

**The Internal Revenue Service Should
Improve Its Process to Ensure That All
Government Performance and Results
Act Requirements Are Satisfied**

December 1999

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

December 17, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service Should
Improve Its Process to Ensure That All Government
Performance and Results Act Requirements Are Satisfied

The attached report presents the results of our review of the Internal Revenue Service's (IRS) compliance with the Government Performance and Results Act (GPRA).

In summary, the IRS can improve its process for ensuring that all of the GPRA requirements are fully satisfied. The IRS should designate an executive office that will be responsible for coordinating and ensuring each function develops the performance measures and systems to capture and validate data needed to fully comply with the GPRA. Without such executive oversight, there is a high risk that much of the work that has been done on the measures and plans could be lost during the IRS reorganization. This loss could further delay the IRS' ability to produce the GPRA-compliant measures, plans, and related performance reports; and it would weaken the support data needed for budget justifications.

IRS management agreed to our recommendation. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included in Appendix VIII.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6500 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Table of Contents

Executive Summary	Page	i
Objective and Scope	Page	1
Background	Page	1
Results	Page	5
The Internal Revenue Service Does Not Have a Centralized Process to Ensure That All Requirements of the Government Performance and Results Act are Achieved and Maintained	Page	6
Conclusion	Page	19
Appendix I – Detailed Objective, Scope, and Methodology.....	Page	21
Appendix II – Major Contributors to This Report	Page	23
Appendix III – Report Distribution List	Page	24
Appendix IV – Information Excerpted from <i>Modernizing America’s Tax Agency</i>	Page	25
Appendix V – Example of the Annual Performance Plan	Page	26
Appendix VI – Performance Measures Being Baseline.....	Page	27
Appendix VII – Enforcement Measures Discontinued	Page	29
Appendix VIII – Management’s Response to the Draft Report.....	Page	30

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Executive Summary

The overall objective of our review was to evaluate the Internal Revenue Service's (IRS) strategic planning process relative to the goals and requirements set forth by the Government Performance and Results Act, Pub. L. No. 103-62, 107 Stat. 285 (1993) (referred to as GPRA). The GPRA is intended to improve quality and delivery of service by holding Federal agencies accountable, through the budget appropriation process, for program results by emphasizing goal setting, customer satisfaction, and results measurement. The scope of our review consisted of reviewing the information presented in the Fiscal Year (FY) 2000 Annual Performance Plan and the associated strategic plan for compliance with the GPRA requirements. In order to understand and evaluate the strategic planning process, we met with the IRS Budget Office management, the Executive over the Office of Organizational Performance Management (Measures Executive), and representatives from the Department of the Treasury and the Office of Management and Budget (OMB).

Results

The Internal Revenue Service Does Not Have a Centralized Process to Ensure That All Requirements of the Government Performance and Results Act are Achieved and Maintained

Without a centralized process, the IRS is at risk of not achieving the benefits intended by the Congress. Specifically, responsibilities and authorities need to be established for planning, directing, coordinating, and controlling the many activities required by the GPRA. Much of the information that is required by the GPRA could be developed through coordinating the activities of the IRS functions involved.

Historically, the IRS has had a strategic planning process. The IRS produced its first strategic plan under the GPRA in 1997. The current strategic plan does provide insight into how the IRS plans to operate in the future. The IRS' new mission statement, strategic goals, and objectives adequately cover the major functions and operations of the IRS. Additionally, the strategic plan contains a brief description of how the goals and objectives are to be achieved. Similarly, the annual performance plan (which is combined with the IRS' budget submission) clearly links performance measures to the funding and resources requested for each program and associated business activity. This practice has received praise from some reviewers of the annual budget justification.

Nevertheless, the IRS' strategic plan and the FY 2000 Annual Performance Plan are not in complete compliance with GPRA, OMB, and Department of the Treasury guidelines. The IRS' strategic plan does not:

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

- Fully explain how the performance measures and strategic goals relate to each other.
- Address external factors that impact its mission and strategic goals.
- Describe program and system evaluations.

In addition, the IRS issued an interim update to the strategic plan with its FY 2000 budget submission instead of issuing a revised strategic plan to the Congress. This resulted in the IRS bypassing an OMB guideline that the IRS summarize, in transmittal letters to members of the Congress, any contrary views received regarding changes in strategic plans.

The IRS' annual performance plan does not consistently describe the:

- Measures for each program activity.
- Goals for all measures.
- Means used to verify and validate performance data.

While the IRS does have a strategic planning process in place, its current emphasis is on addressing the transition issues related to the IRS Restructuring and Reform Act, Pub. L. No. 105-206, 112 Stat. 685 (1998) (referred to as RRA 98) and the IRS' Concept for Modernization. These activities require a significant investment by the IRS in time, and human and financial resources.

Summary of Recommendation

The IRS can improve its process to ensure that all the GPRA requirements are fully satisfied. The IRS should designate an executive office that will be responsible for coordinating and ensuring each function develops the performance measures and systems to capture and validate data needed to fully comply with the GPRA. Without such executive oversight, there is a high risk that much of the work that has been done on the measures and plans could be lost during the IRS reorganization. This loss could further delay the IRS' ability to produce the GPRA-compliant measures, plans, and the related performance report, and weaken the support data needed for budget justifications.

Management's Response: Management agreed to our recommendation and will have the Director for Strategic Planning and Budgeting be responsible for overseeing and coordinating the implementation of all the GRPA-related activity while developing a new strategic planning process. This office will work collaboratively with the Office of Organizational Performance Management, the Office of Program Evaluation and Risk Analysis, and other offices in the implementation of the GPRA.

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

Objective and Scope

The overall objective of the review was to evaluate the Internal Revenue Service's (IRS) strategic planning process relative to the goals and requirements set forth by the Government Performance and Results Act, Pub. L. No. 103-62, 107 Stat. 285 (1993) (referred to as GPRA). The scope of our review consisted of reviewing the information presented in the Fiscal Year (FY) 2000 Annual Performance Plan and the associated strategic plan for compliance with the GPRA requirements.

In order to understand and evaluate the strategic planning process, we met in Washington, D.C., with IRS Budget Office management, the Executive over the Office of Organizational Performance Management (Measures Executive), and representatives from the Department of the Treasury and the Office of Management and Budget (OMB). We also compared the content of, and process for, the strategic plan and the annual performance plan to the GPRA requirements and guidelines contained in OMB Circular A-11, Preparation and Submission of Budget Estimates. We also used OMB Circular A-123, Management Accountability and Control, for guidance in evaluating both the IRS' strategic plan and annual performance plan. We conducted our fieldwork from February 1999 to July 1999. This audit was performed in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

The GPRA was enacted by the Congress, in part, to "...improve the confidence of the American people in the Federal Government, by systematically holding Federal agencies accountable for achieving program

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

results.” The GPRA was also intended to switch the focus of federal programs from staffing levels to “outcomes,” expressed in the real difference they make in people’s lives. Additionally, the GPRA was created as a guide designed to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results. The overall goal of the GPRA was to improve agency performance and to provide much needed objective information to congressional and executive branch decision-makers to assist them in appropriating and allocating federal funds. The law requires executive agencies to prepare multi-year strategic plans, annual performance plans, and performance reports on prior year accomplishments.

Strategic plans are the starting point for setting goals and measuring the progress toward achieving them. Every agency is required to develop a strategic plan that covers the current fiscal year and at least the next five years. The GPRA has six basic requirements for strategic plans:

- A comprehensive mission statement covering the major functions and operations of the agency.
- General goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the agency.
- A description of how the goals and objectives are to be achieved, including a description of the operational process, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives.
- A description of how the performance goals included in the annual performance plan are related to the general goals and objectives in the strategic plan.
- An identification of those key factors, external to the agency and beyond its control, that could

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

significantly affect the achievement of the general goals and objectives.

- A description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations.

The GPRA also has six basic requirements for annual performance plans:

- Establish performance goals to define the level of performance to be achieved by a program activity.
- Express such goals in an objective, quantifiable, and measurable form.
- Briefly describe the operational process, skills and technology, and the human, capital, information, or other resources required to meet the performance goals.
- Establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity.
- Provide a basis for comparing actual program results with the established performance goals.
- Describe the means used to verify and validate measured values.

The first annual performance reports must be provided to the Congress by March 31, 2000. At that time, agencies are to report how well they met the performance goals established in their FY 1999 Annual Performance Plans.

The GPRA is applicable to executive agencies.

The GPRA is applicable to the Department of the Treasury. The IRS' strategic plan is referenced in the Department of the Treasury's consolidated strategic plan, and the IRS' annual performance plan is included in the Department of the Treasury's overall annual performance plan.

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

The Department of the Treasury, in turn, submits its documents to the OMB. The OMB reviews all the agencies' data to assist the President in drafting the annual budget for the United States Government.

In addition to the GPRA, OMB Circulars provide guidance to the IRS in preparing strategic and performance plans. Two important OMB Circulars on the GPRA process are A-11 and A-123.

OMB Circular A-11 provides detailed instructions and guidance on the preparation and submission of strategic plans, annual performance plans, and annual performance reports. The Department of the Treasury also provides additional instructions to its bureaus.

OMB Circular A-123 reinforces the expectation that management is responsible for taking "...systematic and proactive measures to develop and implement appropriate, cost-effective management controls for results-oriented management..." The OMB further defines management controls, in part, as "...policies and procedures used to reasonably ensure that... laws and regulations are followed; and reliable and timely information is obtained, maintained, reported and used for decision making."

The IRS has conducted long-range planning for almost 40 years. Beginning around 1985, the IRS began to use the strategic management process. In 1994, the IRS developed a Business Master Plan, which was very long, not prioritized, and not linked to the budget. In late FY 1995, the IRS re-evaluated its management process because of legislative changes, National Performance Review initiatives, and a significant budget cut.

The IRS submitted its first strategic plan under the GPRA in the fall of 1997. Since then, the IRS has undergone significant changes. The IRS Restructuring and Reform Act, Pub. L. No. 105-206, 112 Stat. 685 (1998) (referred to as RRA 98) required that the IRS restate its mission statement to reflect an emphasis on serving the public and meeting taxpayer needs. The RRA 98 § 1001 also requires the IRS to undertake a

The IRS' first strategic plan under the GPRA was drafted in 1997.

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

reorganization to provide better service to the American taxpayer.

The IRS' revised mission statement now stresses its role in helping taxpayers meet their tax obligations, and does not have a stated reference to collecting tax as it did previously. In this regard, the IRS has established three new strategic goals: (1) service to each taxpayer, (2) service to all taxpayers, and (3) productivity through a quality work environment.

The IRS is redesigning its strategic planning process to complement its modernization efforts. The efforts to modernize the IRS computer systems and reorganize the structure of the IRS are so interconnected they are collectively referred to as IRS Modernization. The efforts to reorganize the IRS structure involve, among other things, realigning the IRS along four business units. Each of these business units will develop its own mission statement and strategic goals, which should directly relate to the IRS' overall strategic goals.

The IRS created an office with the responsibility for activities that relate to the development and implementation of the Balanced Measurement System. The IRS has also appointed an executive to oversee these activities.

Within the IRS, the Budget Office, located in the Chief Financial Officer's organization, was responsible for submitting the interim update to the strategic plan and the FY 2000 Annual Performance Plan to the Department of the Treasury through the FY 2000 budget submission. The content of the submission was generally based upon the views of the IRS Commissioner as well as information provided from the functions.

Results

The IRS does not have a centralized process to ensure that the GPRA requirements are achieved and

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

maintained. Without a centralized process, the IRS is at risk of not achieving the benefits intended by the Congress. Specifically, an executive office needs to be designated and made responsible for planning, directing, coordinating, and controlling the many activities required by the GPRA. Much of the information that is required by the GPRA could be developed through coordinating the activities of the functions involved.

Historically, the IRS has had a strategic planning process. The current strategic plan does provide insight into how the IRS plans to operate in the future. The IRS' new mission statement and strategic goals and objectives adequately cover the major functions and operations of the IRS. Additionally, the strategic plan contains a brief description of how the goals and objectives are to be achieved.

Similarly the annual performance plan (which is combined with the IRS' budget submission) clearly links performance measures to the funding and resources requested for each program and associated business activity.

The Internal Revenue Service Does Not Have a Centralized Process to Ensure That All Requirements of the Government Performance and Results Act are Achieved and Maintained

The IRS' strategic plan and the FY 2000 Annual Performance Plan are not in complete compliance with the GPRA, OMB, and Department of the Treasury guidelines. While the IRS does have a strategic planning process in place, its current emphasis is addressing the transition issues related to the RRA 98 and the IRS' modernization efforts. These activities require a significant investment by the IRS in time, and human and financial resources.

The IRS' strategic plan does not:

- Fully explain how the performance measures and strategic goals relate to each other.

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

- Address external factors that impact its mission and strategic goals.
- Describe program and system evaluations.

In addition, the IRS included an interim update to its strategic plan with its FY 2000 Congressional budget submission instead of a revised strategic plan. This resulted in the IRS bypassing an OMB requirement that the IRS summarize, in transmittal letters to members of the Congress, any contrary views received regarding changes in strategic plans.

The IRS' annual performance plan does not consistently describe the:

- Measures for each program activity.
- Goals for all measures.
- Means used to verify and validate performance data.

**The strategic plan supporting the Fiscal Year 2000
Annual Performance Plan does not meet all of the
requirements of the Government Performance and
Results Act**

The following GPRA requirements were not in the IRS' strategic plan. Specifically, the revised strategic plan does not:

- Clearly relate the general goals and objectives to the annual performance plan.
- Address how external factors could affect IRS program activities.
- Address required program evaluations.
- Include a transmittal to the Congress with a summary review of contrary views received.

The RRA 98 requires the IRS to restate its mission statement to reflect an emphasis on serving the public and meeting taxpayer needs. The IRS has revised the mission statement in its strategic plan in response to this requirement. The IRS' revised mission statement and

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

overall goals and objectives adequately cover its major functions and operations.

This change to the basic mission of the IRS also necessitated changes to the agency's strategic goals and plans. The IRS changed its strategic plan by including a brief description of objectives that need to be achieved in each of the IRS' three strategic goals. These goals are:

- Service to each.
- Service to all.
- Productivity through a quality work environment.

In addition to these changes, the IRS is undertaking a massive reorganization referred to as its Concept for Modernization. The RRA 98 mandated the IRS re-align itself along customer types. The IRS is creating four organizations that will service distinct taxpayer populations. The four units are:

- Wage and investment income.
- Small business and self-employed.
- Large and midsize businesses.
- Tax-exempt.

The strategic plan does not go into detail explaining the means and strategies that are going to be used to achieve the strategic goals. However, the strategic plan does include information regarding the IRS' modernization effort and the guiding principles and levers of change that will be used as a guide. We agree that this level of detail is sufficient while the IRS continues with its modernization.

The strategic plan could be clearer on how strategic goals and objectives relate to the annual performance plan. It does not clearly link the strategic goals to the performance goals and measures in the annual performance plan. The GPRA requires that strategic plans include a description of the relationship between the general goals and objectives in the strategic plan and the performance goals in the annual

The strategic plan does not clearly link the new balanced measures to the new overall goals.

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

performance plan. This information is also necessary to help the Department of the Treasury meet the GPRA requirements relating to its strategic plan.

Without clear linkage, it may be difficult to correlate annual performance results to the achievement of one or more of the strategic goals. The performance measures in the annual performance plan are:

- Customer satisfaction.
- Employee satisfaction.
- Business results.

The strategic plan provides some information to explain each goal. For example, service to each taxpayer means help taxpayers comply. Service to all taxpayers means ensure fairness of compliance. Productivity through a quality work environment means providing employees necessary tools and incentives to provide quality service.

The strategic plan also provides some information to explain each of the performance measures. For example, customer satisfaction measures how well customers were served professionally. Employee satisfaction measures employees' perceptions of the quality of their work environment. Business results measures both quality and quantity aspects of productivity. However, how these measures are related to the strategic goals is not explained.

The IRS Commissioner provided insight into how the goals and measures are related in his publication *Modernizing America's Tax Agency* (Publication 3349). The goal of service to each taxpayer is measured by customer satisfaction. The goal of service to all taxpayers is measured by a combination of both quality and quantity performance measures of business results. The goal of productivity through a quality work environment is measured by employees' satisfaction.

This publication also contains a chart that links the strategic goals, the strategic objectives, the balanced measures, and the overall measurement process. Excerpts from that chart are shown in Appendix IV to this report. This type of information would help the

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

Congress better understand the IRS' strategic process and help the Congress make informed decisions on the direction of the IRS operations. The ability to justify the time and money expended in support of the measures could be adversely affected if a clear link cannot be made between annual performance results and progress in meeting the strategic goals.

The IRS Strategic Plan also does not provide insight into the scope of performance goals and measures. The OMB Circular A-11 states that strategic plans should briefly explain the scope of the performance goals and measures. For example, to meet the expectation of the employee satisfaction measure, over 10,000 employee work groups will be surveyed to obtain their opinions on 11 different subjects. Managers will be required to meet with employees, evaluate issues, and adopt plans to correct problems.

In addition, the IRS plans to use 11 surveys of taxpayers to evaluate customer satisfaction. The overall cost for these surveys is approximately \$3.4 million. As an example, the IRS sent surveys to approximately 39,500 taxpayers who were contacted by the Examination Division and approximately 32,000 taxpayers who were contacted by Collection Division during the year.

The strategic plan does not address how external factors could affect IRS program activities. The strategic plan does not identify key factors, external to the agency, that could significantly affect the IRS' efforts to achieve its general goals and objectives. The GPRA requires that the strategic plan identify external factors that could significantly affect the achievement of general goals and objectives. If none exist, a statement addressing this should be included in the plan. This information is also needed to help the Department of the Treasury meet the GPRA requirements relating to the departmental strategic plan.

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

Legislation is an external factor that can affect the IRS goals.

The RRA 98 is an example of an external factor that can affect achievement of the IRS' goals. The strategic plan describes how the strategic goals and objectives relating to service to each taxpayer, service to all taxpayers, and productivity through a quality work environment emanated from the legislation. However, the strategic plan does not describe the legislation's effect on operations and the resulting effect on the IRS' ability to achieve its strategic goals.

The FY 2000 Annual Performance Plan does discuss the potential impact of the RRA 98 in terms of dollars and resource commitments. For example, the RRA 98 contains 25 provisions affording additional protections to taxpayers. These provisions will require substantial changes to the IRS procedures concerning taxpayer audits, taxpayer appeals, and other enforcement processes.

The plan further discusses a diversion of \$200 million in IRS resources (primarily staffing) from compliance activities to customer service. The effect will be 54,000 fewer audits and \$250 million in lost revenue. The legislative impacts, both positive and negative, should be highlighted in a separate section of the strategic plan. This is necessary to show its importance along with other external factors, if any, that may affect the IRS.

The identification and explanation of external factors in the strategic plan provides the Congress and other outside stakeholders insight into the assumptions the IRS uses when defining its goals and objectives. External factors may impact these assumptions and the likelihood of goal achievement. This information could be useful to the Congress in evaluating the extent to which the IRS achieves, or does not achieve, its goals and its need for additional resources.

The strategic plan does not address how program evaluations will be used to evaluate current activities and to revise goals and objectives, if necessary. The strategic plan also does not include a description of

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

program evaluations. The GPRA requires that strategic plans include a schedule and description of the program evaluations to be used in establishing or revising general goals and objectives. According to OMB Circular A-11, the program evaluation schedule included in the strategic plan should also outline the general scope and methodology for the evaluations, key issues to be addressed, and when such evaluations are to occur.

Program evaluations include assessments of the implementation and results of programs, operating policies, and practices. Program evaluations are an important source of information for the Congress and others in ensuring the reasonableness of goals and strategies, as well as for identifying factors likely to affect performance.

There is no documentation of contrary views on the IRS' interim update to its strategic plan. The IRS issued an interim update to the strategic plan with its budget submission instead of issuing a revised strategic plan to the Congress. This resulted in the IRS bypassing an OMB requirement that the IRS summarize, in transmittal letters to members of the Congress, any contrary views received regarding changes in strategic plans.

The GPRA and OMB Circular A-11 require agencies to consult with the Congress when developing and revising strategic plans. The consultation process provides an opportunity to obtain and document contrary views of the Congress, and others, on the changes to goals and objectives. The OMB Circular A-11 also recommends this consultation when significant changes are made to strategic plans and that any contrary views be summarized in transmittal letters to members of the Congress.

Congressional concerns have influenced the IRS, but no contrary views were associated with the interim strategic plan.

Representatives of the IRS held numerous discussions with members of the Congress concerning the significant changes planned for the IRS due to the RRA 98 and the IRS' modernization effort. In addition, the IRS Commissioner presented his vision statement

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

concerning the IRS' future in a document titled, *Modernizing America's Tax Agency*. He outlines the strategic planning concepts for the new goals and objectives, and how the modernization efforts will impact the overall operation of the IRS.

The documentation of dissenting views and opinions on the IRS' evolving strategic plan could be very important in the future when the IRS and the Department of the Treasury transmit a new strategic plan to the Congress. For example, there could be dissenting opinions on the shift to an increased emphasis on customer satisfaction goals and objectives with a reduced emphasis on stated compliance goals and objectives.

There could also be opinions on how the IRS will use the balanced measures process to improve compliance or prevent compliance from slipping. Opinions on such issues could have a significant effect on the IRS' performance goals.

The IRS decided to issue an interim update to the plan because of all the transitional issues occurring and planned over the next several years. The Department of the Treasury and the OMB did not view the changes in the interim update as significant enough to require a formal revision. The IRS plans to formally revise its strategic plan in conjunction with its FY 2002 budget submission. This time frame would afford the IRS the opportunity to document any contrary views on the direction the IRS is taking.

The Fiscal Year 2000 Annual Performance Plan does not meet all of the requirements of the Government Performance and Results Act

The IRS combines its annual performance plan with its annual budget justification. A strength of this approach is that there is a clear link between the performance measures to the funding and resources requested for each program and associated business activity. The presentation also includes data on prior and future year goals (see Appendix V to this report). This practice has

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

received praise from some reviewers of the annual budget justification.

Nevertheless, there are areas where the plan does not meet all of the GPRA requirements. Specifically, the annual performance plan does not:

- Include performance measures for all of the IRS' major program activities.
- Include goals for all of the performance measures.
- Describe the process used to verify and validate performance data.

The Fiscal Year 2000 Annual Performance Plan does not include performance measures for all of the IRS' major program activities. In the FY 2000 budget, 6 of the 14 program activities (see Table 1 below) did not have the required performance indicators to support the requested budget amounts. The GPRA requires that performance plans establish performance indicators to measure or assess relevant outputs, service levels, and outcomes of each program activity.

Table 1: Programs Without Required Performance Indicators to Support Requested Budget Amounts

Program Activity	Requested Budget Amounts
Earned Income Tax Credit Compliance	\$144 Million
Investments	\$ 66 Million
Information Technology Investments(1)	\$831 Million
Year 2000 Conversion (Y2K)	\$250 Million
Criminal Investigations (2)	\$375 Million
Management Services	\$616 Million

(1) Amounts budgeted are from multi-year accounts from FY 1998 (\$295 million), FY 1999 (\$211 million), and advance funding from FY 2001 (\$325 million).

(2) RRA 98 §1204 prohibits the use of enforcement statistics.

Also, the performance plan narratives for these program activities did not include a description of how the IRS

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

plans to measure success in these program activities. Without performance indicators, the IRS will have difficulty assessing its success in these areas, as well as justifying future appropriations. For example, the Budget Activities for Earned Income Tax Credit Compliance, Investments, Information Technology, and Management Services, amounting to \$1.7 billion, will be recurring in subsequent years.

As currently structured, there is no centralized control point in the IRS for determining which activities should have performance measures. The individual functions within the IRS are responsible for developing performance measures for their individual areas. Neither the Measures Executive nor the Budget Office has the authority or responsibility for ensuring program activities have performance measures.

The Fiscal Year 2000 Annual Performance Plan does not include goals for all of the performance measures. Forty-six of the 71 performance measures listed in the performance plan do not have goals. The GPRA requires that a performance goal and indicator cover each program activity in an agency's Program and Financing Schedule in the annual plan. In addition, the Department of the Treasury required that goals and performance measures for each strategic goal be included in the IRS' FY 2000 congressional budget submission.

The IRS is developing baseline data for 45 of the measures.

There were numbers available for 1 of the 46 measures (Employee Plan determination letter timeliness), but no goal was established. The remaining 45 measures do not have goals because the IRS is developing baseline data. Of these 45 measures:

- Twenty-one involve customer satisfaction and employee satisfaction, which are new to the IRS.
- Twenty-four relate to the new business results measures.

We were advised that the goals for each of these performance measures would be established by the

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

functions when baseline numbers are analyzed after the end of the FY 1999. As a result, however, the IRS' performance plan for FY 2000, submitted to the Congress in early 1999, does not provide a clear picture of intended performance across the agency. The complete list of measures still being developed is contained in Appendix VI to this report.

The IRS has created the Office of Organizational Performance Management Executive and appointed an executive to oversee the process for managing the IRS' measurement activities. However, this office did not have a process in place to regularly monitor the development of the baseline data by the IRS functions. It did request, in April 1999, a report from functions on the status of their baselining efforts.

The responses from the functions showed that 28 of the 45 measures were on target for having baseline data established by the end of FY 1999. Of the 17 measures not on target:

- Six are pending legal review to provide definitions and guidance on the use of outcome-neutral business measures.¹
- Four involve quality standards recently implemented for the Examination, Collection, and Customer Service Divisions.
- Three involve employee and customer satisfaction and quality measures for the Chief Counsel's Office.
- Four involve other issues, such as changes in measures' definitions, changes in data elements, or completion of programming.

While the functions have a process to monitor the development of the baseline data, there is very limited

¹ The six measures referred to were subsequently reviewed and issued as the IRS' Balanced Measurement Regulation in September 1999.

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

independent oversight to ensure that the data being baselined will be consistent with the needs of the new business units and that baseline data are developed timely. Independent oversight could help ensure that the functions are considering the potential needs of the new business units. This would help avoid or minimize the need for baselining new performance measures, which in turn, could adversely affect the IRS' ability to comply with the requirements of the GPRA in subsequent years.

The RRA 98, § 1204 directs the IRS to develop employee performance measures that favor taxpayer service and prohibit employee evaluations based on enforcement quotas, goals, or statistics. To meet this requirement, the IRS has adopted a balanced set of performance measures to reflect a commitment to customer satisfaction, employee satisfaction, and business results. The balanced measures are designed to support and reinforce achievement for the restated mission and overall strategic goals. Accordingly, the IRS has eliminated enforcement type measures from the FY 2000 Annual Performance Plan. Appendix VII of this report shows the discontinued enforcement measures.

The Fiscal Year 2000 Annual Performance Plan does not describe the process used to verify and validate performance data. The IRS should place a greater emphasis in the performance plan on addressing the reliability of the data used for performance measures. The GPRA requires that the IRS describe the means used to verify and validate measured values. The plan should describe credible procedures to verify and validate performance information. In addition, the Department of the Treasury required the IRS to include, as part of its FY 2000 congressional budget submission, a complete and consistent report on the accuracy of the performance data and how the IRS verified the accuracy of the numbers.

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

Verification and validation means were properly described for only one measure.

The means to verify these numbers should be sufficiently credible and specific enough to give the reader a clear understanding of the accuracy and reliability of the performance information that is reported. Only one of the eight IRS program activities with established performance indicators adequately addressed the reliability of the data for its business results measures. The program activity narrative provided a precise description of the system producing the data and the controls in place to ensure data accuracy. It also indicated who was responsible for correcting errors, reviewing computer programs, and reviewing reports for accuracy.

The IRS attempted to address the issue of data reliability in an appendix to the performance plan. However, the statements used to describe reliability for the remaining program activities were generally limited to stating whether the data had “reasonable accuracy” or “questionable/unknown accuracy.” The statements did not address the means used to verify and validate the data.

The IRS functions provided the information used in Appendix I of the FY 2000 congressional budget submission. This information was given to the IRS’ Budget Office as part of the budget process. The Budget Office does not perform any in-depth reviews of the information provided. The credibility of the IRS’ performance measurement system could be seriously affected if performance data are later determined to be inaccurate or unreliable.

The Fiscal Year 2000 Annual Performance Plan generally discusses how the agency’s strategies and resources will help achieve its goals. The FY 2000 Annual Performance Plan adequately describes the skills, technology, staffing, capital, information, or other resources required to meet the performance goals, as required by the GPRA. The OMB Circular A-11 requires that the description be brief and limited to resources (dollars and personnel) reflected in an agency’s budget request. An agency may be expected to

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

provide more details on the resources it needs when the agency is requesting a significant change.

The annual performance plan in the budget includes charts with supporting data for both the IRS as a whole and for each program activity (see Appendix V for an example of an activity). The plan also details the money and staffing budgeted for the IRS and each program activity. Some of the program activities also have additional needs listed under a section titled “Dependencies.” This section includes information relating to what the IRS needs in order to accomplish its performance goals.

Recommendation

We believe that the weaknesses and omissions in the IRS’ current processes have been caused by a lack of central coordination and oversight. Accordingly, we are recommending that the IRS Commissioner designate an executive office to oversee and coordinate all GPRA-related activities. This office would ensure that each function (and each future business unit) develops meaningful and objective measures, designs and implements systems to capture performance data, and ensures plans are established to perform the necessary verification and validation of data.

Management’s Response: Pending completion of the strategic planning process, the Director for Strategic Planning and Budgeting will be responsible for overseeing and coordinating the implementation of all GPRA-related activities. This office will work collaboratively with the Office of Organizational Performance Management, the Office of Program Evaluation and Risk Analysis and other offices in the implementation of GPRA.

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Conclusion

The IRS does not have a point of control in its process to ensure that all of the requirements of the GPRA are achieved and maintained. Consequently, the IRS' Strategic Plan and the FY 2000 Annual Performance Plan are not in full compliance with the GPRA and with the OMB and the Department of the Treasury guidelines. This could adversely impact the Department of the Treasury's ability to comply with the GPRA because it must rely upon the information the IRS provides through its strategic and annual performance plans.

Executive oversight will ensure that the current IRS activities on restructuring and modernization can be used to ensure the requirements of the GPRA are achieved in the most effective and economical manner. With the appropriate executive planning and coordinating, the IRS will be in a better position to implement the GPRA requirements under its new organizational structure.

Central direction of the GPRA process will allow the IRS to position itself to move quickly to produce accurate and meaningful measures and the related performance reports. Additionally, a well-managed process will enable the IRS to timely react to new or changing GPRA-related legislation.

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the Internal Revenue Service's (IRS) strategic planning process relative to the goals and requirements set forth by the Government Performance and Results Act, Pub. L. No. 103-62, 107 Stat. 285 (1993) (referred to as GPRA). To accomplish this objective, we conducted the following audit tests:

- I. Determined if the process used to develop the strategic plan was adequate to ensure that the resulting plan addressed the provisions of the GPRA.
 - A. Discussed the process for developing the IRS' strategic goals, objectives, and the balanced measurement system with IRS Budget Office management, the Executive over the Office of Organizational Performance Management (Measures Executive), and representatives from the Department of the Treasury and the Office of Management and Budget (OMB).
 - B. Reviewed the GPRA, OMB Circulars A-11 and A-123, pending GPRA legislation contained in H.R. 2883, and the Restructuring and Reform Act of 1998, Pub. L. No. 105-206, 112 Stat. 685 (1998) (referred to as RRA 98) to identify the requirements for mission statements and strategic plans.
 - C. Reviewed the IRS' Concept for Modernization, presented by the IRS Commissioner in a document titled, *Modernizing America's Tax Agency*, to identify and evaluate the underlying philosophy for the revised strategic goals, objectives, and the balanced measurement system.
 - D. Reviewed the strategic plan contained in the Fiscal Year (FY) 2000 Congressional Justification to determine whether:
 1. The plan adequately addressed the overall goals and objectives of the IRS.
 2. The goals were consistent with the priorities of the Congress.
 3. The strategic goals and objectives were clearly linked to the annual performance plan goals and performance indicators.
 4. The plan adequately addressed external factors that could adversely effect IRS programs.
 - E. Reviewed the annual performance plan contained in the FY 2000 Congressional Justification to determine if the performance goals/performance measurement indicators were clearly linked to the strategic goals and objectives contained in the strategic plan.

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

- II. Determined if the process used to develop the annual performance plan was adequate to provide a clear picture of intended performance across the IRS.
 - A. Discussed the process for developing the annual performance plan goals, performance indicators and the balanced measures with IRS Budget Office management, the Measures Executive and representatives from the Department of the Treasury and the OMB.
 - B. Reviewed the GPRA, OMB Circulars A-11 and A-123, and pending GPRA legislation contained in H.R. 2883 to identify the requirements for annual performance plans.
 - C. Reviewed the annual performance plan contained in the FY 2000 Budget Justification to determine if:
 - 1. The plan provided a succinct statement of expected performance that could be compared to actual performance.
 - 2. Performance goals were linked to the mission and strategic goals.
 - 3. The plan identified how the agency's strategies and resources would help achieve its goals.
 - 4. The plan provided confidence that performance information would be credible.
 - D. Reviewed guidance memoranda from the Department of the Treasury to the IRS for preparing the FY 2000 Budget Justification to identify specific reporting requirements related to the GPRA.

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Appendix II

Major Contributors to This Report

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Stanley Rinehart, Director

Kevin Riley, Audit Manager

George Morrow, Senior Auditor

Todd Anderson, Auditor

David Robben, Auditor

Darryl Roth, Auditor

Lynn Rudolph, Auditor

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Appendix III

Report Distribution List

Deputy Commissioner Operations C:DO
Assistant to the Deputy Commissioner C:DO
Assistant Commissioner (Program Evaluation and Risk Analysis) M:OP
Organizational Performance Management Executive C:DO:OPME
Chief Operations Officer OP
Chief Financial Officer M:CFO
Director, Strategic Planning and Budget M:CFO:B
National Director for Legislative Affairs CL:LA
Office of Management Controls M:CFO:A:M
Office of the Chief Counsel CC

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Appendix IV

Information Excerpted from *Modernizing America's Tax Agency*

GOALS	MEASURES		
	Strategic Level	Operational Management	Front-Line Employees
Service to Each Taxpayer			
<ul style="list-style-type: none"> • Make filing easier • Provide first quality service to each taxpayer needing help with his or her return 	<ul style="list-style-type: none"> • Overall customer satisfaction with service/treatment • Customer Dissatisfaction (complaints) 	<ul style="list-style-type: none"> • Satisfaction with a particular service • Dissatisfaction with a particular service 	<ul style="list-style-type: none"> • Service to taxpayers and treatment of taxpayers incorporated in critical elements
Service to All Taxpayers			
<ul style="list-style-type: none"> • Increase fairness of compliance • Increase overall compliance 	<ul style="list-style-type: none"> • Overall compliance percentage • Increase in compliance • Uniformity of compliance • Allocation of resources 	<ul style="list-style-type: none"> • Quality of particular cases/events • Quantity of particular cases/events 	<ul style="list-style-type: none"> • Case quality and time management incorporated into critical elements
Productivity through a Quality Work Environment			
<ul style="list-style-type: none"> • Increase in employee job satisfaction 	<ul style="list-style-type: none"> • Overall employee satisfaction with working environment 	<ul style="list-style-type: none"> • Overall employee satisfaction with particular working environment 	Not Applicable

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Appendix V

Example of the Annual Performance Plan

Activity: 50 Collection

Functions: This activity collects unpaid tax accounts and secures delinquent returns; develops and implements programs to prevent tax accounts from becoming delinquent; assists taxpayers in resolving tax account problems; helps taxpayers in complying with tax laws; protects the Government's interest in litigation proceedings; and takes appropriate enforcement actions when warranted.

Performance Plans for FY 2000 and FY 1999, and Performance Report for FY 1998 Data						
	FY 1996	FY 1997	FY 1998		FY 1999	FY 2000
			Plan	Actual	Final Plan	Proposal
Budget	\$855,058	\$682,160	\$661,356	\$681,100	\$679,385	\$707,411
Direct FTE	17,916	12,110	11,938	11,524	11,195	11,095
Performance Measures						
1. Field Collection – Volume Mix	N/A	N/A	N/A	N/A	Baseline	TBD
2. Field Collection Quality	N/A	N/A	N/A	N/A	Baseline	TBD
3. Percentage of Field Collection Case Overage	N/A	N/A	N/A	N/A	Baseline	TBD
4. Percentage of Offers in Compromise Processed within 6 Months	59.2%	64.0%	N/A	60.5%	59.3%	59.3%

FTE is a full time equivalent.

N/A means not applicable.

TBD means to be determined.

Only the first four performance measures are shown.

Source: IRS Fiscal Year 2000 Congressional Justification page IRS, TLE-21.

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Appendix VI

Performance Measures Being Baseline

Function	Performance Measure
Submission Processing	Refund Timeliness – Paper (%)
Customer Service	Automated Collection System (ACS) – On-Line Accuracy
	ACS – Cycle Timeliness
	ACS – Customer Relations
	ACS – Overage Inventory
	Toll-Free Timeliness
	Toll-Free Customer Relations (Tax Law and Accounts)
	ACS Level of Service
	Toll-Free – Level of Service
	Toll-Free – Adherence to Scheduled Hours
	Customer Satisfaction – Toll-Free
	Customer Satisfaction – ACS
	Employee Satisfaction – Toll-Free
	Employee Satisfaction – ACS
Service Center Examination	Service Center Examination – Overage Inventory
	Service Center Examination Accuracy
	Service Center Examination – Volume/Mix (Placeholder)
	Customer Satisfaction – Service Center Examination
	Employee Satisfaction – Service Center Examination
Field and Office Examination	Field and Office Examination – Volume/Mix (placeholder)
	Field and Office Examination Quality
	Percentage of Field and Office Examination Cases Overage
	Customer Satisfaction – Field and Office Examination
	Employee Satisfaction – Field and Office Examination
Appeals	Appeals Customer Satisfaction
	Appeals Employee Satisfaction
Field Collection	Field Collection – Volume/Mix
	Field Collection Quality
	Percentage of Field Collection Cases Overage
	Customer Satisfaction – Field Collection
	Employee Satisfaction – Field Collection
Walk-in	Customer Satisfaction – Walk-in

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Function	Performance Measure
Employee Plans/ Exempt Organizations	Exempt Organizations (EO) Determination Customer Satisfaction
	Employee Plans (EP) Determination Customer Satisfaction
	EO Examination Customer Satisfaction
	EP Examination Customer Satisfaction
	Employee Satisfaction EP/EO
Chief Counsel	Guidance and Assistance – Volume/Mix
	Litigation Case – Volume/Mix
	Chief Counsel Quality
	Chief Counsel Customer Satisfaction
	Chief Counsel Employee Satisfaction
Other Servicewide Measures	Alternative Treatment Revenue
	Employee Satisfaction – Servicewide
	IRS Productivity Measure (Placeholder)

Source: IRS Fiscal Year 2000 Congressional Justification.

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

Appendix VII

Enforcement Measures Discontinued

1. Service Center Examination Dollars Recommended (Billions)
2. Automated Collection System (ACS) Dollars Collected (Billions)
3. Service Center Examination Dollars Recommended (Billions) per \$100 of Cost
4. Automated Collection System (ACS) per \$100 of Cost
5. Document Matching Dollars Assessed (Billions)
6. Field Examination Dollars Recommended (Billions)
7. Field Examination Dollars Recommended per \$100 of Cost
8. Appeals Staff Days per Disposal
9. Collection Dollars Collected (Billions)
10. Collection Average Cycles per TDA¹/TDI² Disposition
11. Collection Dollars Collected per \$100 of Cost

¹ Taxpayer Delinquent Account.

² Taxpayer Delinquency Investigation.

**The Internal Revenue Service Should Improve
Its Process to Ensure That All Government Performance
and Results Act Requirements Are Satisfied**

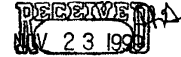
Appendix VIII

Management's Response to the Draft Report



COMMISSIONER

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



November 23, 1999

MEMORANDUM FOR TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

FROM: Charles O. Rossotti *COR*
Commissioner of Internal Revenue

SUBJECT: Office of Treasury Inspector General for Tax
Administration Draft Audit Report-The Internal
Revenue Service Should Improve Its Process to Ensure
that All Government Performance and Results Act
Requirements Are Satisfied (Audit No. 19990031)

Thank you for the opportunity to respond to your draft report "The Internal Revenue Service Should Improve Its Process to Ensure that All Government Performance and Results Act Requirements Are Satisfied." The draft report evaluated the Internal Revenue Service's (IRS) strategic planning process relative to the goals and requirements set forth in the Government Performance and Results Act (GPRA). Specifically, the Fiscal Year 2000 Annual Performance Plan and the associated strategic plan were reviewed for compliance with provisions of GPRA.

We agree with your recommendation that we need to designate an executive office to oversee and coordinate all GPRA-related activity. While we believe our strategic plan and annual performance plan were in substantial compliance with GPRA, we agree that such an executive office would further enhance our ability to plan and manage the various activities required by GPRA.

As part of our continuing modernization efforts, we are currently developing a new strategic planning process. We envision that this new approach will link strategy, planning, budgeting, and research and support senior management in establishing and communicating the strategic direction of the IRS. By creating such an integrated planning and policymaking framework, and facilitating the reconciliation of competing planning, performance, and budget needs, this initiative will also provide additional support for our efforts to comply with GPRA.

Until we complete this process, the Office of Strategic Planning and Budgeting will have the responsibility for overseeing and coordinating all GPRA-related activity for the IRS. The Director for Strategic Planning and Budgeting

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

2

will coordinate activities in this area with the Office of Organizational Performance Management and the Office of Program Evaluation and Risk Analysis during this interim period.

While we agree with the report's recommendation, there are two general areas on which we would like to comment. First, the period covered by the report was a time of major change at the IRS and coincided with various initiatives related to the enactment and implementation of the IRS Restructuring and Reform Act of 1998 (RRA 98). The challenge facing the IRS-to completely reorganize our business structure and simultaneously overhaul our measurement system-was discussed with Treasury Inspector General for Tax Administration staff but was not adequately documented in the report.

Second, the report does not completely discuss the timing difficulties that the organizational changes and the budget submission deadline produced. The new mission statement and strategic goals had only recently been introduced when the FY 2000 budget submission was due for transmittal to Congress. Similarly, the balanced measurement system had only recently been implemented and the linkage of measures in the performance plan was not yet fully defined. We recognized this situation and sought to provide our reviewers (e.g., Treasury, OMB, and the Congress) with an overall sense of our new direction while many of the details were being worked out. Throughout this process, we maintained regular communication with our external stakeholders about the actions we were taking to respond to the mandate for change, and to comply with the provision GPRA.

Attachment A contains an assessment of cause and the actions to be taken to address the report's recommendation. Attachment B provides a more detailed set of comments and proposed revisions. If you have any questions or need additional information, please call me, or a member of your staff may contact Spencer Nelms at (202) 622-8770.

Attachments (2)

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

Attachment A

Assessment of Cause and Actions to be Taken to Address the Recommendation

IDENTITY OF RECOMMENDATION

The Commissioner should designate an executive office to oversee and coordinate all GPRA-related activities.

ASSESSMENT OF CAUSE(S)

The period when the GPRA-related strategic plan and annual performance plan reviewed by the report were being developed was a time of great transition for the IRS. The mission statement, strategic goals, performance measures, and organizational structure were being revised in response to the changes mandated by RRA 98. The roles and responsibilities of various offices were also being defined and revised to facilitate the new paradigm.

CORRECTIVE ACTION(S)

Pending completion of the strategic planning process, the Director for Strategic Planning and Budgeting will be responsible for overseeing and coordinating the implementation of all GPRA-related activity. Strategic Planning and Budgeting will work collaboratively with the Office of Organizational Performance Management, the Office of Program Evaluation and Risk Analysis and other offices in the implementation of GPRA.

IMPLEMENTATION DATES

December 1, 1999

CORRECTIVE ACTION(S) MONITORING PLAN

The Director for Strategic Planning and Budgeting will work with the various operating divisions and support organizations to ensure continued compliance with GPRA.

RESPONSIBLE OFFICIAL(S)

Chief, Management and Finance
Director, Strategic Planning and Budgeting

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

Attachment B

Detailed Comments and Proposed Revisions

The following represents our detailed comments and proposed revisions to the draft report.

Page ii, first full paragraph, first sentence: The draft report states that the IRS issued an "interim strategic plan" with its FY 2000 budget submission. The budget submission text, however, indicated that we were providing an "interim update to the strategic plan." The references to "interim strategic plan" in the report should be changed to make it similar to the language actually printed in the budget submission.

Page ii, first full paragraph, second sentence: While we agree that the strategic plan did not provide Congress with contrary views in a formal transmittal letter, the report should recognize that such views were fully communicated to the appropriate Congressional members as part of our ongoing dialogue during the Senate Finance Hearings and the debate and discussions that led to the passage of RRA 98.

Page 5, first sentence: The draft report indicates that the IRS' revised mission statement places "less emphasis on compliance issues." Notwithstanding the revision to our mission statement and other changes underway, we still regard compliance as one of the major roles in accomplishing our mission. The clause, "with less emphasis on compliance issues" should be deleted from the sentence.

Page 5, third paragraph, first sentence: As currently drafted, this sentence is incomplete and could confuse the reader. Specifically, the Organizational Performance Management Executive office was not created to oversee all aspects of measurement activities, but to focus mainly on development of balanced measures. The sentence should be amended to read as follows, "[t]he IRS created an office with the responsibility for activities that relate to the development and implementation of the Balanced Measurement System".

Page 7, first paragraph: The report again mentions that we "bypassed" the requirement to summarize contrary views in a transmittal letter, but does not provide the full context that surrounded the development and submission of the interim update to the strategic plan. For example, the debate and work that led to the passage of RRA '98, the transcripts from the 1997 and 1998 Senate Finance Hearings, and the report issued by the National Commission on Restructuring the IRS, all addressed competing viewpoints about the current and future state of the IRS. Our strategic direction incorporated various aspects of these viewpoints and resulted from a very clear set of requirements that emanated from the Congress and the Administration. A formal recitation of

The Internal Revenue Service Should Improve Its Process to Ensure That All Government Performance and Results Act Requirements Are Satisfied

contrary views in a transmittal letter would have been overly redundant in light of the environment in which the strategic plan was developed.

Page 10, first full paragraph, second to last sentence: The report includes an example relating to employee surveys. The text should be amended to reflect that, 11 different "subject" areas were surveyed as opposed to 11 different "issues" as referenced in the report.

Page 14, bold finding: While the draft report is accurate when it notes that we did not have all of the required performance indicators in the FY 2000 budget submission, it should also provide the reader with more discussion of the challenges we faced and some of the things we accomplished. For example, the development and implementation of a balanced measurement system at the IRS has entailed a complete overhaul of the way the Service assesses and manages organizational performance. In general, we dropped all of our traditional enforcement measures and started the process of developing balanced performance measures around the strategic objectives de novo. Given the magnitude of these efforts, the process for developing new measures was divided into phases and some pieces could not be completed in time for inclusion with the FY 2000 budget submission.

Due to the mandate for change and the magnitude of the undertaking, priorities had to be established. Measures for the primary processes that most impact taxpayers were developed in 1999. We expect that all other measures will be developed in FY 2000. The IRS has been working diligently to establish performance measures for each program area. However, this process is taking time due to the need to ensure that each measure is fully developed and tested, complies with the goals of RRA '98 and the Balanced Measures Regulation, and provides information that is useful and relevant for exercising effective program management and review.

Page 16, first bullet: The six quality measures referred to in the report are no longer pending legal review as they became effective with the issuance of the Balanced Measurement Regulation in September 1999.