



**Statement of the Hon. Larry Levitan,
Chairman, Internal Revenue Service Oversight Board**

**Testimony Before the Subcommittee on Oversight
of the House Committee on Ways and Means**

**Hearing on the IRS National Taxpayer Advocate Annual Report and
the IRS Oversight Board Annual Report**

February 28, 2002

Mr. Chairman, and members of the Subcommittee, thank you for holding this hearing and inviting me to testify. It is an honor for me to appear before your committee today on behalf of the IRS Oversight Board to discuss our first annual report to Congress.

Let me preface my remarks by acknowledging the role that this committee had in the passage of the IRS Restructuring and Reform Act of 1998. Since its inception in September 2000, the Oversight Board has acted to meet its responsibilities as defined in that landmark legislation. The report that I am discussing today reflects what the Board has learned after its first year of operation.

The Oversight Board has found that the IRS is still not effectively and efficiently serving the needs of the American taxpayers, although it has made significant progress since 1997. Customer service, although improved, has not risen to desired levels and enforcement activity has fallen for many years. These problems are compounded by outmoded computer systems that handicap IRS workers and prevent effective service from being delivered. It is not surprising that this environment has resulted in dissatisfied taxpayers and inadequate job satisfaction among IRS employees.

On the positive side, the IRS is making progress and has put in place several key elements that establish a foundation for further progress, including a Commissioner with a fixed term and a management background, a major reorganization designed to better focus on customer needs and provide clear accountability, a strengthened senior management team, and a business systems modernization program that will eventually provide modern business processes and tools for employees and taxpayers. The entire modernization effort is being conducted in accordance with a strategic plan that has been approved by the Oversight Board, and monitored by balanced performance measures that will provide Congress, the Administration, the Oversight Board and other stakeholders a quantitative means to evaluate progress.

Neither the IRS nor the Oversight Board is satisfied with the current state of IRS' performance. The Board's report presents data that indicate the IRS needs to improve its performance in three dimensions: productivity, customer satisfaction, and employee satisfaction.

Performance measures for the key areas of customer service and enforcement were troubling to the Oversight Board. Customer service metrics pertaining to both level of service and quality associated with toll-free telephone operations need considerable improvement. Quality levels at IRS walk-in sites are just being baselined and need attention. Because of the link between employee and taxpayer satisfaction, employee satisfaction levels for these and other operations also need improvement.

An effective IRS is an important part of our government, and the IRS can ill afford to fall behind. Old technology, a growing economy with more tax transactions, reduced IRS staffing levels, and an increasingly complex tax code have created a situation where the IRS must make up a lot of ground. The Board believes that a private sector company that fell behind this dramatically would find its very survival threatened. However, failure is not an option for the IRS. Our society depends on a tax administration agency that can help taxpayers understand and meet their tax obligations and effectively enforce the tax laws.

I know that this subcommittee is particularly interested in tax code complexity and its impact on tax administration. My fellow panelist, Nina Olson, the IRS Taxpayer Advocate, has made a compelling case in her annual report that tax code complexity negatively affects the American taxpayer.

The Oversight Board is concerned that the broad decline in enforcement activity increases our reliance on voluntary compliance, and fears that the public's attitude towards voluntary compliance is beginning to erode. Because of this concern, the Oversight Board initiated a survey to obtain data on taxpayers' attitudes regarding their obligations to report and pay their fair share of taxes. The survey, taken in August 2001, asked two questions from an earlier 1999 IRS survey and three new questions.

The survey results are included in the annual report, but the most troubling result was in response to a question that asked how much, if any, do you think is an acceptable amount to cheat on your income taxes. In 1999, 87 percent of the respondents replied "not at all." In 2001, the percentage of respondents who selected that answer fell to 76 percent.

The Oversight Board is reluctant to assign too much importance to a single survey, but intends to repeat the survey in 2002 using the same questions. There is cause for alarm if this trend continues.

To better understand compliance issues, the Oversight Board believes there is an urgent need for the IRS to increase its research on taxpayer compliance so it can identify and correct broad areas of taxpayer noncompliance. The IRS is developing a new program, the National Research Program (NRP), that will provide the necessary research. Past approaches were viewed by Congress and taxpayers as too intrusive, and the IRS is designing the NRP to lessen taxpayer

burden while still obtaining a sample sufficient to produce meaningful results. The Oversight Board supports the NRP and requests Congressional support for this program.

The long-range solution to many of the IRS' problems is to modernize its business processes and information technology. The IRS' Business Systems Modernization (BSM) program is designed to transform both IRS' business processes and information technology into modern, efficient processes and systems that incorporate world-class best practices. The BSM program has been progressing slowly, limited primarily by IRS' capacity to manage the program. Efforts from inception to date have focused on establishing an enterprise life cycle, a standard architecture, and low-risk projects. In 2002, however, several major deliverables are scheduled, and the upcoming year will be a test of the IRS' ability to manage this program.

The longer it takes the IRS to modernize, the longer taxpayers will be deprived of the benefits of improved IRS processes and systems, and be forced to endure the inadequacies of antiquated systems in place today. Even under the best of circumstances, it will take the IRS far too long to complete its modernization program. The Oversight Board recommends that BSM be accomplished as quickly as possible, consistent with the IRS' ability to manage the program and absorb change. The private sector has already learned that accomplishing programs in as short a period as practical actually lessens overall cost and risk. To increase the pace of modernization, all organizations involved in BSM must do a better job. The Oversight Board's recommendations for key organizations include:

- The IRS must improve its program management ability, work more effectively with the PRIME Contractor, and manage/implement change more effectively.
- The PRIME Contractor must understand and achieve its responsibilities to deliver business results within budget and on schedule and improve its breadth and depth of skills.
- The Administration must understand the importance and critical nature of the situation, support the long term plan, including increased investment levels, and hold the IRS responsible for meeting the plan.
- The Congress must accomplish the same tasks as the Administration, and, in addition, speed up the process for review and release of BSM funding.

Oversight organizations must rationalize their roles to the extent possible and eliminate unnecessary overlap, leverage assets to advise in a more effective manner; and recognize that quality cannot be achieved by repetitious, and at times, inefficient inspection.

Notwithstanding the need for a long-term modernization program, the IRS must also improve in the short term. Potential means of realizing short-term improvements may be organizational changes, process improvements, or modifications to the legacy technology base.

An IRS that performs better requires adequate funding as its workload continues to increase. As discussed in our interim report on the FY2002 budget, inadequate funding and resources will

make it impossible for the IRS to meet any of its strategic objectives. The IRS still has a long way to go to reach the level of performance envisioned by both the IRS Restructuring Commission and the IRS Restructuring and Reform Act. Failure to provide adequate funding will deprive the IRS of resources it needs to make improvements in customer service and compliance.
