

**Letter Report:
The Internal Revenue Service Should Improve
Its Process to Ensure the Fiscal Year 1999
Performance Report Will Contain the
Information Intended by the Congress**

March 2000

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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

March 31, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

Margaret E. Bezz

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Letter Report - The Internal Revenue Service Should Improve Its Process to Ensure the Fiscal Year 1999 Performance Report Will Contain the Information Intended by the Congress

This Letter Report presents our findings and recommendations resulting from our review of the Internal Revenue Service's (IRS) development of the Fiscal Year (FY) 1999 Annual Program Performance Report (APPR).

We found that the process for developing the APPR needs to be improved. Current practices do not provide adequate time for IRS management to assemble data for the report, analyze the data to ensure that they clearly assess program goals, verify and validate the data to ensure that they are reliable and credible, and timely submit the data to the Department of the Treasury.

A draft of this report was sent to IRS management on February 17, 2000, requesting their response within 30 calendar days. However, we had not received the IRS' written response as of the date this report was released. Accordingly, this report does not contain IRS management's comments on our findings and recommendations.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have any questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Objective and Scope

The objective of our review was to assess the progress made by the Internal Revenue Service (IRS) through January 2000 to assemble verified and validated data for the Fiscal Year (FY) 1999 Annual Program Performance Report (APPR). Our work was performed from December 1999 to January 2000. We met with the IRS' Measures Executive, and staff in the Office of Strategic Planning and Budget, Operations Planning, Customer Service, Electronic Submission Processing, Examination, and Collection Divisions.

The scope of our work consisted of discussing and reviewing procedures and processes used to gather and assemble data, and reviewing procedures and processes used to verify and validate data for the APPR. This audit was performed in accordance with *Government Auditing Standards*.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

Background

The Government Performance and Results Act of 1993 (GPRA), Pub. L. No. 103-62, 107 Stat. 285, was enacted by the Congress in 1993 and is intended to improve the quality and delivery of government services. The GPRA holds federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement. In FY 1999, federal agencies were required to submit to the President and the Congress annual performance plans that set annual goals with measurable target levels of performance. Beginning with FY 2000, federal agencies are required to report on their successes in achieving the goals established in the prior year's performance plan.

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Results

The process for developing the APPR needs to be improved. The practices we observed do not provide adequate time for IRS management to assemble data for the report, analyze the data to ensure that they clearly assess program goals, verify and validate the data to ensure that they are reliable and credible, and submit the data to the Department of the Treasury.

A Continuing Process Should be Developed to Ensure an Annual Program Performance Report that Complies with the Government Performance and Results Act of 1993

Both the Office of Management and Budget (OMB) and the GPRA require the Department of the Treasury to submit the APPR to the President and the Congress no later than March 31, 2000, and no later than March 31, of each year thereafter. This date was set to correlate with the agencies' submission of annual financial statements to the OMB under the Chief Financial Officer's Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838, so that agencies could combine the two reports.

The Department of the Treasury has chosen to include the FY 1999 Annual Program Performance Report, the FY 2000 Final Performance Plan Explanation, and the FY 2001 Proposed Performance Explanation as required by the Results Act with its FY 2001 Congressional Justification. This FY 2001 Congressional Justification report was transmitted to the Congress on February 7, 2000.

IRS management only recently established an office to provide oversight of the GPRA processes. While some guidance has been provided, a single set of authoritative instructions has not been fully developed and documented. Currently, the process does not allow

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sufficient time to ensure that data have been verified and validated.

On December 8, 1999, we began meeting with staff from Operations Planning and various functional offices, (representing approximately 56 percent of the IRS' FY 2000 budget estimate and approximately 72 percent of the FY 1999 performance measures), to assess their progress toward completing the FY 1999 APPR. We determined that the following instructions were issued and meetings were held:

Instructions were issued -

- To the Operations Assistant Commissioners on September 16, 1999, by the Chief Operations Officer, identifying dates for submission of their FY 1999 APPR measurement data to Operations Planning. Additional instructions were disseminated on October 4, 1999, regarding data validity guidance and verification and validation.
- To all Chief Officers on November 23, 1999, by the Director, Strategic Planning and Budgeting, identifying dates for submission of all information for the FY 2001 Congressional Justification document.
- To the IRS and other Bureau Budget Officers on January 3, 2000, by the Department of the Treasury, Office of Budget, identifying dates for the FY 2001 Congressional Budget, the Performance Plan and Performance Report submission.

Meetings were held -

- By the Chief Operations Officer's (COO) staff with the functions reporting to him. The meeting was on September 30, 1999, to discuss the December 6, 1999, deliverables which included the FY 1999 APPR.
- By the Director, Strategic Planning and Budgeting staff with budget and performance

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measurement contact staffs. The meeting was on December 1, 1999, to discuss the December 17, 1999, deliverables which included the FY 1999 APPR.

Measurement data were to have been submitted by the functions reporting to the COO to Operations Planning on December 6, 1999. Operations Planning was to have consolidated and forwarded the data to the National Director, Strategic Planning and Budget, by December 27, 1999. The FY 2001 budget, which includes the FY 1999 APPR, was to have been submitted to the Department of the Treasury on January 14, 2000, for public release by February 7, 2000.

While several of these internal dates were not met, the data were provided to the Department of the Treasury, and the Performance Report was issued on February 7, 2000; however, all the GPRA requirements were not fully achieved.

A Continuing Process Should be Developed to Ensure the Credibility of Annual Program Performance Report Data

Senate Report 103-58 emphasizes that the success of the GPRA depends to a large degree on the reliability and utility of the information presented. The report states that an agency can use an audit or any other procedures that would support the general accuracy and reliability of information contained in the APPR. Also, a bi-partisan memorandum dated July 1, 1999, from four members of the Congress to the Director, OMB, encourages the OMB to require agencies to comment on the quality of their data, and to provide assurances that the data in their performance reports are credible.

Although the GPRA requires that performance plans include a description of the means used to verify and

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validate measured performance values, the GPRA does not specifically require verifying and validating measured performance values in the APPR. It is our belief, based on the Senate Report and the July 1, 1999, memorandum, that the Congress intended for federal agencies to provide assurances that the data in the performance reports are credible.

Procedures were established to collect reliable data for the FY 1999 APPR. On September 16, 1999, the COO forwarded the Operations Assistant Commissioners instructions that identified deliverable dates for submission of APPR data to the Operations Planning staff. On October 4, 1999, the Operations Planning staff provided data verification and validation instructions to the functions reporting to the COO. The instructions pointed out that it is the responsibility of each Operations function to verify and validate the quality of its data.

The instructions issued by the Director, Strategic Planning and Budget, on November 23, 1999, provided direction on verification and validation of data. In addition, the Department of the Treasury, Office of Budget's instructions issued on January 3, 2000, required, in section MB-24, each bureau to briefly describe its general performance measure data quality and how the bureau's data are generally verified and validated to determine and ensure their accuracy.

We found that the procedures the IRS established do not ensure that data collected to measure performance are verified and validated before being submitted by the functions reporting to the COO. We held discussions, beginning on December 8, 1999, with IRS management in Operations Planning, and the Customer Service, Electronic Submission Processing, Examination, and Collection Divisions. These offices represent approximately 56 percent of the IRS' FY 2000 budget estimate and approximately 72 percent of the FY 1999 performance measures. None of these offices had performed verification and validation on the data they

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planned to submit to Operations Planning. This could result in the APPR not being a reliable measure of actual performance that shows progress toward achieving the goals and objectives from the annual performance plan. In addition, FY 1999 baselines could be inaccurate because they were established using data that have not been verified and validated.

Recommendations

1. The IRS should ensure that any data limitations are properly disclosed in the APPR. Further, if any of the expected performance data could not be obtained as originally planned, the IRS should specify the steps it will take to gather that data for inclusion in the next APPR.
2. The IRS can improve its processes to ensure that GPRA reporting requirements are fully satisfied and that the full benefits of the Act are realized as intended by the Congress. The Office of Strategic Planning and Budget should ensure the development of a single set of authoritative instructions for timely gathering and verifying data needed for the GPRA reporting. These instructions should establish a continuing assessment process of the performance data to ensure that data for each performance measure has been verified and validated.

Management's Response: A draft of this report was provided to IRS management on February 17, 2000, with a 30-day comment period. However, IRS management had not provided its response as of the date this report was released.

Conclusion

Improvements are needed to establish a continuing process to ensure both a timely and accurate APPR. Without a timely and accurate report, the objectives of the GPRA cannot be met.

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Appendix I

Major Contributors to This Report

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Appendix II

Report Distribution List

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