IRS Oversight Board Public Meeting
February 17, 2009

A SUMMARY OF STAKEHOLDER COMMENTS AND RECOMMENDATIONS

OVERVIEW OF THE IRS OVERSIGHT BOARD PUBLIC MEETING

On February 17, 2009 the IRS Oversight Board conducted its annual public meeting with external stakeholders to listen to their comments and insights regarding the IRS and the tax administration system. Board Chair Paul Cherecwich, Jr. welcomed the attendees to the eighth public meeting conducted by the Board. He said the meeting would consist of three panels that address important issues in tax administration: employee engagement, enterprise risk management, and funding the IRS as either an investment or an expense. The Chair then introduced the Board's guests for the forum, James R. White, Director Strategic Issues, Government Accountability Office (GAO); and J. Russell George, Treasury Inspector General for Tax Administration (TIGTA). He then introduced Board member Bob Tobias, moderator of the first panel.

This report summarizes the central themes that emerged at the public meeting.

CENTRAL THEMES FROM THE 2009 PUBLIC MEETING

Panel 1: Given the questions that the IRS currently uses to measure employee engagement and the results from the last annual employee survey, what specific actions do you suggest IRS take to increase employee engagement?

Moderator: Bob Tobias, Board Member
Panelists:

- Bernadine Karunaratne, Senior Managing Consultant, The Gallup Organization
- Dr. Peter Rutigliano, Vice President and Senior Consultant, Sirota Survey Intelligence
- Doug Nierle, Senior Research Analyst, Merit Systems Protection Board
- Maureen Gilman, Legislative Director, National Treasury Employees Union

Bob Tobias welcomed the panelists and asked them to introduce themselves. In his introductory remarks, he said the Board has looked at the IRS' Human Capital Office and how it develops creative and effective approaches to boost workforce engagement. He said a 2008 survey found that 72 percent of IRS employees were either Satisfied or Very Satisfied with their jobs, a level that is higher than for government employees on average. He then cited reports from the Corporate Leadership Council and the Merit Systems Protection Board that identified significant benefits to an organization from having engaged employees. He began the discussion by asking the panelists to talk about the difference between employee satisfaction and employee engagement.

The panelists first discussed their thoughts on the difference between employee satisfaction and employee engagement, then moved on to the benefits of and impediments to employee empowerment. They discussed factors that contribute to employee empowerment, and suggested that both the IRS and other government agencies do more research to investigate the connection between engagement and performance. They concluded by discussing ways the IRS could achieve its goal to be in the top five percent of large government agencies in terms of employee engagement.

Theme: It is good for employees to be satisfied with their jobs; it is better for customers if employees are also fully engaged

Panelists agreed that satisfaction is different from engagement, although satisfaction can be a component of employee engagement. Employees who are satisfied with their jobs, yet also involved in decisions that affect their jobs and interested in their work are more than just satisfied; they are more productive and contribute ideas and energy to their organizations. The panelists said that satisfaction and engagement are different issues. Surveys show links between employee engagement and productivity, and links between satisfaction and how happy employees are at their job.

Theme: Hierarchical organizations can be beneficial for employee empowerment, but can also create impediments to empowered employees

In a hierarchical organization, there is structure and clarity, and those at the top management can be models for change. However, the established culture of the organization can create impediments to empowerment that employees struggle to overcome. Panelists discussed and disagreed as to whether public sector employees are more engaged or less engaged than employees in the private sector. Some believe that public sector employees are more engaged because they have the incentive of public service. Using the military as an example of a very hierarchical organization, one panelist pointed out that when there is intense focus on mission completion and employees clearly see the connection, there is more employee engagement. Others believe the public sector is not as efficient as the private sector and that the private sector has a higher percentage of highly engaged employees.

Theme: Panelists add five actions to the list of six key practices outlined by GAO that government organizations can use that empower front-line employees to improve their performance

In 2001, the GAO outlined six key practices that empower and involve employees at federal agencies:

- Demonstrate top leadership commitment;
- Engage employee unions;
- Train employees to enhance their knowledge, skills and abilities;
- Use employee teams to help accomplish agency missions;
- Involve employees in planning and sharing performance information;
- Delegate authorities to front-line employees.

Panelists suggested that other factors also contribute to employee empowerment, including:

- Effective partnering;
- Driving innovation;
- Encouraging decision-making and risk-taking;
- Effective communication; and
- Transparency

Theme: Government agencies need to do more research to investigate the connection between engagement and performance

Both GAO and TIGTA were interested in linking employee satisfaction and engagement to measures, outcomes and performance. Because the IRS employee survey reports results down to the work group level, panelists said it would be possible to link employee engagement to measures and work group performance.

Theme: Communication, perspective, accountability will help the IRS achieve its long-term goal to be in the top five percent of large agencies in terms of employee engagement.

Panelists suggested actions the IRS could take to achieve its goal. One suggestion was for the IRS to look at how it communicates survey data to managers, and provide data so it has meaning and context, perhaps in a dashboard context. Others said the IRS needs to communicate to employees a better explanation of what the survey questions mean, and clarify the whole survey process. Identify an outcome that the agency would like to improve, link the survey to the outcome, identify actionable elements, and report data at a level where it can be acted upon to produce change.

Panel 2: Risk Management: The IRS must take a comprehensive approach to risk mitigation to ensure business continuity and protection of the tax system. How does your organization manage the various categories of risk, from both inside and outside the entity and from business-driven, data-driven, and event-driven risks; and develop capabilities to predict, prevent and mitigate areas of vulnerability? How can the Board help the IRS anticipate and prepare for unforeseen risk?

Moderator: Deborah Wince-Smith, Board Member
Panelists:

- James B. Porter, former Chief Engineer and Vice President for Safety and Health, Dupont
- Mark T. Layton, Global Managing Partner, Enterprise Risk Services, Deloitte & Touche, LLP
- Eileen K. Murray, President, Duff Capital Advisors

Deborah Wince-Smith welcomed the panelists and asked them to introduce themselves. She began the discussion by saying that globalization, technology, complexity, interdependence and speed are fundamentally changing the kinds of risks and competitive challenges that companies and government agencies face. Disruptions can come from unforeseen directions with unanticipated effects. The ability to manage emerging risks has become exceedingly important as organizations try to create the agility and flexibility to cope with turbulent situations.

She mentioned several high-risk areas that pertain to the IRS as identified by GAO, including enforcement of the tax laws, business systems modernization, strategic human capital management, and federal information security management. Some of these areas have been on the high-risk list for over ten years. She asked the panel members to consider what it means when clearly identified high-risk areas seem to linger without significant progress or resolution for years, and whether government agencies are becoming too casual about risk areas. She asked the panelists to assist the Board and advise how their companies anticipate and prepare for various types of risk.

The panelists began the discussion by addressing the identification and management of risk factors. The discussion then broadened into various ways companies are able to do that and how they deal with significant risk over periods of time. The panelists also agreed that the best model for the IRS is that it should manage its own risk, but also utilize the perspectives of the governmental organizations that have oversight responsibilities over it.

Theme: For an organization to understand and address all types of risk, it is necessary to encourage a culture where all employees are comfortable speaking up to identify problem areas

Panelists said that organizational leadership plays a role in creating a culture where employees are comfortable identifying problem areas that can become emerging risks. Risk comes in various forms, from cyber-attack, security, weather-related catastrophic events, business interruption, and for the IRS, tax law complexity, systems failures, and inadequate budgets for infrastructure upgrades. Employees need to understand, recognize and address all types of risk involving people, processes and technology.

Theme: Develop a common understanding in an organization of the true business risks by focusing on common principles that are outlined and reinforced across the organization

The panelists discussed developing an understanding within an organization of the true risks, and then developing appropriate metrics and methodologies to assess risk management systems or to value resilience. A best practice was identified to put plans in place that anticipate risk, and ensure that those plans are reinforced across the organization so all employees are prepared to address events as they occur.

Theme: It is important for the top of the organization to set the right tone to deliver a quality product in a safe and secure manner.

The panelists agreed that a large organization needs a holistic approach to function as one organization, even though it may be spread globally. To do that, leadership must focus on common principles that are outlined across the entire organization. Leadership sets the tone to get all personnel engaged and functioning together.

Theme: Risk assessment never ends; to succeed in mitigating risk requires a combination of long-term commitment of leadership and a long-term plan for the organization.

Panelists discussed the importance of consistency of communication across an organization, and how it can create consensus, understanding, and empowerment among employees to address areas of high risk. For example, system vulnerabilities come about as systems evolve. Those vulnerabilities need to be identified and strategies effectively communicated to protect the organization. Employees who are aware of the vulnerabilities and how to control them can constantly monitor threat potential and deal with incidents as they arise.

Theme: In dealing with a significant issue over long period of time, as the IRS has done with the modernization of its business systems, leadership must take care to overcome complacent attitudes and continue to move forward.

The moderator returned to the question as to whether complacency sets in when particular issues have been identified as "critical" year after year with little or no progress in resolving the root causes. She was referring specifically to the IRS' systems modernization effort, which has been on GAO's high-risk list since 1995. Panelists discussed the risk factors that the IRS faces, from the magnitude of the systems reorganization to the effect of the human capital component on the success of the reorganization. Panelists also agreed that to change an organizational culture takes a very long time and a committed leadership over a period of years. What is described as complacency may also be described as a very complex work-in-progress.

Panel 3: The Internal Revenue Service: Investment or Expense?

Moderator: Paul Cherecwich, Chair, IRS Oversight Board
Panelists:

- Lawrence B. Gibbs, Member, Miller & Chevalier; former Commissioner of Internal Revenue
- Charles O. Rossotti, Senior Advisor, The Carlyle Group; former Commissioner of Internal Revenue
- Gene Steuerle, Vice President, The Peter G. Peterson Foundation
- Eric Toder, Senior Fellow, Urban Institute and Urban-Brookings Tax Policy Center

Paul Cherecwich welcomed the panelists and noted their accomplishments. He said the Oversight Board believes that effective tax administration is critical for the economic health of the country because it directly affects the flow of tax revenues to the federal government. He pointed out that the prospects of higher budget deficits for years to come has made collecting every dollar of tax revenue even more important, yet the IRS budget has been declining, in real terms, over a period of years. He asked the panel to discuss the budget dollars appropriated for the IRS, and whether those appropriations should be viewed as an investment in the economic health of the country or as an annual operating expense to be minimized.

The panelists' main themes included that to maintain a fair tax system for the American public, the IRS must be adequately funded; and the best way to do that is with a multi-year budget approach that provides a stable percentage increase each year over a long period of time to grow the agency at an acceptable rate.

Theme: The American public deserves and wants a fair tax system; the way to provide that is to increase resources for the IRS so it can successfully perform its mission

The panelists discussed the tax gap estimates, and agreed that the IRS has a responsibility to recover the enormous losses suffered by taxpayers. In 2007, the IRS collected $2.7 trillion representing approximately 96 percent of the revenue collected by the federal government. Yet the budget process that determines funding for the IRS is designed to minimize outlays rather than evaluate return on investment or benefits. The panelists agreed that while the number of taxpayers and the number of tax returns has been increasing each year, IRS resource growth relative to the size and growth of its workload has remained flat. IRS' increasing productivity and technology savings are not enough to offset the rate of growth of the population. Oversight Board surveys over the past few years have shown that most taxpayers recognize that paying taxes is a civic responsibility and believe everyone should assess their tax obligations and pay them in a timely manner.

Theme: It is hard to make the case that the IRS is sufficiently funded to carry out all of its programs efficiently

The panelists agreed that with growing tax complexity and new demands on the tax system, such as stimulus payments, it is becoming more difficult for the IRS to manage all of its programs. Often, there are increased costs to taxpayers and to the IRS associated with administration of government benefits distributed through the tax system, and IRS must manage many of these programs without increased resources to assist in the process. The IRS must assure the public that it is collecting the taxes in a fair and just manner, yet the tax code has grown so complex that it is extremely difficult to administer. An example is public outrage over individuals who manipulate the system to avoid paying what they owe, and the resource cost to enforce compliance and collect what is owed to the government.

The panelists commented that significant government reforms have occurred in the past when budgets have been tight. Today's economic environment might present an opportunity for taking another look at what government does and how it does it. This could be a good time to improve the IRS as part of the country's infrastructure renewal.

Theme: The best way to improve IRS productivity is with a multi-year budget approach – a real increase of several percent each year over a ten year period that would grow the agency at an acceptable rate

The panelists discussed a multi-year approach to IRS budgets, commenting that a sustained increase over a period of years would be the best approach to improving IRS resources. A huge increase in a single year would be more difficult for the agency, and involve more risk, including personnel, training, technology, and management risks. A more sustained increase in funding would allow the agency to gradually shift resources and programs as needed, with less risk as knowledgeable managers implement improvements in an effective and measured way. The panelists closed the discussion by outlining key IRS issues the Board should consider for increased IRS funding over the next few years: long-term, strategic human capital development; research into tax compliance and taxpayer service issues; information systems modernization; and implementation and tracking of measures at the IRS.

At the conclusion of the meeting, Chairman Cherecwich thanked the panelists for their participation and the meeting was adjourned.