



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 16, 1999

SECRETARY OF THE TREASURY

The Honorable William V. Roth, Jr.
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Bill:

I am pleased to enclose the first Semiannual Report to Congress prepared by the Office of the Treasury Inspector General for Tax Administration (TIGTA) for the period ending March 31, 1999. The TIGTA office was established in January 1999 in accordance with the Internal Revenue Service Restructuring and Reform Act of 1998. It operates with the same basic power and authority as all other Inspector General organizations, and its focus is devoted entirely to the IRS. This report highlights many audit reports issued during the reporting period, as well as areas of concern to TIGTA within the IRS organization. Management is in general agreement with essentially all findings and recommendations and is actively developing or implementing plans to resolve these issues.

I also am pleased to have this opportunity to comment on areas of progress in the IRS since the passage of the Restructuring and Reform Act last year. Several key improvements were made on the management and organizational fronts. The IRS filled several critical executive positions with individuals from outside of the service, such as the Chief Information Officer, the Taxpayer Advocate and the Deputy Commissioner of Modernization. The process for filling the positions on the Oversight Board was also set in motion. Organizationally, the IRS began centralizing certain field operations, and also completed initial phases of the overall plan to reorganize along business lines. Over 3,000 recommendations were prioritized into 157 near-term initiatives which the service is actively managing to achieve.

On the systems front, the PRIME contract was signed and the effort to modernize technology throughout the IRS has begun. Significantly, the initial steps of this multi-billion dollar project have included integrating PRIME and IRS teams and establishing a governance structure for the contract. Progress on Y2K issues has been positive, since the majority of changes have been completed, applications have been put into production and end-to-end testing is scheduled to begin in the near future. It is noteworthy that this year's tax filing season was largely absent of Y2K problems.

In conjunction with the many planned and completed changes, performance measures in all parts of the organization have been revamped to ensure not only the realization of our challenging goals in the near-term, but a continuing high level of performance in the years to come. The IRS is leading the Department in developing a balanced set of criteria to measure

employee and customer satisfaction, as well as business results. This effort has in turn been reenforced through two major conferences held to discuss "Leading in the New IRS", the designation of a specific organizational performance executive, the training of IRS managers on how to manage with the new set of performance measures, and the institution of customer surveys.

Clearly, these events signal a new beginning for the IRS. In conjunction with the creation of the TIGTA organization and the recent confirmation and swearing-in of David Williams as its first Inspector General, I am confident that the proper foundations have been laid for management and TIGTA to work together toward the common goal of achieving and maintaining organizational excellence as we enter the new millennium.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Rubin", with a large, stylized flourish extending to the right.

Robert E. Rubin