[1] Tax System Modernization: IRS' Challenge for the 21st Century (GAO/IMTEC-90-13, Feb. 8, 1990).

Significant challenges remain for IRS in successfully modernizing its information systems. Some of these challenges face all major government systems modernizations and include the constraints inherent in federal procurement regulations and federal personnel and pay restrictions. Other challenges are unique to IRS and include the need to integrate the design assumptions of TSM with the agency's business needs and objectives. To help meet the long-term challenge of planning and managing its information system modernization, IRS needs to (1) develop a strategy for enhancing technical expertise at senior decisionmaking levels and (2) complete improvements in ADP contract administration.

Establishment of a Chief Information Officer Position Should Provide Improved Leadership

In October 1988, we recommended that IRS consider establishing a third Deputy Commissioner position with sole responsibility for managing information technology. Although IRS had consolidated technology management under one Deputy Commissioner as part of a 1987 reorganization, the Deputy could not devote his full attention to technology because of other significant financial management, facilities management, human resource management, and agencywide planning responsibilities. In our opinion, this cornucopia of duties precluded effective leadership of IRS' technology program.

In 1989, GAO and IRS jointly surveyed IRS executives to obtain their views on the impact of the 1987 reorganization.[2] The executives were of the general opinion that the reorganization had strengthened organizational communications and decisionmaking. However, over one-half of the executives said that there still was a great or very great need to strengthen accountability in the management of technology.

In response to our 1988 report and the feedback from executives, Treasury established the position of Chief Information Officer in IRS in October 1989. The first Chief Information Officer was appointed in March 1990. The Chief Information Officer reports directly to the second highest IRS official—the Deputy Commissioner—and is to devote full time and attention to shaping IRS-wide technology programs and fostering a shared commitment to them. In addition, the Chief Information Officer (1) directs the planning, design, development, and operation of automated systems and (2) is the key person in identifying IRS' information system priorities and in ensuring that those priorities are adequately funded. Given those responsibilities, we believe that the Chief

[2] IRS' Reorganization: IRS Senior Executives' Views on the Impact of the 1987 Reorganization (GAO/GGD-90-45, Mar. 8, 1990).

Information Officer is in a position to provide visible and centralized leadership of IRS' technology programs.

TSM Is the Major Challenge Facing IRS and the Chief Information Officer

The most important challenge facing IRS and the Chief Information Officer is to successfully manage TSM. As of October 1990, IRS had spent about $250 million on that effort since its inception in 1986 and expected to spend several billion dollars more over the next several years to complete it.

We said in a February 1990 report that TSM had been characterized by high expectations and unanswered questions. In explaining the uncertainty, we noted that IRS had to (1) complete its analyses of how it wants to do business in the future, (2) resolve system integration issues, and (3) identify a clear and consistent set of projects that will comprise TSM. We also recognized the following other challenges that IRS said faced major government modernizations like TSM: (1) the constraints inherent in federal procurement regulations and the contract appeals process, (2) the absence of multiyear capital budgeting to ensure commitment of resources over long time frames, (3) the need to resolve issues resulting from the impact of automation on the work force, and (4) the constraints posed by federal personnel and pay regulations in hiring and retaining technically proficient information systems staff.

In September 1990, IRS took a major step toward resolving some of the uncertainty discussed in our 1990 report by issuing a draft design master plan, which documented various projects that make up the overall effort and discussed how they will be sequenced and integrated. The Chief Information Officer's leadership will be vital if IRS is to successfully design, implement, and integrate the various components of TSM.

Recognizing the opportunity provided by systems modernization to improve its programs and operations, IRS took another important step in June 1990 when it began an effort to identify more effective ways of doing business with new systems. This project is intended to (1) serve as an umbrella over the diverse activities that encompass TSM and (2) help ensure the effective integration of technology with IRS' human resource capability to develop work processes that make the most sense for delivering quality products and services. IRS established an executive steering committee consisting of headquarters and field officials to oversee this project.

In commenting on a draft of this report in March 1991, the Commissioner of Internal Revenue referred to yet another step that IRS has taken to facilitate implementation of TSM. He said that IRS was in the process of establishing an executive level program manager, reporting directly to the Chief Operations Officer, who will be responsible for ensuring the TSM meets IRS' operational needs.

Telecommunications Responsibility Has Been Consolidated

When we issued our 1988 report, responsibility for telecommunications management was diffused between the Assistant Commissioner for Human Resources Management and Support and the Assistant Commissioner for Computer Services. This diffusion existed despite the fact that (1) federal guidelines recommended that management be consolidated and (2) various studies done in the mid-1980s by IRS and a consultant pointed to the need for consolidation. We expressed the belief that centralized accountability for data and voice communications would avoid confusion and possible delays in carrying out this critical facet of IRS' technology management program. Accordingly, we recommended that IRS consolidate management responsibility for its telecommunications program.

By October 1989, IRS had implemented our recommendation by combining responsibility for data and voice communications in the data processing function at each of its regional and district offices. Also, in October 1990, IRS moved overall responsibility for telecommunications to the Assistant Commissioner for Information Systems Development who is responsible for planning and managing the modernization effort. Consolidating management responsibility for telecommunications in one organizational component should improve IRS' ability to plan and implement the modern telecommunications networks needed to support modernization.

IRS Needs a Strategy for Enhancing Technical Expertise

In our 1988 report, we expressed the belief that IRS could better ensure the success of its information technology program if it provided more technical expertise to the Deputy Commissioners[3] and their senior management teams. We noted that (1) senior managers had a role in formulating IRS' technology objectives and principles and in deciding on the technical and economic feasibility of various strategies for acquiring

[3]When we issued our 1988 report, IRS had three Deputy Commissioners—a Senior Deputy, a Deputy for Operations, and a Deputy for Planning and Resources. In December 1990, the Treasury Department announced that those three positions would be retitled as Deputy Commissioner, Chief Operations Officer, and Chief Financial Officer, respectively.

that technology and (2) such a role often requires that managers weigh technical advice in balancing the merits, risks, costs, and benefits of alternative solutions. We recommended, therefore, that IRS develop a strategy for adding technical expertise to its executive ranks.

In response to our recommendation, IRS took steps to fill some technical management and executive positions. IRS also ran an executive seminar and has planned other training to increase awareness of the agency's technology program and modernization. IRS has not, however, developed the strategy that we recommended in 1988—a strategy that would help ensure that its initial efforts are sustained over the long term. As part of such a strategy, IRS should assess its needs for technical experience and develop a program for meeting those needs.

IRS Should Identify Its Needs for Technical Expertise

IRS took steps to attract managers and executives with technical backgrounds but appeared to have achieved minimal success as of May 1990—the last time we assessed IRS' progress. In a September 1990 report on its status in implementing our October 1988 recommendations, IRS described the effort to create a pool of technically qualified managers and executives as ongoing—an apparent recognition of the fact that the effort must be sustained if it is to be effective.

Between October 1988 and March 1990, IRS filled two mid-level technical management positions with individuals who had experience managing technology in other government agencies and private industry. The two positions were a project manager responsible for managing change as TSM systems are introduced into IRS and an official responsible for IRS' telecommunications, computer security, and disaster recovery programs. In commenting on a draft of our report, the Commissioner of Internal Revenue said that IRS had hired a total of 18 Information Systems Development project managers from outside IRS as of March 1991. We did not have time to assess the technical backgrounds of those hires.

Since our 1988 report, IRS has also begun to seek outside candidates with technical expertise for its Executive Development Program. This program includes a 6-month training period, after which candidates are eligible for senior executive positions in IRS. To attract outside candidates with technical backgrounds for the 1990 program, IRS placed a job announcement for executive officers in four technical journals and two general publications. To ensure that all candidates were considered equally, IRS did not set goals for the number of outside candidates to be selected.

In total, 600 applications were received from outside IRS for the 1990 program. Of those, three applicants were selected for the program, but only one had a technical background. According to IRS' Chief of Executive Support, the most important qualification in the selection process was experience in managing a large number of people through front line supervisors. She said that since many of the outside applicants with technical backgrounds lacked managerial experience, they were not competitive for these positions. Other executive agencies, mindful of the need to be competitive for technically skilled people, have established some senior executive positions with little or no managerial responsibility to attract or retain qualified technical talent. The requirement for managerial experience will continue to hamper IRS' ability to attract the best technical skills to support the modernization effort.

A major concern with IRS' overall effort to obtain more technical talent is that the agency has not systematically identified its needs for technical expertise across the agency. As we noted in chapter 2, IRS will not finish a comprehensive assessment of its staffing and skill level needs until September 1994. In the absence of such an assessment, IRS' effort to respond to the need for greater technical expertise occurs only when a particular position becomes vacant. Although the agency has filled several management positions for the TSM effort and created one executive development position, neither IRS nor we are in a position to know the extent to which these actions have met IRS' overall needs. We believe that a comprehensive assessment of IRS' needs for additional technical expertise is a necessary step in developing the strategy called for in our recommendation.

IRS Has Taken Steps to Increase Technical Knowledge Among Its Senior Executives

Technical awareness is important if IRS' senior executives are to make informed decisions about technical initiatives and set the course for modernization. Whether or not these executives directly manage technical programs, they need an understanding of technical areas because (1) technology has become a key element in achieving IRS' mission and (2) IRS' line executives are responsible for defining information system requirements and for initiating and managing major development efforts.

In 1989, to increase executives' knowledge of technical issues, IRS ran a 3-day seminar called "Modernizing With Technology." Attended by all of IRS' 270 top executives, the seminar primarily provided updates on IRS' information technology management program and its modernization effort. The executives were asked, as part of the seminar, to explore their roles in the modernization of technology.

In recognition of the importance of educating all IRS staff about TSM, a Training Section is being established in the Office of Information Systems Development. The designated Chief of that section told us of other training programs that have been established as follow-ons to the executive seminar discussed above. Those programs include an abbreviated 4-hour version of the executive seminar intended as a technical overview of TSM for managers. They also include a training program for executives composed of (1) a 4-hour seminar on the TSM system architecture and the design master plan and (2) 1-hour modules on individual modernization projects, such as the Taxpayer Service Information System, that are intended to provide hands-on training.

Initial Steps Taken to Assess Information System Planning

In October 1988, we noted that (1) IRS' information strategy and initiatives were developed before or concurrent with the SBP and (2) neither the mission need statements for information systems nor the SBP were linked to measurable and quantifiable statements of the problems to be solved. We recommended that IRS assess its information system strategy and initiatives for redesigning the tax processing system to ensure that they adequately support the objectives specified in the SBP and accomplish the expected results.

We did not, as part of this review, determine independently whether such an assessment had been made. Senior IRS officials assured us that it had been.

According to IRS officials, the Information Systems Plan[4] and the SBP are formulated each year on the basis of the same set of assumptions and strategies, which should ensure consistency. Further, a group of persons representing various IRS functions, under the direction of IRS' Planning Division, reviewed 28 of the Information Systems Plan's 44 initiatives in 1989 to identify any policy and planning issues, including any inconsistencies with the SBP. IRS officials said that the Information Systems Policy Board used the reports on these reviews in preparing IRS' fiscal year 1991 budget request for information systems. The 28 initiatives covered by those reviews included the largest initiatives in terms of

[4]An information systems plan develops the policies and direction for an agency's information systems management program and specifies the technology related activities and resources necessary to achieve the agency's missions and objectives.

fiscal year 1991 budgeted amounts, such as the Integrated Collection System and the Integrated Input Processing System, and accounted for most of the fiscal year 1991 information systems budget.

We analyzed the reports on those 28 reviews to see if they indicated that the review group asked the kinds of questions that would reveal inconsistencies between the Information Systems Plan and the SBP. We believe that they did and that the reviews provided a reasonable opportunity for IRS to assess the information systems strategy and initiatives. For example, in 24 of the 28 reviews, the reviewers raised issues that we believe related to the SBP, IRS' business objectives in general, or integration of the Information Systems Plan initiatives.

As IRS recognizes, the assessment of its strategy and initiatives must continue to be part of its regular planning process. This continuing assessment is critical because IRS' ongoing efforts to identify its business needs and define its modernization initiatives could alter previous planning assumptions.

Actions to Improve ADP Contract Administration Not Complete

In discussing ADP contract administration in our 1988 report, we noted that IRS had incorrectly evaluated contract prices, exceeded procurement authority, and overpaid for services. To improve contract administration, IRS officials told us of plans to (1) enhance the competence of contract administration staff in contract price evaluation and (2) develop software to manage contract obligations and payments. Recognizing that contract administration will be critical to the success of IRS' modernization effort, we recommended that the Commissioner monitor implementation of those plans to ensure that the improvements were made. IRS has made some improvements, but development of contract management software has not progressed much in the past 2 years.

IRS Has Taken Positive Steps to Improve the Quality of Price Evaluations

IRS has taken several steps to improve the quality of its evaluations of contract prices, including (1) hiring price evaluation specialists, (2) buying price evaluation software, and (3) training contract analysts.

In 1987, at the time of our management review, IRS lacked specialized expertise in price evaluation. IRS has since taken steps to acquire that expertise. According to an official in IRS' Contracts and Acquisition Division, IRS (1) had brought four price evaluation specialists on board as of September 10, 1990, (2) had a fifth specialist due to come on board in October 1990, and (3) was starting recruitment actions to hire three more. Officials believe that this in-house expertise will greatly improve the quality of IRS' contract price evaluations.

IRS also bought specialized price evaluation software to facilitate price evaluations and improve pricing accuracy. As of December 1989, IRS had used the software to evaluate proposals for two major contracts—the Treasury Multiuser Acquisition contract and the Integrated Collection System contract. According to the Contracts and Acquisition official, the software was helpful, but further changes (such as one that would enable the software to compare different proposals) are planned to improve its usefulness.

To meet the needs of its ADP contract analysts, IRS is providing price evaluation training through the Treasury Procurement Career Management Program. The program requires that all analysts have at least 40 hours of price evaluation training—a requirement that is typically met by attending a 2-week Department of Defense cost and price analysis course. As of December 1989, three-quarters of IRS' 42 ADP contract analysts had completed the program's mandatory price evaluation training and had also taken supplemental training in price evaluation.[5] The Contracts and Acquisition Division planned to finish the required training for all contract specialists by October 1990.

According to Contracts and Acquisition Division officials, IRS has supplemented the formal training with seminars in price evaluation including (1) a 2-hour seminar in July 1989 that reviewed basic price evaluation issues and (2) an advanced seminar in fiscal year 1988 and another in fiscal year 1989 on selected price evaluation topics. A Division official said that many of its ADP contract specialists attended these seminars. Since April 1989, the Division has also offered guidance on price evaluation in its monthly newsletter, Pro & Con.

Efforts to Develop Software to Manage Contract Obligations Have Floundered

IRS has not made much progress in developing software to manage contract obligations. We noted in our 1988 report that such a system was needed to ensure that IRS did not exceed its procurement authority on contracts.

Two attempts, in 1987 and 1988, to develop the software were abandoned. According to the Contracts and Acquisition Division official

[5]This information was taken from Treasury's automated career development tracking system. We did not independently verify the accuracy of this information.

responsible for the software's development, these attempts failed because (1) they were not a priority of senior managers and (2) the technical personnel assigned to them were reassigned and not replaced.

A third attempt to develop the software was started as part of a project called the Automated Contract Management System. As of November 21, 1990, IRS and a contractor were negotiating a proposal to define the system's requirements.

Contracts and Acquisition Division officials expressed the belief that senior management supports the current project and that the likelihood of success has been enhanced by an October 27, 1989, memorandum of understanding. In the memorandum, the Director, Office of Standards and Data Administration (which is under the Assistant Commissioner for Information Systems Development), formally agreed with the Contracts and Acquisition Division to provide the support needed to complete an analysis of the information requirements for the system. However, the overall system development effort continued to lack a sense of commitment. As of November 1990, for example, IRS had not established (1) a project charter covering development of a contract management system beyond the requirements analysis stage and (2) specific milestones for developing the system.

Establishment of New Procurement Office Could Lead to Improved Contract Administration

IRS' efforts to improve contract administration could be enhanced by the October 1990 establishment of a procurement office to be headed by an Assistant Commissioner for Procurement Services, who reports directly to IRS' Chief Financial Officer. One of the new office's primary responsibilities is to administer contracts, focusing primarily on the massive procurement needs associated with TSM. In announcing this reorganization, IRS said that by elevating procurement services to the assistant commissioner level, the procurement aspects critical to the success of TSM will be "managed directly at the top executive level of IRS."

Conclusions

Actions IRS has taken in response to our 1988 recommendations should (1) improve leadership of IRS' technology programs, (2) facilitate management of telecommunications, and (3) enhance IRS' ability to evaluate the price of ADP procurements. There are many technological challenges awaiting IRS, however, as it proceeds with TSM—challenges that will require the continuing attention of its new leadership. How IRS meets these challenges will help determine its eventual success in modernizing its systems.

One key to success is attracting and retaining sufficient technical expertise to design and implement workable systems. Although IRS has been successful in attracting several managers and an executive with technical backgrounds, it has filled positions on an ad hoc basis, not in response to a comprehensive assessment of its needs for additional technical experience. With a major modernization effort facing it, IRS needs to quickly define its technical needs and identify approaches for satisfying them. This task should be accomplished as part of the expedited human resource plan we called for in chapter 2. As part of this effort, IRS could consider changing its requirements for accepting outside applicants into its Executive Development Program. IRS could be depriving itself of valuable technical expertise by putting so much emphasis on finding applicants who have managerial experience.

Another area needing continued management attention is the development of software to manage contract obligations. IRS' ability to manage future modernization procurements may be impaired if this work is not completed quickly. We believe that development of this software should be one of the priorities of the newly established procurement office.

Recommendations to the Commissioner of Internal Revenue

We recommend that the Commissioner of Internal Revenue ensure that IRS develops and implements, as a priority, a strategy for providing additional technical expertise at senior decisionmaking levels. This strategy should include an assessment of IRS' needs for additional technical experience and a program to satisfy those needs as part of the human resource planning process called for in chapter 2 of this report.

We also recommend that the Commissioner ensure that the Assistant Commissioner for Procurement Services adopts as one of his initial priorities the development of software to manage contract obligations.

Agency Comments and Our Evaluation

In his March 1991 comments on a draft of this report, the Commissioner of Internal Revenue said that IRS recognized the need to improve technical expertise at senior decisionmaking levels. He said for example that IRS (1) had made great strides in recruiting highly qualified managers with strong technical backgrounds, which provided it with an excellent base of technical expertise, and (2) was in the process of establishing a strategy to improve the technical expertise and knowledge of its managers and executives. He said that IRS' initial plans called for establishing a TSM Planning Committee responsible for developing a 5-year modernization training plan and that IRS (1) had established a National

Management Training Council to provide a clearinghouse and final approval authority on all recommendations made by the Planning Committee and (2) was working with the Maxwell School at Syracuse University to develop a special training program for mid-level managers in public administration, with an emphasis on information systems management.

The steps cited by the Commissioner, especially those relating to training, appear to reflect a strong appreciation of the need for technical expertise. Although he mentioned the number of persons who have technical backgrounds IRS has hired, the Commissioner was silent on that part of our first recommendation calling for IRS to assess its needs for technical expertise. Without knowing what those overall needs are, IRS is not in the best position to know the extent to which those needs have been met through the hiring mentioned by the Commissioner.

In regard to our second recommendation, the Commissioner said that IRS had begun to implement a contract management system called GENSTAR. He said that the system was being developed for use on the Treasury Multiuser Acquisition Contract, with an anticipated award in June 1991, and would also be used to monitor future ADP/telecommunications contracts. We recognize that GENSTAR may be helpful in managing the particular contract for which it was developed. However, IRS will not know the extent to which GENSTAR can satisfy its overall needs until it completes the project to determine its information requirements for the Automated Contract Management System discussed earlier.

IRS Has Enhanced Its Ability to Deal With Continuing Financial Management Challenges

IRS, as the government's tax collector, has unparalleled responsibility to maintain revenue accounting and administrative financial systems that are second to none. In our October 1988 report, we noted that (1) IRS accounted for 90 percent of the federal government's revenues and 60 percent of its delinquent receivables and (2) IRS' ability to satisfy its financial responsibilities had been undermined by accounting processes with weak internal controls and old systems that produced inaccurate and untimely information.

Since October 1988, we have continued to report on some implications of IRS' financial management weaknesses: (1) a continually growing accounts receivable inventory that led to its identification by the Comptroller General as one of 14 high risk areas in the government that pose significant potential for loss to the Treasury and (2) significant funding shortages in fiscal years 1989 and 1990 that forced IRS to take several steps, such as implementing a hiring freeze, that adversely affected its day-to-day operations.[1]

We said in our 1988 report that IRS needed to provide financial management leadership and guidance. Since then, IRS has established financial leadership and has included improved financial management as part of its SBP. These actions should (1) enhance IRS' ability to address long-standing financial management problems, not the least of which is a critical shortage of accounting personnel, and (2) facilitate IRS' capability to provide timely financial information that is useful to both the agency and Congress in making decisions that affect IRS operations. IRS' ability to effectively manage its financial affairs would be enhanced even further if the new leadership's responsibilities were expanded to include those operations related to IRS' accounting for tax revenues.

Financial Leadership Has Been Established

When we issued our 1988 report, no one at IRS was responsible for ensuring the integrity and efficiency of financial management and accounting systems agencywide. Given IRS' pervasive and complex financial management problems and the historical difficulty in improving its financial management systems, we concluded that IRS would benefit from the establishment of a CFO position with overall

[1] See IRS' Accounts Receivable Inventory (GAO/T-GGD-90-19, Feb. 20, 1990); Tax Administration: Trends in the Growth and Age of IRS' Accounts Receivable (GAO/GGD-90-111FS, July 30, 1990); IRS' Accounts Receivable Inventory (GAO/T-GGD-90-60, Aug. 1, 1990); Administration's Fiscal Year 1990 Budget Proposals for IRS and the Tax Court (GAO/T-GGD-89-16, Apr. 4, 1989); Tax Administration: Results of IRS' Mid-Fiscal Year 1989 Financial Review (GAO/GGD-89-116, Aug. 18, 1989); and IRS' Budget Request for Fiscal Year 1991 and Status of the 1990 Tax Return Filing Season (GAO/T-GGD-90-26, Mar. 22, 1990).

authority and responsibility for such things as (1) developing an overall financial management plan, (2) monitoring accounting and financial systems development and operations, and (3) identifying staffing and training needs to support accounting and financial management. Since our report, IRS has appointed a CFO and an Assistant Commissioner (Finance)/Controller. These actions should improve financial management at IRS. As part of our audit of IRS' financial statements, as mandated by the Chief Financial Officers Act of 1990, we will assess the effectiveness of IRS' financial management operations.

The Assistant Commissioner (Finance)/ Controller Is the Key to Stronger Direction and Leadership

Effective October 1989, IRS' Deputy Commissioner for Planning and Resources was formally designated as the agency's CFO. The CFO is also the principal advisor to the Commissioner and Deputy Commissioner and IRS' main spokesperson on other matters such as planning and human resource management. To assist the CFO in overseeing financial management matters, IRS established the position of Assistant Commissioner (Finance)/Controller. The position was filled in April 1990 by a person from outside IRS who has extensive financial management experience.

The Assistant Commissioner (Finance)/Controller reports directly to the CFO and is responsible for, among other things, (1) developing and promulgating IRS-wide financial standards, systems, and controls; (2) guiding the budget formulation process; (3) managing appropriated funds and accounting for their disposition; and (4) developing and implementing modern financial systems.

We believe that the Assistant Commissioner (Finance)/Controller position is key to the success of IRS' financial management improvement efforts. The position provides IRS with full-time accounting and financial management leadership and strengthens accountability for (1) resolution of IRS' serious and longstanding accounting systems problems and (2) development of systems that IRS needs to operate effectively in the future.

Soon after coming on board, the Assistant Commissioner (Finance)/Controller began to exercise the financial management leadership that we think is essential. For example, in a July 1990 memorandum to IRS' regional and assistant commissioners, he discussed plans for "a new financial infrastructure within the IRS . . . to address the fiscal problems we face today and to better serve the IRS in the fiscal environment we will face tomorrow." He also announced formation of a financial architecture task force to examine the strengths and weaknesses of IRS' current financial management system, investigate new ways of doing business, and propose a new financial management structure. As of December 3, 1990, the task force had completed its work and was drafting a report (including recommendations) for the Controller.

New Leadership Structure Should Help IRS Meet Intent of CFO Legislation

The Chief Financial Officers Act of 1990, which is the most comprehensive financial management reform legislation in 40 years, places important responsibilities on agency CFOs to improve financial management systems and operations. The act calls on the Department of the Treasury, and other agencies, to develop a CFO organization plan. On February 27, 1991, OMB issued guidance to agencies for organizing financial operations under the act. The guidance makes it clear that the CFO is to be responsible for financial management of an agency's components. The Treasury-wide plan is due to OMB in April 1991 and should clearly address the relationship of the Treasury CFO to IRS.

Although not legislatively required to have its own CFO, IRS now has in place a leadership structure to carry out the act's requirements. It is too soon to assess how well these requirements will be implemented by the CFO and the Assistant Commissioner (Finance)/Controller. However, we plan to monitor overall Treasury efforts to establish a CFO structure and IRS' effectiveness in implementing its CFO organization.

Financial Management Improvement Has Been Made Part of IRS' Strategic Business Plan

The second key recommendation for strengthening financial management and accountability in our 1988 report was that IRS develop an overall financial management improvement plan as part of its SBP to assist in setting priorities, fixing accountability and responsibility, and monitoring financial system operations and improvements.

IRS' most recent SBP extends through fiscal year 1996. As discussed in chapter 2, that plan includes 6 objectives and 24 strategies. One of those objectives and five of the strategies are directed at improving the use of financial resources. One strategy, for example, is to develop, during fiscal years 1991 through 1993, a restructured financial management system that will "provide timely, accurate, usable, and complete information needed to manage the IRS' financial resources." The other 4 strategies are related to budget formulation and execution. One, for example, calls for developing a 2-year budget starting with the fiscal year 1993 budget cycle, and another calls for establishing measurements that will assess the effectiveness of budget execution annually.

The inclusion of financial management related strategies in the SBP is the essential first step toward the implementation of improved financial management systems and controls at IRS. Converting those strategies to specific prioritized actions and seeing those actions through to their successful completion will be important responsibilities of IRS' new financial leadership.

Resolving Longstanding Staffing Shortages Is a Major Challenge for the New Financial Leadership

As IRS moves toward improving its financial management, one longstanding problem that needs specific attention involves a critical shortage of accounting personnel. In our 1988 report, we (1) cited IRS statistics, which indicated that turnover rates for accounting personnel in IRS had exceeded 25 percent for the past 3 fiscal years, and (2) referred to a May 1986 study by IRS' Finance Division that raised concerns about the effect of reduced staffing and an increasing work load on the quality of administrative accounting activities. We concluded that IRS needed to identify its present and future requirements for accounting personnel and adopt strategies for meeting those requirements.

A Task Force Has Proposed a Staffing Level for the Controller Function

After his appointment, the CFO convened a financial process task force. The mission of the task force was to determine how IRS should structure its financial processes and organization to plan, design, develop, deliver, and operate a quality financial management system to meet its mission. One of the task force's objectives was to propose staffing (to include numbers, skills, and span of control) for the Assistant Commissioner (Finance)/Controller function and to prepare position descriptions for key positions. In a March 1990 report, the task force proposed an organization chart for the Assistant Commissioner (Finance)/Controller function and identified the specific staffing needs of each division and office within that proposed organization.

The task force determined that IRS would have to increase its staffing from a level of 79 authorized positions in fiscal year 1990 to 167 positions in fiscal year 1991 and 235 positions in fiscal year 1992, with an additional 32 positions for eight budget/accounting offices in the National Office and IRS' seven regions. The task force also specified various actions IRS would have to take to fill those positions with qualified people. Among other things, the task force said that IRS needed to

(1) develop and execute recruitment plans that identify adequate numbers of candidates with skills, knowledge, and attributes needed in the IRS financial community; (2) identify and meet training and developmental needs of employees in the financial community; and (3) standardize procedures and practices among finance offices so that IRS-wide handbooks, computer software, training modules, and challenging career ladders can be effectively developed and maintained. As of the beginning of March 1991, according to IRS, 49 new employees had been brought on board in the Controller function, representing a net increase of 42 people.

It remains to be seen how many additional positions IRS ends up realizing in fiscal year 1991. IRS' ability to fill any increased positions with people who possess the necessary financial and accounting skills to meet the needs of those positions and its success in implementing the kinds of actions recommended by the financial process task force will require sustained direction and oversight by IRS' financial leadership.

Development of the Automated Financial System Would Be Enhanced by Increased Staffing

When we issued our 1988 report, IRS was in the process of replacing its administrative accounting system with the Automated Financial System (AFS). We noted in our report that AFS was behind its initial implementation date of September 1988 and that IRS needed to designate a project manager to direct and oversee day-to-day efforts to develop AFS and ensure that sufficient staff resources are applied to the project. With respect to the latter, we noted in our 1988 report that of the 26 accounting personnel from IRS' Finance Division and the regions who were assigned to develop the detailed accounting requirements for AFS, only 3 were full time.

Since our 1988 report, IRS has appointed a project manager and has revised its implementation plan and milestones. The plan, as of February 1991, called for implementation to be completed by October 1992. The importance of moving forward on AFS was also recognized in the most recent SBP. One of the 13 corporate critical success factors in that plan called for the Assistant Commissioner (Finance)/Controller to complete the AFS pilot by May 1991. According to the AFS project manager, that pilot was on schedule as of February 28, 1991.

Staffing of the AFS project office has improved since our 1988 report. According to the AFS project manager, the project office was staffed with 12 full-time persons, including himself, as of February 28, 1991, with additional hiring expected in the near future to bring the office to its authorized staffing ceiling of 21. According to the project manager, the staffing included three senior accounting/financial program analyst/team leaders, two senior computer specialists, two accounting specialists, one computer programmer analyst, and two junior staff.

Expanding Responsibilities of the CFO and Controller to Include Revenue Accounting Would Further Enhance IRS' Financial Management

Both the financial process and financial architecture task forces have focused almost exclusively on IRS' administrative financial management needs. That focus is consistent with the fact that the CFO and the Controller are primarily responsible for administrative accounting matters (those related to such things as formulating IRS' budget and managing appropriated funds). IRS is not just responsible for managing its own money, however. It must also account for the billions of tax dollars collected each year—a responsibility that includes managing the growing inventory of accounts receivable. Responsibility for revenue accounting in IRS rests with the Accounting Branch within the Returns Processing and Accounting Division of the Assistant Commissioner for Returns Processing.

There are significant financial management issues related to revenue accounting that could benefit from the focused attention of IRS' new financial leadership. We have reported several times on the need for improved financial management information on accounts receivable and have reported about deficiencies in IRS' revenue accounting systems.[2] The Chief of the Revenue Accounting Branch has also expressed concern that the Branch's ability to do its job effectively is being hampered by a shortage of resources—a shortage that he said could become severe over the next several years.

The separation of responsibilities for administrative and revenue accounting within IRS could also cause problems as IRS works toward developing auditable financial statements. In recommending the development of such statements in our 1988 report, we noted that (1) the concept of preparing and auditing financial statements helps improve agency financial management by promoting discipline and accountability and (2) audits of financial statements ensure that there is a proper link among accounting transactions, accounting systems, and financial statements.

[2]See those reports cited in footnote 1 of this chapter relating to accounts receivable. For information on revenue accounting systems, see Internal Revenue Service: Need to Improve the Revenue Accounting Control System (GAO/IMTEC-88-41, June 17, 1988).

IRS' development of financial statements became a legislative mandate upon enactment of the Chief Financial Officers Act in November 1990. Among other things, that act mandates that IRS, by March 31, 1993, submit to the Director of the Office of Management and Budget financial statements for the preceding fiscal year. Any financial statements prepared in accordance with the 1990 act will have to cover administrative and revenue accounting matters. IRS' ability to develop comprehensive audited financial statements covering both administrative and revenue accounting would be enhanced by consolidating responsibility for the accounting treatment under the CFO and the Controller. These officials are in a better position to promote consistent application of accounting standards to these two areas. Also, OMB's February 1991 guidance relating to the act specifically calls for a CFO to have the authority to manage directly and/or monitor, evaluate, and approve the design, budget, development, implementation, operation, and enhancement of accounting, financial, and asset management systems.

Conclusions

IRS has made significant strides toward implementing the two key financial management related recommendations in our 1988 report. It has established the kind of financial leadership necessary to deal effectively with the many longstanding financial management challenges facing the agency and has made improved financial management an integral part of its SBP. IRS needs to continue moving forward by (1) building a staff of qualified financial managers and accountants to support the new leadership and (2) implementing the strategies set out in the SBP.

Effective leadership of IRS' accounting activities could be adversely affected by the fact that the CFO and the Assistant Commissioner (Finance)/Controller are not directly responsible for IRS' revenue accounting activities. We think that effective resolution of the issues surrounding these activities and the development of auditable financial statements would benefit from the focused attention of IRS' new financial leadership. Toward that end, we believe that it would be in IRS' best interests if responsibility for revenue accounting were transferred to the CFO and the Controller.

Recommendation to the Commissioner of Internal Revenue

To better ensure appropriate attention to IRS' revenue accounting activities, we recommend that the Commissioner of Internal Revenue transfer responsibility for those activities to the CFO and the Assistant Commissioner (Finance)/Controller.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Commissioner of Internal Revenue said that IRS has taken significant steps to ensure accountability in the revenue accounting area by (1) placing responsibility for establishing accounting standards for both revenue and administrative accounting systems in an executive level position reporting to the Controller and (2) establishing an accounts receivable executive position reporting directly to the CFO. The latter position was approved in March 1991 and had yet to be filled as of March 28, 1991. According to the Commissioner, the accounts receivable executive would focus on establishing better management information systems and controls that provide more detailed and accurate data on the accounts receivable inventory.

The Commissioner said that responsibility for revenue accounting processes would remain with the Assistant Commissioner for Returns Processing but that "measures, baselines and controls will be developed at the overall corporate level to include administrative and revenue accounting which will enable the Executive Committee to review results and to give greater emphasis and attention to revenue accounting activities."

The actions outlined by the Commissioner, if effectively implemented, would put IRS in a better position to manage its revenue accounting activities. We are especially encouraged by the special attention being given to accounts receivable. Although the responsibilities of IRS' CFO in relation to revenue accounting would not appear to be as extensive as called for in OMB's February 1991 guidance, the top management involvement in both administrative and revenue accounting outlined in IRS' comments would appear to provide a measure of the oversight intended by the Chief Financial Officers Act and OMB's guidance. We will assess the effectiveness of this oversight and the interrelationships among the CFO, the Assistant Commissioner (Finance)/Controller, and the Assistant Commissioner for Returns Processing as we continue our work at IRS.

Example of Critical Success Factor, Standards, and Measurements Established by the Taxpayer Service Function

Taxpayer Service established critical success factors, standards, and measurements for quality control points[1] in several of its programs. One of the quality control points in the Toll-Free Telephone Program was called "Does the customer get in?" For that control point, Taxpayer Service identified the following critical success factor, standards, and measurements.

Critical Success Factor

Each telephone site must have appropriate circuitry, staffing (including a trained Telephone System Manager with backup), reliable equipment, and service hours that meet customer needs.

Standards

1. Provide a 75-percent level of service with 70 to 80 percent as an acceptable range.

2. Provide customers with the ability to reach an assistor within two call attempts 70 to 80 percent of the time.

3. The abandoned call rate should not exceed 5 percent.

4. The average speed of answer should not exceed 40 seconds on front-line.

5. Customers will be successfully transferred and will reach a referral assistor at least 80 percent of the time and the average speed of answer should not exceed 120 seconds on referral lines.

6. All customers will have access to extended hours.

Measurements[2]

Level of service data, ITCSS access rates, abandoned call rates, average speed of answer data for front-line and secondary gates, and customer surveys.

[1]IRS defines a quality control point as a place in the system where the process has historically broken down or where a breakdown would endanger completion of the process.

[2]IRS defines measurements as the objective data used to measure performance in relation to the standards.

Comments From the Internal Revenue Service

Note: A GAO comment supplementing those in the report text appears at the end of this appendix.

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

COMMISSIONER

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Mr. Richard L. Fogel
Assistant Comptroller General
United States General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

Thank you for the opportunity to comment on the draft report regarding the status of IRS' implementation of the recommendations in the October 1988 General Management Review report. I appreciate the continuing cooperation and support by you and your staff. I believe the report is right on target; however, there are a number of accomplishments which are not reflected in the report since they were initiated after completion of the review.

As the report highlights, the Service has made significant progress over the last two years in preparing to meet the challenges of the future. The Service is now at a critical crossroads. We must ease the burden of tax administration while reducing the tax gap and improving the efficiency of our operations. Achieving these goals will require major improvements in accuracy and responsiveness to the public, significant increases in revenue, and improvements in productivity. The challenge will be to maintain an effective balance between tax systems modernization (TSM), modest and sustained growth, and new and improved approaches to compliance, quality and strategic management.

In this decade, TSM will permit us to transform tax administration by dramatically reducing the burden on taxpayers. Significant efforts are already underway and we are on schedule for ensuring a successful implementation. We are also in the process of establishing an executive level Program Manager reporting directly to the Chief Operations Officer who will be responsible for ensuring Tax Systems Modernization meets the needs of Operations. In addition, we plan to continue and build upon our commitment to quality and productivity. Like our private sector counterparts, we see quality as a top priority. One of our objectives is to become a total quality organization with emphasis on achieving quality-driven productivity gains throughout the Service. We are currently in the midst of completing the development of measures and baselines for quality and productivity for our key products and services. Once baselines are established, goals for continuous improvement will be set and achieved.

Mr. Richard L. Fogel

As indicated in the report, our Strategic Planning process continues to evolve. Over the last two years we have been successful in sharpening its focus and linking it directly to budget development, the evaluation of program accomplishment, and executive accountability. We have developed a Compliance 2000 strategy which will result in new approaches to improving voluntary compliance. These strategies are designed to identify the characteristics of taxpayer non-compliance, to implement multi-functional approaches to address these characteristics and to assess their impact on voluntary compliance.

To accomplish all of these ambitious goals, a healthy and dynamic organizational structure and management system are required and I feel that the organization has been moving in that direction since our joint IRS/GAO management review in 1988.

With respect to the specific recommendations, while we agree in principle with most of them, we believe some require further explanation. Our detailed comments on the recommendations and the actions we have already taken, or will take in response to each, are enclosed. One item of particular significance is our establishment of an Accounts Receivable Executive position. The position, which will report directly to the Chief Financial Officer, will focus on establishing better management information systems and controls that provide more detailed and accurate data on the accounts receivable inventory. Strategies will be implemented to limit the growth of uncollectible accounts.

Please extend my appreciation to Jenny Stathis and the project team members for the fine job they did. We look forward to their continuing review of these and other efforts we are making to build an organization that can continue to be effective in the next century.

Best regards.

Sincerely,

Fred T. Goldberg, Jr.

Enclosures

IRS Comments on Recommendations
Contained in GAO Draft Report Entitled
"Managing IRS: Several Important Strides Forward Since 1988;
Still Farther to Go".
March 11, 1991

Recommendation:

(1) Reconsider the milestones [IRS] has established for the human resource-related strategies in its SBP with a view toward bringing a greater sense of urgency to that effort and (2) revise its internal reports on the status of our October 1988 recommendations to accurately reflect its lack of progress in developing a Human Resource Management Plan.

Comments:

We acknowledge that the Service's current plan is really a blueprint for developing a Human Resource Plan. It includes gathering data to determine appropriate occupations and skills and requires development and implementation of a more detailed action plan to deliver a redefinition of the Service's workforce. This action plan was developed after the GAO visit.

However, we are retaining the milestone of September 30, 1994, for completion of the needs assessment in relation to tax systems modernization. We agree that this is a critical activity for the success of TSM; but, the target date is what we believe is actually feasible. The skills analysis is an extremely complex task which will require considerable time and resources, including possible outside help. In addition, the task must go hand in hand with our TSM effort. As the Service defines business processes, we can concurrently make informed decisions regarding the impact of these planned changes on skills and jobs.

Although our final effort will not be completed until September 30, 1994, many activities are taking place and skills assessments are being completed in areas where the TSM impact is clear and effective implementation dates are known. To date, thirteen Organizational Impact Analyses have been completed while another six are moving toward completion. We definitely share GAO's sense of urgency in this matter.

One good example of the way we are implementing our Human Resource Plan is the transfer of our payroll system from the Detroit Computing Center to the U.S. Department of Agriculture. An executive level group will conduct an impact analysis and identify new types of work to be performed efficiently at the Detroit Computing Center. Prior to the transfer of the payroll work in July 1992, we will have identified the skills and trained the employees remaining in Detroit to do the newly identified work.

Recommendation:

[IRS should] enhance the reliability of savings information in the Quality Improvement Information System by developing a methodology for calculating the cost of poor quality.

Comments:

This recommendation is already being implemented. A Cost of Poor Quality methodology has been developed and a training class was piloted by the Assistant to the Commissioner for Quality. Feedback from the pilot is now being incorporated into formal course material. Servicewide training for executives, managers, Joint Quality Councils, and other employees is scheduled for the third quarter of this fiscal year.

Recommendation:

[IRS should] more aggressively monitor the regional offices to ensure they are providing complete information on the status of productivity projects so that project benefits can be transferred agency-wide.

Comments:

We agree with this recommendation and have already taken steps to improve monitoring of such information.

We asked the regions in June 1990 and December 1990 to update the Consolidated Project Management System. Our review showed significant improvement. We will continue to monitor regional offices on a regular basis to ensure that we have complete information.

Recommendation:

See GAO Comment.

[IRS should] integrate the quality and productivity improvement process.

Comments:

We had previously taken steps to ensure that quality and productivity are successfully integrated into day-to-day operations and managed by those officials responsible for operations. The functional Annual Business Plans and their related measurements fully mesh quality and productivity principles into operations by focusing on incremental improvements of processes, products, and services.

Application of quality techniques, including development of baselines on current performance levels for productivity (quality output divided by cost), targeting corrective actions, and monitoring progress against individual regional, district and service center baselines will result in the organization achieving increased productivity through quality.

In addition, the Assistant Commissioner (Planning and Research) and the Assistant to the Commissioner for Quality are working closely on a number of projects including the development of measures for our products and services and the establishment of baselines.

It is important to note that we are also focusing on whether products and services meet customer needs. Measures for customer satisfaction through surveys, focus groups, etc., and taxpayer burden measurements are being developed to determine if we are meeting customers' needs.

Recommendation:

[IRS should] develop and implement, as a priority, a strategy for providing additional technical expertise at senior decision making levels. This strategy should include an assessment of IRS' needs for additional technical experience and a program to satisfy those needs as part of the Human Resource planning process called for in Chapter 2 of this report.

Comments:

We also recognize that the Service must improve technical expertise at senior decision making levels.

Over the last couple of years, we believe improvements have been made. We have made an all out effort to attract qualified technical candidates from outside the Service at the executive and top management levels. Two examples of our efforts at the executive level are the Assistant Commissioner (Finance)/Controller and the Assistant Commissioner (Procurement), both of whom were hired from other agencies. We have also made great strides in recruiting highly qualified GM-14 and 15 managers with strong technical backgrounds. For example, over the last couple of years, 18 of our Information Systems Development project managers have been hired from outside the Service. These managers provide the Service with an excellent base of technical expertise and we fully expect that many of them will eventually be successful candidates for higher level managerial and executive positions.

In addition, we are in the process of establishing a strategy to improve the technical expertise and knowledge of our existing managers and executives. We recognize the importance of keeping employees at all levels knowledgeable of the modernization effort and their role in it. Our initial plans call for establishing a Tax System Modernization Planning Committee responsible for developing a five year modernization training plan. We have also established a National Management Training Council to provide a clearinghouse and final approval authority on all recommendations made by the Modernization Planning Committee. We are also working with the Maxwell School at Syracuse University to develop a special training program for mid-level managers in public administration, with an emphasis on information systems management.

Recommendation:

That the new Assistant Commissioner (Procurement) adopt as one of his initial priorities the development of software to manage contract obligations.

Comments:

Since the review, the Service has made continuing progress in developing software to manage contract payments. We have already begun to implement an automated contract management system entitled GENSTAR. GENSTAR is being developed for use on the Treasury Multiuser Acquisition Contract with an anticipated award in June 1991. GENSTAR will also be used to monitor future ADP/Telecommunications contracts.

Recommendation:

To better ensure appropriate attention to IRS' revenue accounting activities, responsibility for those activities should be transferred to the CFO and the Assistant Commissioner (Finance)/Controller.

Comments:

We have taken significant steps to ensure accountability in this area. These steps are: (1) Responsibility for establishing accounting standards for both revenue and administrative accounting systems has been placed in an executive-level position, reporting to the Controller. (2) An Accounts Receivable Executive position, reporting directly to the Chief Financial Officer, has been established. This new position will focus on establishing better management information systems that provide more detailed and accurate data (composition, age, source) on the accounts receivable inventory. Strategies will be implemented to limit the growth of uncollectible accounts and on developing an allowance for doubtful accounts. While responsibility for revenue accounting processes will remain with the Assistant Commissioner (Returns Processing), measures, baselines and controls will be developed at the overall corporate level to include administrative and revenue accounting which will enable the Executive Committee to review results and to give greater emphasis and attention to revenue accounting activities.

The following is GAO's comment on IRS' March 19, 1991, letter.

GAO Comment

On the basis of additional information received from IRS, this recommendation was deleted from the report after the draft was sent to IRS for comment. We believe that the Commissioner's comments fairly reflect steps IRS has taken in an effort to integrate quality and productivity. Those steps are responsive to the intent of our proposed recommendation.

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