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TAX ADMINISTRATION

IRS' Fiscal Year 1998 Budget Request

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Tax Administration: IRS' Fiscal Year 1998 Budget Request

IRS' fiscal year 1998 budget request is for about $7.4 billion and 102,385 full-time equivalent (FTE) staff compared to a proposed operating level in fiscal year 1997 of about $7.2 billion and 102,926 FTEs. IRS' fiscal year 1998 budget request includes $131 million for developmental information systems, the same amount that was provided in fiscal year 1997. The administration also is proposing a $1 billion capital account for IRS information technology investments. Neither the $131 million or the $1 billion is supported by the kind of analysis required by Clinger-Cohen Act, the Results Act, and the Office of Management and Budget. Therefore, Congress should consider not funding both the $131 million request and the capital account until management and technical weaknesses in IRS' modernization program are resolved and required analyses are completed.

The fiscal year 1998 budget request also includes $84 million for IRS' turn of the century date change effort. IRS has already determined that it will need $61.2 million more for this effort in fiscal year 1997 than had been allocated. Given that and because IRS' overall conversion needs are still being determined, it seems reasonable to question whether the amount requested for this effort in fiscal year 1998 will be sufficient.

GAO also has some concerns about certain fiscal year 1997 budget allocations. For example, IRS' fiscal year 1997 appropriation mandated that a total of $26 million be provided for debt collection pilots. GAO's review of the 1996 debt collection pilot identified various problems that impeded the pilot's success. Until those problems are resolved, GAO believes that IRS and Treasury should be prohibited from spending the $26 million. Also, given that IRS has decided not to begin any new systems development projects until October 1998, GAO believes that Congress should consider rescinding $36 million that was designated for that purpose in fiscal year 1997. That amount represents the total allocated to systems development projects that IRS has cancelled for fiscal year 1997. By October 1998, IRS expects to have developed the internal capability to effectively manage systems development.

Finally, IRS expects the funding limits it faces in fiscal year 1997 and anticipates for fiscal year 1998 to continue until at least 2002. Fiscal constraints as well as longstanding concerns about the efficiency of IRS operations make consensus on IRS' strategic goals and the measures for assessing progress against those goals critically important. The provisions and requirements of the Chief Financial Officers Act, the Clinger-Cohen Act, and the Results Act provide a mechanism for accomplishing this.

Tax Administration: IRS' Fiscal Year 1998 Budget Request

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in the Subcommittee's inquiry into the Internal Revenue Service's (IRS) budget request for fiscal year 1998. Our statement is based on a review of that budget request; a review of steps taken by IRS in response to its fiscal year 1997 appropriation, including its spending plans for information systems; and our past work on IRS' operations and systems modernization efforts.

IRS' fiscal year 1998 budget request is for about $7.4 billion and 102,385 full-time equivalent (FTE) staff compared to a proposed operating level in fiscal year 1997 of about $7.2 billion and 102,926 FTEs. Appendix 1 provides a more detailed comparison of fiscal years 1998 and 1997 along with data showing how IRS' appropriation has changed since fiscal year 1991. Appendix II has trend information for several of IRS' performance indicators.

Our statement makes the following points:

- In response to congressional concerns and direction, IRS allocated about 1,000 additional FTEs to taxpayer service activities in fiscal year 1997 and revised its fiscal year 1997 information systems spending plans. IRS has since cancelled some of the projects that were included in those plans and that it had estimated would cost a total of $36 million in fiscal year 1997.
- Our review of IRS' private sector debt collection pilot program identified significant barriers to the pilot's success. Those problems should be resolved before fiscal year 1997 funds earmarked for private sector debt collection pilots are expended.
- IRS' fiscal year 1998 budget request includes $131 million for developmental information systems, the same amount that was provided in fiscal year 1997. In addition to that basic request, the administration is proposing a capital account for information technology investments at IRS—$500 million for fiscal year 1998 and another $500 million for 1999. Neither the $131 million or the $1 billion is supported by the type of analysis required by the Clinger-Cohen Act, the Government Performance and Results Act (otherwise known as the Results Act or GPRA), and Office of Management and Budget (OMB) Circular No. A-11.
- The budget request also includes $84 million for IRS' turn of the century date change effort. IRS has already determined that it will need several million dollars more for this effort in fiscal year 1997 than had been allocated. Given that and because IRS' overall conversion needs are still

being determined, it seems reasonable to question whether the amount requested for this effort in fiscal year 1998 will be sufficient.

- IRS is also requesting funds to replace two old systems used to process paper returns and remittances. Because spending on this project has been accelerated in fiscal year 1997, all of the funding being requested for 1998 may not be needed.
- The largest staffing increase in IRS' budget request is for 195 FTEs (with an associated cost of $11 million) to process a projected increase in the number of tax returns filed in 1998. IRS expects that most of the additional returns will be filed electronically. Data IRS used to determine how much more money and staff it needed to process those additional returns show only a small difference between the number of FTEs needed to process a million electronic returns and the number needed to process a million paper returns. That small difference is inconsistent with what we would have expected and may reflect, at least in part, the fact that electronic filing is not truly paperless.
- Finally, IRS and Congress face many challenges in moving the nation's tax system into the next millennium. Funding limits faced by IRS in fiscal year 1997 and anticipated for fiscal year 1998 are projected to continue until at least 2002. Fiscal constraints as well as longstanding concerns about the operations and management of IRS make consensus on IRS performance goals and measuring progress in achieving those goals critically important. The provisions and requirements of the Chief Financial Officers Act, Clinger-Cohen Act, and Results Act provide a mechanism for accomplishing this.

Overview of 1997 Appropriation Issues

Before discussing the fiscal year 1998 budget request, it might be useful to summarize some of the issues associated with IRS' fiscal year 1997 appropriation. The appropriation act[1] and accompanying conference report[2] for fiscal year 1997 indicated that Congress was concerned about various aspects of IRS' operations. Among other things, Congress expressed concern about (1) Tax Systems Modernization (TSM) and the need to direct more systems development work to the private sector; (2) TSM funds being directed at "feeding the beast" rather than at true modernization; (3) the ability of taxpayers to reach IRS over the telephone;

[1]The Omnibus Consolidated Appropriations Act (P.L. 104-208, Sept. 30, 1996).

[2]H.R. Report No. 863, 104th Cong., 2d sess. (1996).

and (4) the need to maintain taxpayer service at fiscal year 1995 levels, at a minimum.[3]

In response to its fiscal year 1997 appropriation and the congressional direction specified therein, IRS, among other things, (1) revised its spending plans for information systems and (2) reallocated resources within the processing, assistance, and management account to direct more FTEs to taxpayer service activities.

Another issue associated with IRS' fiscal year 1997 appropriation involves funding provided for private sector debt collection pilot programs. We believe that spending on those programs should be prohibited until various problems we identified have been resolved.

IRS' Fiscal Year 1997 Systems Spending Plans Appear Consistent With Congressional Direction, but $36 Million May No Longer Be Needed

For fiscal year 1997, IRS was appropriated about $1.3 billion to fund its information systems. The appropriation act specified that the $1.3 billion be spent as follows:

- $758.4 million for legacy systems,
- $206.2 million for TSM operational systems,
- $130.1 million for TSM development and deployment,
- $83.4 million for program infrastructure,
- $62.1 million for "stay-in-business" projects,
- $61.0 million for staff downsizing, and
- $21.9 million for telecommunication network conversion.

IRS' plans for spending its fiscal year 1997 information systems appropriation and IRS' obligations through December 31, 1996, appear consistent with the act's direction. Specifically, at the beginning of fiscal year 1997, we judgmentally selected eight projects, totaling approximately $197 million, that IRS planned to fund with its information systems appropriation and analyzed each relative to the categories and amounts specified in the act. Our analysis showed that IRS identified its projects in accordance with the legislative categories and that all of the projects we reviewed appeared to be consistent with the act's categories and spending levels.

In analyzing IRS' spending, we found that IRS had 15 projects that were used to justify the allocation of $130.1 million for systems development and

[3]Congress added this requirement because it was concerned that IRS' pending reorganization of certain field activities would adversely affect taxpayer service.

deployment. Of the 15 projects, 9 (with fiscal year 1997 costs totaling about $87.3 million) were ongoing or completed. IRS is reviewing one other project that was used to justify $7 million and canceled the remaining five projects, which had projected fiscal year 1997 costs totaling about $36 million.

According to IRS' Chief Information Officer (CIO), IRS canceled these systems because business case analyses did not justify continued development. The canceled projects include the Corporate Accounts Processing System, the Integrated Case Processing System, and the Workload Management System.

The CIO also stated that IRS will not start any new system development projects until about October 1998, after it has developed the internal capability needed to effectively manage such projects. Therefore, Congress should consider rescinding the $36 million that IRS will not be using for systems development and deployment in fiscal year 1997.

As noted earlier, $61 million of IRS' fiscal year 1997 information systems appropriation was allocated for staff downsizing. We question whether all of the $61 million will be needed for that purpose. IRS had requested those funds to downsize its information systems staff by 819 positions. According to IRS' Chief for Management and Administration, however, attrition among information systems staff has been higher than expected and IRS' downsizing plans, as of March 3, 1997, included only 228 information systems positions.

Increased Resources Provided for Taxpayer Service in 1997

Given congressional concerns about the level of taxpayer service and the low level of telephone accessibility documented in several of our reports,[4] IRS decided that its highest priority in 1997, other than processing returns and refunds, would be to improve taxpayer service, especially the ability of taxpayers to reach IRS on the phone. One important step IRS took to achieve that end was to increase the number of FTEs devoted to taxpayer service. According to IRS estimates, the number of taxpayer service FTEs will increase from 8,031 in fiscal year 1996 to 9,091 in fiscal year 1997. The estimated number of FTEs for fiscal year 1997 is also higher than in fiscal year 1995, which is in accord with congressional direction in IRS' fiscal

[4] Tax Administration: Continuing Problems Affect Otherwise Successful 1994 Filing Season (GAO/GGD-95-5, Oct. 7, 1994); The 1995 Tax Filing Season: IRS Performance Indicators Provide Incomplete Information About Some Problems (GAO/GGD-96-48, Dec. 29, 1995); and IRS' 1996 Tax Filing Season: Performance Goals Generally Met; Efforts to Modernize Had Mixed Results (GAO/GGD-97-25, Dec. 18, 1996).

year 1997 appropriation. According to IRS budget officials, some of these additional FTEs were achieved by reallocating resources originally targeted for submission processing; the rest were funded with user fees that IRS is authorized to retain.

The bulk of the staffing increase for taxpayer service is directed at helping taxpayers reach IRS by telephone. In addition to the increase in taxpayer service FTEs discussed above, IRS also detailed staff from other functions to help answer the phone, including staff who would normally be doing compliance work. This increased staffing, along with other steps IRS took, seems to have succeeded in significantly improving telephone accessibility during the 1997 tax return filing season. As discussed in more detail in appendix III, accessibility increased from 20.1 percent during the 1996 filing season to 50.9 percent during the 1997 filing season.

Problems With IRS' Private Debt Collection Pilot

As part of IRS' fiscal year 1997 appropriation, Congress mandated that $13 million be made available to extend the private sector debt collection pilot program that was initiated in fiscal year 1996. An additional $13 million was earmarked for a second private debt collection pilot to be managed by the Department of the Treasury. To date, none of the $26 million has been obligated.

At the request of the Chairman of the Oversight Subcommittee, House Committee on Ways and Means, we evaluated the initial pilot and found significant legal, systems and operations, and performance measurement barriers to the pilot's success. Specifically we found that

- IRS' legal interpretations prevented the pilot from being a true test of private contractors' ability to collect delinquent taxes;
- systems and operations problems made it difficult to identify, select, and transmit cases to the contractors; and
- the pilot lacked appropriate performance measures to identify and capture the best practices and techniques used by private collectors.

IRS agreed with our findings.

On the basis of our findings, the Chairmen of the Oversight Subcommittee; the Subcommittee on Treasury, Postal Service, and General Government, House Committee on Appropriations; and the Subcommittee on Government Management, Information, and Technology, House Committee on Government Reform and Oversight informed the Secretary of the Treasury that contracts should not be awarded at this time for the Treasury-managed pilot.

Until the issues jeopardizing the success of the pilots are resolved, we believe that IRS and Treasury should be prohibited from spending both the $13 million to extend the ongoing IRS pilot and the $13 million earmarked for the Treasury-managed private debt collection pilot.

Fiscal Year 1998 Budget Request for Information Systems Raises Several Questions

IRS' fiscal year 1998 budget request includes $1.27 billion and 7,162 FTEs for information systems. Of the $1.27 billion, $1.14 billion is for operational systems, including funds for IRS' century data change effort and for replacing two old processing systems. The rest of the request ($131 million) is for developmental systems. In addition to the $1.27 billion, the administration is requesting $1 billion over 2 years to fund a multi-year capital account, referred to as the Information Technology Investments Account, for new modernization projects at IRS.

Our analysis of the information systems request raised several questions: (1) Should Congress approve the $131 million for developmental systems and the $1 billion capital account given the absence of the kind of supporting analyses required by the Clinger-Cohen Act, the Results Act, and OMB? (2) Is the money being requested for IRS' century date conversion effort sufficient? and (3) Will IRS need all of the money requested for replacing two processing systems?

$131 Million Budget Request for Systems Development Not Justified

The Clinger-Cohen Act, the Results Act, and OMB Circular No. A-11 and supporting memoranda require that information technology investments be supported by accurate cost data and convincing cost-benefit analyses. For fiscal year 1998, IRS is requesting $131 million for system development. However, IRS' request does not include a credible, verifiable justification. According to IRS budget officials, $131 million was requested for fiscal year 1998 because it was approximately the same amount IRS received in fiscal year 1997 for system development.

The budget request states that IRS does not know how it plans to spend the $131 million because its modernization systems architecture and system deployment plan have not yet been finalized. IRS publicly issued a draft version of these documents on May 15, 1997, and provided them to private industry for review and comment by July 15, 1997. Once finalized, these documents are intended to guide future systems development.

No Justification to Support Billion Dollar Information Technology Investments Account

The administration is proposing to establish an Information Technology Investments Account to fund future modernization investments at IRS. It is seeking $1 billion—$500 million in fiscal year 1998 and another $500 million in fiscal year 1999—for "yet-to-be-specified" development efforts. According to IRS' request, the funds are to support acquisition of new information systems, expenditures from the account will be reviewed and approved by Treasury's Modernization Management Board (MMB), and no funds will be obligated before July 1, 1998.

The Clinger-Cohen Act, the Results Act, and OMB Circular No. A-11 and supporting memoranda require that, prior to requesting multi-year funding for capital asset acquisitions, agencies develop accurate, complete cost data and perform thorough analyses to justify the business need for the investment. For example, agencies need to show that needed investments (1) support a critical agency mission; (2) are justified by a life cycle based cost-benefit analysis; and (3) have cost, schedule, and performance goals.

IRS has not prepared such analyses for its fiscal year 1998 and 1999 investment account request. Instead, IRS and Treasury officials stated that, during executive-level discussions, they estimated that they would need about $2 billion over the next 5 years. This estimate was not based on analytical data or derived using formal cost estimating techniques. According to OMB officials responsible for IRS' budget submission, the request was reduced to $1 billion over 2 years because they perceived the lesser amount as more palatable to Congress. These officials also told us that they were not concerned about the precision of the estimate because their first priority is to "earmark funds" in the fiscal year 1998 and 1999 budgets so funds will be available when IRS eventually determines how it wants to modernize its systems.

IRS and Treasury Are Still Addressing Modernization Weaknesses

In 1995 we made over a dozen recommendations to the Commissioner of Internal Revenue to address systems modernization management and technical weaknesses.[5] We reported in 1996 that IRS had initiated many activities to improve its modernization efforts but had not yet fully implemented any of our recommendations.[6] Congress also took steps to improve the modernization effort. Specifically, in the fiscal year 1997

[5]Tax Systems Modernization: Management and Technical Weaknesses Must Be Corrected If Modernization Is to Succeed (GAO/AIMD-95-156, July 26, 1995).

[6]Tax Systems Modernization: Actions Underway But IRS Has Not Yet Corrected Management and Technical Weaknesses (GAO/AIMD-96-106, June 7, 1996).

Omnibus Appropriations Act[7], Congress directed IRS to (1) submit by December 1, 1996, a schedule for transferring a majority of its modernization development and deployment to contractors by July 31, 1997, and (2) establish a schedule by February 1, 1997, for implementing our recommendations by October 1, 1997. In its conference report on the act, Congress directed the Secretary of the Treasury to (1) provide quarterly reports on the status of IRS' corrective actions and modernization spending[8] and (2) submit by May 15, 1997, a technical architecture for the modernization that had been approved by the MMB. Additionally, the MMB was directed to prepare a request for proposal by July 31, 1997, to acquire a prime contractor to manage modernization deployment and implementation.

IRS and Treasury have taken steps to address our recommendations and respond to congressional direction. For example, in response to the 1997 appropriations act, IRS (1) provided a November 26, 1996, report to Congress that set forth IRS' strategic plan and schedule for shifting modernization development and deployment to contractors and (2) submitted to Congress a February 27, 1997, report on the timetable for implementing our recommendations. For its part, Treasury (1) provided corrective action and spending reports to Congress for the first quarter of fiscal year 1997 and (2) submitted an MMB-approved architecture to Congress on May 15, 1997, that the department and IRS have circulated to private industry for review and comment. As part of this effort, Treasury and IRS are also soliciting private industry input on prime contractor management strategies.

To assess the effectiveness of IRS' efforts to date, we are reviewing IRS' (1) recently issued modernization architecture, (2) capability to acquire software-intensive systems using contractors, and (3) information technology investment management process. While the results of these reviews are not yet known, it is important to reiterate what we have said before—until IRS fully implements our recommendations, its systems modernization will continue to be at risk.[9]

Given IRS' poor track record delivering cost-beneficial TSM systems and the lack of justification for proposed system expenditures, Congress should

[7]Public Law 104-208, September 30, 1996.

[8]H.R. Report No. 863, 104th Cong., 2d sess. (1996). Congress also required that Treasury provide a schedule for developing and implementing all modernization projects in Treasury's fiscal year 1996 appropriations act (Public Law 104-52, Nov. 19, 1995).

[9]GAO High-Risk Series, IRS Management (GAO/HR-97-8, Feb. 1997).

consider not funding both the $131 million request for systems development and the $1 billion capital account until the management and technical weaknesses in IRS' modernization program are resolved and the required justifications are completed.

Funding Needs for Century Date Change Are Uncertain

IRS, like other federal agencies, is in the midst of a major project aimed at making its computer systems "century date compliant." Because IRS' systems, like many others in government and the private sector, use two-digit date fields, they cannot distinguish, for example, between the year 1900 and the year 2000 (the systems would show both years as "00"). IRS estimates that the failure to correct this situation before 2000 could result in millions of erroneous tax notices, refunds, and bills. Accordingly, IRS' CIO has designated this effort as a top priority. The CIO established a year 2000 project office to coordinate work among the various IRS organizations with responsibility for assessing, converting, and testing IRS systems.

IRS' current plans are to spend $106.2 million on century date conversion efforts in fiscal year 1997. This would exceed its fiscal year 1997 budget by $61.2 million. Of this amount,

- $47.7 million is for non labor costs (e.g., the purchase of updated operating system environments, contractor support for software conversion and testing, and additional hardware for expected capacity increases) and
- $13.5 million is for additional labor costs, which is to come from IRS' existing budget for overall information systems staffing.

To meet these needs, IRS is seeking approval to reprogram some fiscal year 1997 funds from other accounts and to use available "no-year" TSM funds. In addition, the Chief Financial Officer's organization is conducting an IRS-wide review to identify other sources of funding should they be needed.

IRS' fiscal year 1998 budget request includes another $84 million for the century date change effort. It is uncertain, however, if this amount will be sufficient to address IRS' century date funding needs for fiscal year 1998. The fiscal year 1998 request was based on September 1996 cost estimates that, in turn, were based on an estimate of lines of computer code for IRS' main tax processing systems. However, there are potentially significant costs in other areas for which IRS has yet to complete initial assessments, including (1) secondary tax processing systems that are also critical to the tax administration process; (2) telecommunications; (3) commercial off-the-shelf software; and (4) non-information technology resources, such as elevators and heating and air conditioning units. IRS has efforts underway to address each of these areas. For example, IRS recently formed a committee of executives to address options for dealing with secondary systems. By the end of June, the committee expects to have made decisions on which of these systems will or will not be converted. IRS officials said that they expect to have a complete cost estimate for converting these systems by September 1997.

Replacement of Systems That Process Paper Tax Returns and Remittances

Also as part of its information systems request, IRS is asking for $44 million in fiscal year 1998 to continue developing replacements for two systems—the Distributed Input System (a 12-year old system used to process paper returns) and the Remittance Processing System (an 18-year old system used to process tax payments)—and to begin pilot testing in January 1998. IRS reports that the systems are unreliable, costly to operate and maintain, and not year 2000 compliant.

Project officials told us that to meet the January 1998 milestone for piloting the new systems, an additional $6.1 million of fiscal year 1997 money has been reprogrammed to the Distributed Input System/Remittance Processing System replacement project. Consequently, the project will not need this $6.1 million in fiscal year 1998. Accordingly, Congress should consider reducing the fiscal year 1998 request for this project by $6.1 million.

Request for Additional Returns Processing Staff Raises Questions About Benefits of Electronic Filing

IRS' largest requested budget increase is for $214 million and 195 FTEs to maintain its fiscal year 1997 program levels in fiscal year 1998. According to IRS, most of the $214 million is needed to cover pay and benefits for the employees it has on board. However, $11 million and all 195 FTEs are intended to cover "mandatory workload increases" in its returns processing function. More specifically, IRS has projected that the number of primary tax returns filed will increase from 197.9 million in 1997 to 200 million in 1998. IRS has also projected that 91 percent of the increase in primary tax returns (or 1.9 million returns) will be filed electronically.

The data IRS used to determine its need for $11 million and 195 FTEs indicated that IRS only saves about 5 FTEs for every 1 million returns that are filed electronically. This is contrary to what we would have expected.

Because up-front filters keep certain taxpayer errors that are common on paper returns from contaminating electronic returns and because electronic returns bypass the labor intensive and error prone key punching process IRS uses for paper returns, we would expect that the labor and related costs to process electronically-filed returns would be substantially lower than the labor and costs associated with processing paper returns. According to IRS budget officials, IRS has an effort underway to determine the comparative cost of processing electronic and paper tax returns. They expect that study to be completed in September 1997.

At least part of the smaller-than-expected savings from electronic filing can be attributed to the fact that electronic filing is not truly paperless. Taxpayers filing electronically, other than through TeleFile, must submit a paper signature document to authenticate the electronic portion of their return. And IRS has to process that document. In January 1993, we reported that to significantly increase the use of electronic filing IRS would have to resolve various issues that adversely affect the appeal of electronic filing.[10] One of those issues is the requirement to submit paper documents with an electronic return.

Challenges for the Future

As discussed earlier, IRS data indicate that taxpayers had a much better chance of reaching IRS by telephone during the 1997 filing season than they had in 1996. This improvement, however, was not without cost. IRS used various strategies to improve accessibility, one of which involved detailing staff from other functions, including staff who would otherwise be auditing tax returns, to answer the phone. The funding limits and program tradeoffs faced by IRS in fiscal year 1997 and anticipated for fiscal year 1998 are likely to continue for the foreseeable future. The administration's outyear projections actually reflect a decline in IRS funding when inflation is considered.

At the same time, IRS is faced with competing demands and pressure from external stakeholders, including Congress, to improve its operations and resolve longstanding concerns. Modernization of IRS' processes and systems is critical to doing this. So is reaching consensus on IRS' strategic goals and performance measures.

In recent years, Congress has put in place a statutory framework for addressing these challenges and helping Congress and the executive

[10] Tax Administration: Opportunities to Increase the Use of Electronic Filing (GAO/GGD-93-40, Jan. 22, 1993).

branch make the difficult trade-offs that the current budget environment demands. This framework includes as its essential elements the Chief Financial Officers Act; information technology reform legislation, including the Paperwork Reduction Act of 1995 and the Clinger-Cohen Act; and the Results Act, or GPRA.

In crafting these acts, Congress recognized that congressional and executive branch decisionmaking had been severely handicapped by the absence in many agencies of the basic underpinnings of well managed organizations. We have found numerous examples across government of management-related challenges stemming from unclear missions accompanied by the lack of results-oriented performance goals, the absence of detailed business strategies to meet those goals, and the failure to gather and use accurate, reliable, and timely program performance and cost information to measure progress in achieving results. All of these problems exist at IRS. To effectively bridge the gap between IRS' current operations and its future vision while living within the budget constraints of the federal government, these challenges must be met.

Under GPRA, every major federal agency must ask itself some basic questions: What is our mission? What are our goals and how will we achieve them? How can we measure performance? How will we use that information to make improvements? GPRA forces a focus on results. GPRA has the potential for adding greatly to IRS performance—a vital goal when resources are limited and public demands are high.

GPRA requires each agency to develop a strategic plan that lays out its mission, long-term goals, and strategies for achieving those goals. The strategic plans are to take into account the views of Congress and other stakeholders. To ensure that these views are considered, GPRA requires agencies to consult with Congress as they develop their strategic plans.

Congress and the administration have both demonstrated that they recognize that successful consultations are key to the success of GPRA and therefore to sustained improvements in federal management. For IRS, these consultations provide an important opportunity for Congress, IRS, and Treasury to work together to ensure that IRS' mission is focused, goals are specific and results oriented, and strategies and funding expectations are appropriate and reasonable. The consultations may prove difficult because they entail a different working relationship between agencies and Congress than has generally prevailed in the past. The consultations are likely to underscore the competing and conflicting goals of IRS programs, as well as the sometimes different expectations of the numerous parties involved.

As a GPRA pilot agency, IRS should be ahead of many federal agencies in the strategic planning and performance measurement process. Nonetheless, IRS remains a long way from being able to ensure that its budget funds the programs that will contribute the most towards achieving its mission goals. While IRS needs more outcome-oriented indicators, it also has difficulty in measuring its performance with the indicators it has. For example, IRS' top indicator is its Mission Effectiveness Indicator. This is calculated by subtracting from the revenue collected the cost of IRS programs and taxpayer burden and dividing that result by true total tax liability. While this approach may be conceptually sound, IRS does not have reliable data to calculate taxpayer burden nor can it calculate true total tax liability.

In summary, there are several questions regarding IRS' fiscal year 1997 spending and IRS' fiscal year 1998 budget request that the Subcommittee may wish to consider. Among these are:

- Should the $36 million that IRS will not be using for systems development and deployment in fiscal year 1997 be rescinded?
- Should IRS and Treasury be prohibited from spending the $26 million earmarked for two private debt collection pilot programs until issues jeopardizing their success are resolved?
- What level of funding will IRS need to make its information systems century date compliant?
- Does IRS need all of the fiscal year 1998 funding it is requesting for the Distributed Input System/Remittance Processing System replacement project?
- What level of funding should Congress provide for developing new information systems, given the lack of any justification for the $131 million requested for fiscal year 1998 and the $1 billion investment account for fiscal years 1998 and 1999?
- What reliable, outcome-oriented performance measures should be put in place to guide IRS and Congress in deciding how many resources should be given to IRS and how best to allocate those resources among IRS' functional activities?

That concludes my statement. We welcome any questions that you may have.

Comparison of Fiscal Year 1998 Budget Request With Prior Years

Tables I.1 and I.2, respectively, show how IRS' fiscal year 1998 budget request compares to (1) its proposed fiscal year 1997 operating level and (2) its appropriations since fiscal year 1991.

Table I.1: Comparison of IRS' Fiscal Year 1998 Budget Request With Proposed Fiscal Year 1997 Operating Level

Dollars in thousands

	Fiscal year 1997		Fiscal year 1998	
Budget activity	**Dollars**	**FTEs**	**Dollars**	**FTEs**
Submission Processing	$788,138	15,481	$820,325	15,694
Telephone & Correspondence	786,616	20,815	815,382	20,815
Document Matching	67,298	1,904	69,783	1,904
Inspection	100,581	1,214	103,874	1,214
Management Services	534,808	7,275	559,355	7,352
Rent & Utilities	604,416	169	574,455	169
Subtotal: Processing, Assistance, and Management Appropriation	**2,881,857**	**46,858**	**2,943,174**	**47,148**
Criminal Investigation	371,780	4,595	385,081	4,595
Examination	1,586,545	25,910	1,641,834	25,916
Collection	715,552	12,387	751,918	12,387
Employee Plans and Exempt Organizations	128,116	2,117	132,696	2,117
Statistics of Income	23,756	471	24,781	471
Chief Counsel	210,469	2,589	217,412	2,589
Subtotal: Tax Law Enforcement Appropriation	**3,036,218**	**48,069**	**3,153,722**	**48,075**
Operational Information Systems	1,156,408	7,708	1,141,596	6,912
Developmental Information Systems	130,131	291	130,891	250
Subtotal: Information Systems Appropriation	**1,286,539**	**7,999**	**1,272,487**	**7,162**
Grand Total	**7,204,614**	**102,926**	**7,369,383**	**102,385**

Source: IRS' budget estimates for fiscal year 1998.

We did not extend the above comparison to fiscal years before 1997 because IRS restructured its budget for fiscal year 1998 and adjusted only its fiscal year 1997 figures to coincide with that new structure. One major restructuring involved what used to be the "Taxpayer Services" budget activity. That activity, which is part of IRS' Processing, Assistance, and Management appropriation, was renamed "Telephone and

Correspondence" and was revised to combine various assistance programs with compliance activities conducted by phone and correspondence. Other restructuring included (1) a consolidation of what were four different resources management budget activities into a single Management Services activity, (2) creation of a separate budget activity for rent and utilities, and (3) the consolidation of what were four information systems budget activities into two—one for operational systems and one for developmental systems.

Table I.2: Comparison of IRS' Fiscal Year 1998 Budget Request With IRS Appropriations for Fiscal Years 1991 Through 1997

Dollars in billions

Fiscal year	Appropriation in 1997 dollars	Total FTEs
1991	7,088	**115,628**
1992	7,513	**116,673**
1993	7,792	**113,460**
1994	7.710	**110,665**
1995	7,826	**112,069**
1996	7,397	**106,642**
1997	7,205	**102,926**
1998	7,182[a]	**102,385**[b]

[a]Requested amount.

[b]Estimate based on requested amount.

Source: IRS' budget requests for fiscal years 1993 through 1998. Dollars are presented in 1997 constant dollars on the basis of GAO computations using budget request data and Gross Domestic Product Deflator.

Trends for Certain IRS Performance Indicators

The following tables and figure show trends for various IRS performance indicators

Table II.1: Number of Individual Income Tax Returns Filed

In millions

Fiscal year	Number of individual income tax returns
1991	114.1
1992	115.0
1993	114.2
1994	113.4
1995	116.3
1996	118.8

Source: IRS annual reports and data books.

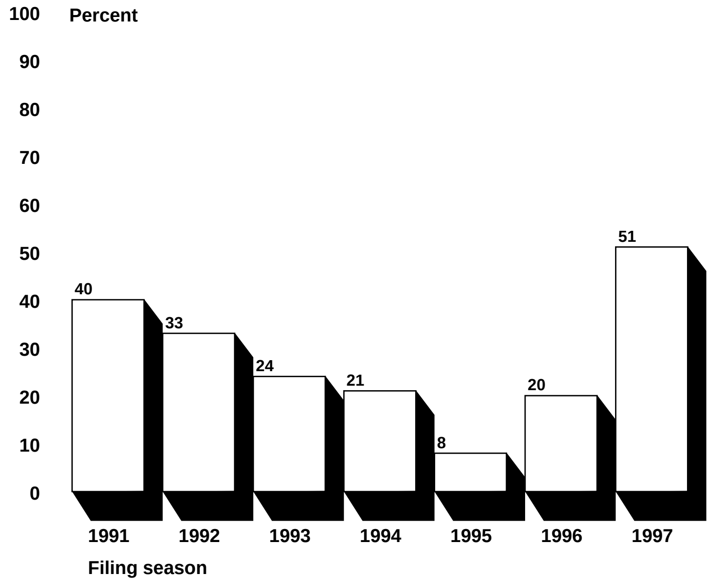
Table II.2: Information Returns Received

In millions

Fiscal year	Number of information returns
1991	1,042
1992	1,035
1993	1,040
1994	1,052
1995	1,054
1996	1,070

Source: IRS annual reports and data books.

Figure II.1: Telephone Accessibility Rates



Note: Telephone accessibility is computed by dividing the total number of calls answered by the total number of call attempts, which we define as the sum of (1) calls answered, (2) busy signals, and (3) calls abandoned by the caller before an IRS assistor got on the line.

Source: IRS' Management Information System for Top Level Executives and IRS' Telephone Data Reports.

Table II.3: Audit Coverage of Individual and Corporate Income Tax Returns

	Individual income tax returns		Corporate income tax returns	
Fiscal year	Number of audits	Percent coverage	Number of audits	Percent coverage
1991	1,313,168	1.17	67,618	2.52
1992	1,206,019	1.06	79,597	3.04
1993	1,058,966	0.92	79,873	3.05
1994	1,225,707	1.08	58,110	2.31
1995	1,919,437	1.67[a]	51,808	2.05
1996	1,941,546	1.67	59,832	2.34

[a]IRS attributes the increase in 1995 to auditors pursuing nonfiler cases and the increasing number of Earned Income Credit claims reviewed by service center examination staff.

Note: Audit coverage is the number of returns examined divided by the number of returns filed in the previous calendar year.

Source: IRS data books.

Table II.4: Delinquent Tax Collections by IRS

Dollars in billions

Fiscal year	Current dollars	1996 dollars
1991	24.3	27.5
1992	24.2	26.6
1993	22.8	24.4
1994	23.5	24.5
1995	25.1	25.7
1996	29.8	29.8

Source: Current dollars from IRS annual reports and data books. 1996 dollars are GAO computations using IRS data and gross domestic product indexes.

Telephone Accessibility

During each filing season, millions of taxpayers call IRS with questions about the tax law, their refunds, or their account. According to IRS data, as shown in table III.1, the accessibility of IRS' telephone assistance, as we have defined it in the past, has increased substantially.[11]

Table III.1: Accessibility of IRS' Telephone Assistance[a]

Filing season	Number of call attempts (in millions)	Number of calls answered (in millions)	Percent accessibility
1997	62.4	31.8	50.9
1996	114.0	22.9	20.1

[a]These data are for January 1 through April 19, 1997, and January 1 through April 20, 1996.

Source: IRS data.

As table III.1 indicates, the increase in accessibility is due to a combination of more calls being answered and fewer calls coming in. IRS' ability to answer more calls is due, at least in part, to (1) an increase in the number of staff assigned to answer the phone, some of which was achieved by detailing staff from other IRS functions,[12] and (2) revisions to IRS' procedures for handling calls.

As an example of the latter, this year, unlike past years, callers who indicated, through the choices they selected on the automated telephone menu, that they had a question in a complex tax area (such as "sale of residence") were to be connected to a voice messaging system. Those callers were asked to leave their name, telephone number, and best time for IRS to call back, and they were told that someone would be calling back within 2 working days. Those return calls were to be made by staff detailed from IRS' Examination function. According to IRS, it made this change after a study showed that several areas of complicated tax law involved 20 to 30 minute telephone conversations and that an assistor could answer about 5 simpler calls within the same amount of time.

The decline in the number of calls coming in can be attributed, in no small part, to IRS' ability to answer more calls. The more successful IRS is in

[11]Accessibility, as we have traditionally defined it, is the total number of calls answered divided by the number of call attempts, which is the sum of the following: (1) calls answered, (2) busy signals, and (3) calls abandoned by the caller before an IRS assistor got on the line.

[12]In one service center, for example, 26 staff from the Collection area were detailed on an as-needed basis to answer the phones, 45 staff from that center's Adjustment/Correspondence Branch were detailed to answer phone calls during the filing season, and another 24 staff from that Branch were detailed to answer calls for 2 hours each afternoon.

answering the phone, the fewer times taxpayers should have to call in an attempt to get through. Another factor cited by IRS as a contributor to the number of call attempts was the elimination of certain notices that it deemed to be unnecessary, which, in turn, reduced the need for persons to call IRS with questions about those notices.

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