



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-261617

September 24, 1996

The Honorable William V. Roth, Jr.
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

In January 1995, as Chairman of the Senate Governmental Affairs Committee, you requested our assistance in identifying and assessing federal government programs with the greatest potential for making dramatic improvements in their efficiency and effectiveness through reform initiatives such as business process reengineering. In meetings with the Committee, we agreed that the Internal Revenue Service's (IRS) delinquent tax collection process would be included as part of that overall effort. Specifically, we initiated reviews of IRS' efforts to reengineer its enforcement action program, which included the delinquent tax collection process. We also reviewed separate efforts by IRS to redesign the role of revenue officers in the collection process.

IRS has now decided to suspend its efforts on the enforcement action project due to fiscal year 1996 budget restrictions. Given IRS' decision, further work by us on this issue does not appear warranted at this time. In a recent meeting with the Committee, we agreed to provide you with a general overview of IRS' reengineering efforts to date and then terminate our related work. That general overview follows.

BACKGROUND

IRS' overall reengineering efforts began in 1992 when it adopted a core business systems approach for organizing and managing its operations. That approach led to the identification of 11 business processes that represent the core IRS functions. From those 11 processes, the Enforcement Action Program was selected as one of four business processes to reengineer under the core business systems approach.¹

¹The 11 business processes included outgoing notices, tax withholding and estimated tax service, and taxpayer information and education services, among others. Of the four processes selected for reengineering, IRS initiated efforts relating to three of them—Enforcement Action, Process Returns, and Respond to Taxpayer.

According to IRS' data, Enforcement Action includes activities for resolving taxpayers' delinquent accounts caused by taxpayers not timely filing their tax returns, filing inaccurate returns, or filing balance due returns. Separately, in October 1993, IRS' Collection Division formed a reengineering office and subsequently started several other efforts, including projects focusing on the role of revenue officers.

RESULTS

IRS' Efforts to Reengineer its Enforcement Action Program

The enforcement action reengineering effort was started in June 1994 and work continued until November 1995. At that time, senior management in the Compliance area revised priorities because of fiscal year 1996 budget restrictions and decided to suspend the enforcement action reengineering effort. IRS' Acting Chief Compliance Officer noted, in comments on a draft of this letter, that business process reengineering concepts are currently being incorporated into the work being done under the Assistant Commissioner for Collection, and Collection's redesign efforts are continuing. However, when the enforcement action reengineering effort was suspended, few results had been achieved in changing work processes or addressing IRS' long-standing collection problems. Also, in November 1995, IRS received an outside consultant's report on the enforcement action reengineering. According to the report, the project's overall success was hampered for several reasons. First, IRS' organizational commitment and support were insufficient to achieve the level of change needed. Second, IRS did not fully implement the reengineering methodology for the work the team initiated. Not following a sound methodological approach can increase the risk of failure in reengineering. Lastly, there was a lack of integration with reengineering and the ongoing tax systems modernization (TSM) program. Accomplishing high levels of improvements in performance nearly always requires that critical work processes be redesigned or reengineered in conjunction with the application of information technology.

In October 1995, IRS established the Office of Strategic Process Improvement and Reengineering to coordinate all future strategic change initiatives, like reengineering. Further, in January 1996, IRS announced plans to initiate a new reengineering project focusing on the tax settlement process, which is expected to include aspects of enforcement action and the tax collection processes. That project is still in its early phases and, thus, it is too early to assess IRS' efforts.

IRS Has Undertaken Projects to Redesign Roles of Revenue Officers in the Collection Process

IRS has undertaken several projects intended to change the impact of revenue officers on the collection process by redesigning their roles. The following projects are among IRS' efforts in this regard.

- The Integrated Collection System (ICS), a proposed service-wide system for managing delinquent taxpayer cases, which was started in 1991, was to increase revenue officer productivity by automating many of the manual work processes revenue officers previously did. Under this TSM project, revenue officers are to use lap-top computers to link with IRS' main computer databases to electronically transmit and access current taxpayer account information. According to IRS, ICS has been implemented in six districts and has increased revenue officer productivity in those districts where it has been in place for at least 6 months. According to IRS, future rollouts of ICS depend on future funding and final measurements of productivity. We have not evaluated ICS to independently verify the project's performance.

- In December 1994, according to IRS officials, Collection and National Treasury Employees Union officials entered into a partnership to identify the best approaches for accomplishing revenue officer work. A steering committee was established to oversee the efforts of several subgroups that would address specific areas. After analyzing the scope of its effort, the steering committee selected the Work System Design (WSD) methodology. They established a team of five field revenue officers and five management officials, and asked them to take a global approach to redesigning the revenue officer occupation, rather than having subgroups tackle separate pieces. The team redesigned the revenue officer occupation and IRS plans to prototype the proposed redesign in several revenue officer groups in fiscal year 1997.

APPROACH

To develop the information contained in this letter, we interviewed officials at IRS' National Office who were associated with the areas we reviewed. This included the Executive Director, Ensuring Compliance, Core Business Systems; the Assistant Commissioner for Collection; and the Director, Office of Strategic Process Improvement and Reengineering, among others. During our discussions, we also obtained and reviewed relevant documents to support IRS' statements.

We conducted our review from June 1995 through May 1996 in accordance with generally accepted government auditing standards.

AGENCY COMMENTS AND OUR EVALUATION

We received written comments on a draft of this letter from IRS' Office of Legislative Affairs on August 29, 1996. The written comments, prepared by IRS' Associate Commissioner for Modernization and the Acting Chief Compliance Officer, suggested some clarifying language and editorial changes, which have been made where appropriate.

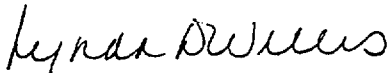
- - - - -

As you requested, we will continue to informally monitor IRS' progress in these areas and keep the Committee staff apprised of significant developments. Furthermore, during discussions with your office, there was interest expressed in IRS' use of federal tax liens to collect delinquent taxes. As a result, we plan to initiate a review of IRS' federal tax lien program.

We will send copies of this letter to the Ranking Minority Member of the Senate Finance Committee, the Chairman and Ranking Minority Member of the Senate Governmental Affairs Committee, the Chairman and Ranking Minority Member of the House Ways and Means Committee, the Chairman and Ranking Minority Member of the House Government Reform and Oversight Committee, and other interested parties. We will also send copies of this letter to the Commissioner of Internal Revenue. We will make copies available to others on request.

Major contributors to this letter were Joseph E. Jozefczyk and Charlie W. Daniel. If you have any questions or if you would like additional information, please do not hesitate to call me on (202) 512-8633 or Mr. Jozefczyk on (202) 512-9053.

Yours sincerely,



Lynda D. Willis
Director, Tax Policy and
Administration Issues

(268689)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.**

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-261617

September 24, 1996

The Honorable William V. Roth, Jr.
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

In January 1995, as Chairman of the Senate Governmental Affairs Committee, you requested our assistance in identifying and assessing federal government programs with the greatest potential for making dramatic improvements in their efficiency and effectiveness through reform initiatives such as business process reengineering. In meetings with the Committee, we agreed that the Internal Revenue Service's (IRS) delinquent tax collection process would be included as part of that overall effort. Specifically, we initiated reviews of IRS' efforts to reengineer its enforcement action program, which included the delinquent tax collection process. We also reviewed separate efforts by IRS to redesign the role of revenue officers in the collection process.

IRS has now decided to suspend its efforts on the enforcement action project due to fiscal year 1996 budget restrictions. Given IRS' decision, further work by us on this issue does not appear warranted at this time. In a recent meeting with the Committee, we agreed to provide you with a general overview of IRS' reengineering efforts to date and then terminate our related work. That general overview follows.

BACKGROUND

IRS' overall reengineering efforts began in 1992 when it adopted a core business systems approach for organizing and managing its operations. That approach led to the identification of 11 business processes that represent the core IRS functions. From those 11 processes, the Enforcement Action Program was selected as one of four business processes to reengineer under the core business systems approach.¹

¹The 11 business processes included outgoing notices, tax withholding and estimated tax service, and taxpayer information and education services, among others. Of the four processes selected for reengineering, IRS initiated efforts relating to three of them—Enforcement Action, Process Returns, and Respond to Taxpayer.

According to IRS' data, Enforcement Action includes activities for resolving taxpayers' delinquent accounts caused by taxpayers not timely filing their tax returns, filing inaccurate returns, or filing balance due returns. Separately, in October 1993, IRS' Collection Division formed a reengineering office and subsequently started several other efforts, including projects focusing on the role of revenue officers.

RESULTS

IRS' Efforts to Reengineer its Enforcement Action Program

The enforcement action reengineering effort was started in June 1994 and work continued until November 1995. At that time, senior management in the Compliance area revised priorities because of fiscal year 1996 budget restrictions and decided to suspend the enforcement action reengineering effort. IRS' Acting Chief Compliance Officer noted, in comments on a draft of this letter, that business process reengineering concepts are currently being incorporated into the work being done under the Assistant Commissioner for Collection, and Collection's redesign efforts are continuing. However, when the enforcement action reengineering effort was suspended, few results had been achieved in changing work processes or addressing IRS' long-standing collection problems. Also, in November 1995, IRS received an outside consultant's report on the enforcement action reengineering. According to the report, the project's overall success was hampered for several reasons. First, IRS' organizational commitment and support were insufficient to achieve the level of change needed. Second, IRS did not fully implement the reengineering methodology for the work the team initiated. Not following a sound methodological approach can increase the risk of failure in reengineering. Lastly, there was a lack of integration with reengineering and the ongoing tax systems modernization (TSM) program. Accomplishing high levels of improvements in performance nearly always requires that critical work processes be redesigned or reengineered in conjunction with the application of information technology.

In October 1995, IRS established the Office of Strategic Process Improvement and Reengineering to coordinate all future strategic change initiatives, like reengineering. Further, in January 1996, IRS announced plans to initiate a new reengineering project focusing on the tax settlement process, which is expected to include aspects of enforcement action and the tax collection processes. That project is still in its early phases and, thus, it is too early to assess IRS' efforts.

IRS Has Undertaken Projects to Redesign Roles of Revenue Officers in the Collection Process

IRS has undertaken several projects intended to change the impact of revenue officers on the collection process by redesigning their roles. The following projects are among IRS' efforts in this regard.

- The Integrated Collection System (ICS), a proposed service-wide system for managing delinquent taxpayer cases, which was started in 1991, was to increase revenue officer productivity by automating many of the manual work processes revenue officers previously did. Under this TSM project, revenue officers are to use lap-top computers to link with IRS' main computer databases to electronically transmit and access current taxpayer account information. According to IRS, ICS has been implemented in six districts and has increased revenue officer productivity in those districts where it has been in place for at least 6 months. According to IRS, future rollouts of ICS depend on future funding and final measurements of productivity. We have not evaluated ICS to independently verify the project's performance.
- In December 1994, according to IRS officials, Collection and National Treasury Employees Union officials entered into a partnership to identify the best approaches for accomplishing revenue officer work. A steering committee was established to oversee the efforts of several subgroups that would address specific areas. After analyzing the scope of its effort, the steering committee selected the Work System Design (WSD) methodology. They established a team of five field revenue officers and five management officials, and asked them to take a global approach to redesigning the revenue officer occupation, rather than having subgroups tackle separate pieces. The team redesigned the revenue officer occupation and IRS plans to prototype the proposed redesign in several revenue officer groups in fiscal year 1997.

APPROACH

To develop the information contained in this letter, we interviewed officials at IRS' National Office who were associated with the areas we reviewed. This included the Executive Director, Ensuring Compliance, Core Business Systems; the Assistant Commissioner for Collection; and the Director, Office of Strategic Process Improvement and Reengineering, among others. During our discussions, we also obtained and reviewed relevant documents to support IRS' statements.

We conducted our review from June 1995 through May 1996 in accordance with generally accepted government auditing standards.

AGENCY COMMENTS AND OUR EVALUATION

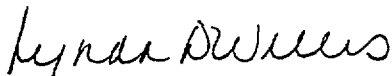
We received written comments on a draft of this letter from IRS' Office of Legislative Affairs on August 29, 1996. The written comments, prepared by IRS' Associate Commissioner for Modernization and the Acting Chief Compliance Officer, suggested some clarifying language and editorial changes, which have been made where appropriate.

As you requested, we will continue to informally monitor IRS' progress in these areas and keep the Committee staff apprised of significant developments. Furthermore, during discussions with your office, there was interest expressed in IRS' use of federal tax liens to collect delinquent taxes. As a result, we plan to initiate a review of IRS' federal tax lien program.

We will send copies of this letter to the Ranking Minority Member of the Senate Finance Committee, the Chairman and Ranking Minority Member of the Senate Governmental Affairs Committee, the Chairman and Ranking Minority Member of the House Ways and Means Committee, the Chairman and Ranking Minority Member of the House Government Reform and Oversight Committee, and other interested parties. We will also send copies of this letter to the Commissioner of Internal Revenue. We will make copies available to others on request.

Major contributors to this letter were Joseph E. Jozefczyk and Charlie W. Daniel. If you have any questions or if you would like additional information, please do not hesitate to call me on (202) 512-8633 or Mr. Jozefczyk on (202) 512-9053.

Yours sincerely,



Lynda D. Willis
Director, Tax Policy and
Administration Issues

(268689)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.**

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

<p>Bulk Rate Postage & Fees Paid GAO Permit No. G100</p>

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
