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United States General Accounting Office  
Washington, DC 20548

July 8, 2002

The Honorable Ernest J. Istook, Jr.  
Chairman, Subcommittee on Treasury, Postal Service,  
and General Government  
Committee on Appropriations  
House of Representatives

**Subject: *IRS's Budget Justification: Options for Structure and Content***

Dear Mr. Chairman:

Each year, as part of the Department of the Treasury's (Treasury) budget request, the Internal Revenue Service (IRS) submits to the Congress a congressional justification (CJ), a document justifying the dollars and number of staff positions that it is requesting. For fiscal year 2002, IRS asked for about \$9.4 billion and about 101,000 full-time-equivalent (FTE) staff positions.

The House Committee on Appropriations' July 23, 2001, report on Treasury's fiscal year 2002 budget request expressed concern about the information in IRS's CJ and asserted that other types of information and presentations would better help the committee evaluate IRS's budget.<sup>1</sup> In that light, you asked us to identify ways to improve the usefulness of IRS's CJ information. As agreed with your office, our objectives were to (1) determine whether Treasury and Office of Management and Budget (OMB) guidance allow flexibility in the structure and content of IRS's CJ and (2) identify a range of options to display IRS's appropriation request and additional data that can be included in the CJ, or in a supplement to it, that would help congressional decision makers consider IRS's request.

As described below, within the context of Treasury and OMB guidance, IRS has the flexibility to present more information than it included in the fiscal year 2002 CJ and to display it in different ways. This report describes various options for exercising that flexibility. In commenting on a draft of the report, Treasury orally expressed a preference for some types of options over others, and IRS wrote that it found no problems with what we said about improving the CJ's content and format.

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<sup>1</sup>U.S. House of Representatives, Treasury, Postal Service, and General Government Appropriations Bill, 2002, Report 107-152 (Washington, D.C.: 2001).

## Background

According to a Congressional Research Service analysis, federal agencies' CJs typically vary in form and content, reflecting the on-going relationship between each agency and appropriations subcommittee.<sup>2</sup> The main purpose of CJs is to give the subcommittees more details about agency programs and their relationship to appropriation requests than the President's budget documents provide.

IRS's fiscal year 2002 CJ had a summary section and a section on each of IRS's five appropriations.<sup>3</sup> The summary section explained the foundation of IRS's budget request and summarized the dollars and FTE staff positions being requested for specific appropriations. Each appropriation section presented, among other things and where applicable, the budget activities within the appropriation, a list of the programs or projects within each budget activity, the requested dollar and staffing levels for each budget activity and program, and related measures.<sup>4</sup>

IRS's fiscal year 2002 CJ was its first CJ submitted after a recent major IRS reorganization took effect and after the IRS Oversight Board began operating. Aimed at meeting the unique needs of specific taxpayer groups, the reorganization resulted in four operating divisions—Wage and Investment, Small Business and Self-Employed, Large and Mid-Size Business, and Tax Exempt and Government Entities. The new organizational structure officially “stood up” on October 1, 2000. At about the same time, the IRS Oversight Board held its first meeting. According to the IRS Restructuring and Reform Act of 1998, the board's responsibilities include reviewing and approving the IRS budget request prepared by the Commissioner of Internal Revenue, submitting it to the Secretary of the Treasury, and ensuring that it supports IRS's strategic plans.<sup>5</sup>

As OMB Circular A-11 states, OMB intends that an agency's budget request be integrated with its annual performance plan<sup>6</sup> required by the Government Performance and Results Act (GPRA) of 1993.<sup>7</sup> OMB guidance builds upon both GPRA and the Chief Financial Officers (CFO) Act of 1990,<sup>8</sup> as amended. Among their complementary purposes, both acts seek to improve congressional decisionmaking by providing information on the relative effectiveness and efficiency of federal programs and spending, and to help federal managers improve service delivery by providing them with information about program results, cost, and service quality.

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<sup>2</sup>Congressional Research Service, *Agency Justification of the President's Budget* (updated, Washington, D.C.: 2001).

<sup>3</sup>The five appropriations—(1) processing, assistance, and management; (2) tax law enforcement; (3) information systems; (4) business systems modernization; and (5) the earned income tax credit compliance initiative—remained the same in the fiscal year 2003 CJ.

<sup>4</sup>For example, prefilling taxpayer assistance and education was one of the budget activities in the processing, assistance, and management appropriation. Within that budget activity, two of the programs were (1) tax law interpretation and public guidance and (2) taxpayer communication and education.

<sup>5</sup>P.L. 105-206.

<sup>6</sup>OMB Circular A-11 also discusses the cascading relationship between an agency's general goals in its strategic plan and performance goals in its annual performance plan.

<sup>7</sup>P.L. 103-62.

<sup>8</sup>P.L. 101-576.

Many agencies, including IRS, use the CJ as a vehicle to integrate their performance plan and budget request, an approach that OMB supports.

### **IRS Has Flexibility in the Context of Treasury and OMB Guidance**

IRS operates under both Treasury and OMB guidance in producing its CJ, but it retains flexibility in what it may present. According to Treasury officials, after periodically consulting with its congressional appropriations subcommittees on the CJ's general structure, Treasury prescribes the format for a specific year's CJ to ensure consistency among its many bureaus, including IRS. This format appears in detailed instructions that Treasury provides its bureaus, and for fiscal year 2002, it included detailed outlines to be followed and tables to be completed. OMB Circular A-11 also supplies guidance binding on agencies, including direction on how an agency budget should directly link to the agency's annual performance plan mandated by GPRA. IRS's CJ is to be prepared in accordance with the guidance, and Treasury and OMB must clear everything in the CJ before it can be sent to the Congress.

When preparing its CJ, IRS has flexibility in the context of Treasury and OMB guidance. Although the appropriation subcommittees decide the content they want in the CJ, and Treasury prescribes the format, IRS develops the budget narrative. Also, because OMB is more concerned with enforcing consistency between the CJ and the policy and funding requests in the president's budget than it is with format, IRS has some leeway. This leeway could take the form of the CJ including displays or information beyond what Treasury prescribes or OMB needs.

### **Options for Displaying IRS CJ Information and Providing Additional Data**

The following are some general options for displaying IRS's request that differ from the presentation in IRS's fiscal year 2002 CJ:

- focusing more on budget activities and programs and easy-to-follow linkages to measures, both performance measures and workload indicators;
- relating the request to IRS's organizational structure;
- relating the request to IRS's organizational structure and to measures;
- highlighting IRS-wide goals; and
- analyzing more than net changes to the previous year's appropriation (referred to here as the budget base).

Enclosures I through V discuss these options, respectively, and any pros and cons for adopting them. On the basis of our interviews of IRS, Treasury, and OMB officials who prepare, review, and clear the CJ, as well as of staff members of various congressional committees responsible for IRS who might be expected to use the CJ, we believe that options involving displays of budget activities and programs, links to measures, and selected measures themselves could make the CJ clearer and easier to analyze, with fewer disadvantages, than would options highlighting organizational units or IRS-wide goals. Options involving displays of budget activities and programs,

links to measures, and selected measures are also in the spirit of recent federal government initiatives involving GPRA and the CFO Act that seek better alignment of budgeting, performance, and financial statement information. According to officials whom we interviewed, the options highlighting organizational units or IRS-wide goals could be less attractive than the others, because these options call for greater levels of detail, emphasize stove-piped organizations, or face practical difficulties, such as allocating extensive IRS activities among goals. The additional detail, however, could provide specific information by organizational unit, including data on programs and measures, and better linkages among IRS activities, performance goals, and IRS-wide goals would be consistent with the requirements of GPRA and OMB. In its fiscal year 2003 CJ, IRS provided more information than previously on reductions within IRS's budget, but the information was not summarized in a way that showed at a glance the trade-offs being made among different IRS programs.

Unless placed in the CJ's opening section covering all of IRS as opposed to individual IRS appropriations, any of the options in the enclosures might have to supplement rather than replace the current CJ. A supplement could be a separate submission to the Congress and could be in a format agreed to by the appropriation subcommittees, Treasury, and IRS.

### **Concluding Observations**

If the appropriation subcommittees want a certain kind of information in IRS's CJ, and if Treasury and OMB clear the information, IRS may include additional displays or data in the CJ beyond what it included previously. There are many ways for IRS to present current or other information either in the CJ or in supplements to it. Because of disagreements among the people whom we interviewed over the advisability of the different options discussed in this report, it is unlikely that all concerned parties will agree on the "right" ways. Any ideas adopted would need to meet congressional needs and minimize the burden to IRS in producing new presentations or information. Only the parties themselves can engage in the dialogue needed to decide what fulfills their respective needs.

### **Agency Comments**

We provided a draft of this report to the Secretary of the Treasury and the Commissioner of Internal Revenue for comment. Treasury's Director of the Office of Performance Budgeting provided oral comments on June 18, 2002. He said our analysis was timely and necessary, and our report, presenting a thorough review of options for structuring the IRS budget, would help focus discussions with IRS over a future budget structure. Further, our report would add structure to Treasury's ongoing efforts to merge its budget formulation and oversight functions with its performance evaluation and monitoring functions.

The Director strongly recommended that when drawing conclusions from our analysis, we stress options focusing on performance, rather than on a detailed, operational break-out. We believe that this position is consistent with our earlier

statement that options involving displays of budget activities and programs, links to measures, and selected measures themselves could make the CJ clearer and easier to analyze, with fewer disadvantages, than would options highlighting organizational units or IRS-wide goals. Still, the involved congressional and executive parties themselves need to agree on what best suits their needs.

In providing written comments on our draft, the Commissioner of Internal Revenue found no problems with what we said about improving the content and format of IRS's CJ. Given OMB's and Treasury's roles in the CJ process, he said IRS would share our report with them for their consideration. The full text of the Commissioner's comments is reprinted in enclosure VI.

### **Scope and Methodology**

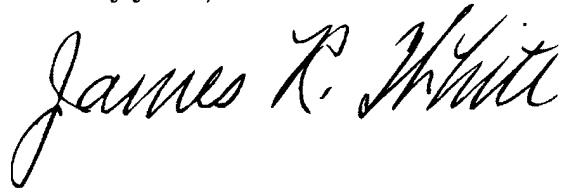
To accomplish our objectives, we (1) analyzed IRS's fiscal year 2002 CJ, which was the most current CJ when we began our work; (2) reviewed OMB Circular A-11 and Treasury's fiscal year 2002 instructions governing budget submissions; (3) studied IRS budget, planning, and performance management background materials; (4) interviewed IRS, Treasury, and OMB officials knowledgeable about IRS's CJ, as well as staff members of congressional appropriation and authorization committees responsible for IRS; (5) analyzed IRS presentations to the IRS Oversight Board on IRS's fiscal year 2002 budget request; (6) used the fiscal year 2002 CJ, background materials, interviews, and Oversight Board presentations to develop ideas for other ways to display IRS's appropriation request and other data that might be useful in the CJ or a supplement; and (7) analyzed IRS's fiscal year 2003 CJ to see if there were any changes to the CJ's structure or content that affected our results. In developing our ideas, we kept in mind the possibility of using material that IRS already had available or might already be using for other purposes. We did not update the tables and figures in this report to reflect the numbers in the fiscal year 2003 CJ, because our purpose was to illustrate formats and ideas and not to dwell on numbers. We did our review in Washington, D.C., from August 2001 through March 2002 in accordance with generally accepted government auditing standards.

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As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this report. At that time, we will send copies to the Ranking Minority Member, Subcommittee on Treasury, Postal Service, and General Government, House Committee on Appropriations; the Chairmen and Ranking Minority Members of the House and Senate Committees on Appropriations and the Senate Subcommittee on Treasury and General Government; the Chairmen and Ranking Minority Members of the House Committee on Ways and Means and the Senate Committee on Finance; the Commissioner of Internal Revenue; the Secretary of the Treasury; and other interested parties. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact David Attianese or me on (202) 512-9110. Lawrence Korb was a key contributor to the report.

Sincerely yours,

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive style with a large, prominent "J" and "W".

James R. White  
Director, Tax Issues

### Focusing IRS's Appropriation Request on Programs and Links to Measures

This enclosure presents ideas for displaying IRS's appropriation request in ways that better focus on budget activities and programs and easy-to-follow linkages to measures. Many of the executive branch and congressional officials whom we interviewed thought that the tables in this enclosure could be helpful. Table 1 summarizes the lead schedules of all IRS appropriations and includes all budget activities in one place, not spread over many pages as in the fiscal years 2002 and 2003 congressional justifications (CJ). Although the table covers only dollar amounts and 2 years, it could be reformatted to cover full-time-equivalent (FTE) staff positions and more years.

**Table 1: Total IRS Fiscal Year 2001 and 2002 Budget Authority by Budget Activity**

Dollars in millions			
Budget activity	FY 2001 amount	FY 2002 amount	Change
Prefiling services	\$548	\$591	\$42
Filing and account services	1,452	1,532	80
Shared support services	1,010	1,018	8
General management and administration	683	643	(41)
<b>Processing, assistance, and management appropriation</b>	<b>3,694</b>	<b>3,783</b>	<b>89</b>
Compliance services	3,294	3,443	149
Research and Statistics of Income	88	90	3
<b>Tax law enforcement appropriation</b>	<b>3,382</b>	<b>3,533</b>	<b>152</b>
Information systems improvement programs	40	40	0
Information services	1,509	1,523	14
<b>Information systems appropriation</b>	<b>1,549</b>	<b>1,563</b>	<b>14</b>
<b>Business systems modernization appropriation</b>	<b>72</b>	<b>397</b>	<b>325</b>
<b>Earned income tax credit appropriation</b>	<b>145</b>	<b>146</b>	<b>1</b>
<b>Total IRS appropriation</b>	<b>\$8,841</b>	<b>\$9,422</b>	<b>\$582</b>

Legend: FY = fiscal year.

Note: Numbers in columns do not always add to the totals because of rounding. Fiscal year 2001 and 2002 numbers are proposed operating level amounts and requested amounts, respectively.

Source: IRS's fiscal year 2002 congressional justification.

Figure 1 shows how IRS presented its budget at a similar level of aggregation in a July 2001 presentation to the IRS Oversight Board, after the CJ numbers had been refined somewhat as fiscal year 2002 drew closer. Figure 1's main structural difference from table 1 is that there is a separate line item for submission processing and information reporting, differentiating between tax administration programs that involve contact with taxpayers and those that do not. Another difference is the absence of the earned income tax credit appropriation, which was outside certain spending caps.<sup>9</sup> Still, the figure allows the reader to see the percentage of the operations budget accounted for by postfiling compliance services—38.8 percent—a feature similar to one that IRS highlighted in its budget in brief but not in its CJ. The figure also better highlights the

<sup>9</sup>The Information Technology Investment Account in figure 1 is the equivalent of the Business Systems Modernization (BSM) appropriation in table 1. Neither presentation has enough information to show full BSM costs, since some of the costs are funded by the information systems and other appropriations. According to IRS officials, IRS does not isolate these costs, which are tracked after the fact, for budget purposes. Also, the officials told us, because these costs are already scrutinized before congressional approval of BSM expenditures, isolating them for budget purposes is not needed. The business line investment in figure 1 is equivalent to information systems improvement programs in table 1.

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prefiling, filing, and postfiling service categories that IRS's fiscal year 2003 CJ says form a central theme for organizing IRS's strategy and program plans, budgets, financial plans and reports, and accounting systems.

**Figure 1: IRS Fiscal Year 2002 Budget Authority, by Budget Activity, as Presented to the IRS Oversight Board (Dollars in thousands)**

Budget by Program	FY 2002				
	FTE	FTE % of Total Budget	\$	% of Total Budget	% of Tax Administration
<b>Tax Administration Programs</b>	<b>80,761</b>	<b>82.8%</b>	<b>5,595,566</b>	<b>62.8%</b>	<b>100.0%</b>
<b>Taxpayer Contact Programs</b>	<b>66,498</b>	<b>68.2%</b>	<b>4,918,587</b>	<b>55.2%</b>	<b>87.9%</b>
Pre-filing Services	3,712	3.8%	590,872	6.6%	10.6%
Filing and Account Services	17,018	17.4%	871,924	9.8%	15.6%
Post-filing - Compliance Services	45,768	46.9%	3,455,791	38.8%	61.8%
<b>Submission Processing/Information Reporting</b>	<b>14,263</b>	<b>14.6%</b>	<b>676,979</b>	<b>7.6%</b>	<b>12.1%</b>
<b>Shared Services Programs</b>	<b>4,775</b>	<b>4.9%</b>	<b>1,072,037</b>	<b>12.0%</b>	
<b>Information Systems Programs</b>	<b>7,477</b>	<b>7.7%</b>	<b>1,549,596</b>	<b>17.4%</b>	
Operations (includes all operations tiers)	5,637	5.8%	1,192,734	13.4%	
Applications Support	1,840	1.9%	356,862	4.0%	
<b>Research and Statistics of Income</b>	<b>918</b>	<b>0.9%</b>	<b>97,167</b>	<b>1.1%</b>	
<b>General Management and Administration</b>	<b>3,631</b>	<b>3.7%</b>	<b>595,563</b>	<b>6.7%</b>	
<b>TOTAL OPERATIONS BUDGET</b>	<b>97,562</b>	<b>100%</b>	<b>8,909,929</b>	<b>100.0%</b>	
Tier B -- Business Line Investment			39,865		
Tier A -- Information Technology Investment Account			396,593		
<b>TOTAL BUDGET</b>	<b>97,562</b>		<b>9,346,387</b>		
<b>Less: User Fees</b>			<b>(70,000)</b>		
<b>CURRENT FINANCIAL PLAN</b>	<b>97,562</b>		<b>9,276,387</b>		

Legend: FY = fiscal year; FTE = full-time equivalent.

Note: An IRS footnote pointed out that the FTEs reflected the financial plan as of July 2001, but the dollar amounts reflected the President's budget.

Source: IRS.

Table 2 expands on table 1 to include in one place all programs and their corresponding measures instead of having them scattered throughout the CJ. In this way, for instance, the program dollars for taxpayer communication and education can be shown together with their relevant measures. To the extent that the linkage between a program and a measure is not perfect or that a dollar change merely reflected inflation—both of which are concerns that we heard—the table could say so. Or the table could replace dollar amounts with FTEs, a change that an IRS budget official said would be a better way of comparing resource changes with changes in performance and workload. Either way, the table would allow amounts used for different activities—for instance, for education and various types of compliance—to be seen together, but at the cost of adding length to the CJ. Versions of table 2 could display programs, budget amounts or FTEs, and measures, by IRS organizational unit, making the CJ somewhat longer still. Rather than show all program categories, IRS could highlight some. For instance, IRS could focus on program categories with the

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largest absolute or percentage increases from the previous year, excluding cost-of-living or inflation adjustments. In any case, placing measures closer to related dollar amounts is in the spirit of recent federal government initiatives to better align budget, performance, and financial statement information and to achieve a closer link between requested resources and expected results.

**Table 2: Budget Authority and Measures for All IRS Programs, Fiscal Years 2001 and 2002**

Dollars in millions						
Program and budget activity	FY 2001	FY 2002	Change	Corresponding measure	FY 2001	FY 2002
Management	\$11	\$12	\$0			
Tax law interpretation and guidance	16	16	1			
Taxpayer communication and education	363	399	36	Workshops Volunteer locations Volunteer hours reported (millions) Education and outreach staff years	371 17,472 2.3 829	408 18,693 3.0 1,555
Rulings and agreements	118	123	5	Education and outreach staff years Employee plans/exempt organizations determination letters Private letter rulings completed Advance pricing and prefilling agreements Small business agreements	245 121,000 1,920 202 3,000	216 257,600 1,930 338 3,300
Electronic tax administration	35	36	0	Form 1040 series electronic primary returns filed (millions) Business electronic primary returns filed (millions) Percent of individual returns filed electronically Electronic tax payment transactions (millions) Debit/credit card transactions (millions) Hits to IRS Web site (billions)	42.3 3.7 32.6% 67.5 1.0 2.0	50.1 4.3 38.0% 72.1 1.8 2.5
Taxpayer advocacy	5	5	0	Taxpayer advocacy projects	88	88
<b>Prefiling services budget activity</b>	<b>548</b>	<b>591</b>	<b>42</b>			
Management	34	33	(1)			
Submission processing	593	615	22	Form 1040 series paper primary returns processed (millions) Business paper primary returns processed (millions)	87.9 81.5	82.1 82.4
Electronic/correspondence account management and assistance	695	725	30	Electronic tax questions received Customer account correspondence (millions) Teletax and toll-free automated calls (millions) Assistor calls answered (millions) Toll-free customer satisfaction (4-point scale) Toll-free level of service Toll-free tax law quality score Toll-free account quality score	310,050 17.1 67.8 32.7 3.58 63.4% 74.0% 63.0%	434,070 17.4 67.8 33.4 3.69 71.1% 76.0% 65.0%
Field account management and assistance	99	125	27	Walk-in customer satisfaction (7-point scale) Walk-in returns prepared (millions) Geographic coverage (projection)	6.50 1.1 72%	6.55 1.1 75%
Information reporting	32	34	1			
<b>Filing and account services budget activity</b>	<b>1,452</b>	<b>1,532</b>	<b>80</b>			
Facilities services	126	127	1			
Personnel	134	139	5			
Procurement	46	47	2			
Equal employment opportunity field operations	16	16	1			
Rent	574	574	0			
Space and housing for nonautomated data processing equipment	109	109	0			
Learning delivery	1	0	(1)			

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Dollars in millions						
Program and budget activity	FY 2001	FY 2002	Change	Corresponding measure	FY 2001	FY 2002
Administrative services	5	5	0			
Treasury complaint centers	1	1	0			
Shared support	0	0	0			
<b>Shared support services budget activity</b>	<b>1,010</b>	<b>1,018</b>	<b>8</b>			
Unit management and administration (M&A)	199	205	6			
Headquarters M&A	352	299	(53)			
Communication and liaison	57	59	2			
General legal services	10	10	0			
Benefit payments	66	69	3			
<b>General M&amp;A budget activity</b>	<b>683</b>	<b>643</b>	<b>(41)</b>			
Management	92	95	3			
Payment compliance—electronic/correspondence collection	252	274	23	Automated collection system customer satisfaction (4-point scale)	3.50	3.60
				Automated collection system closures—taxpayer delinquent accounts (millions)	1.7	1.9
				Automated collection system closures—taxpayer delinquency investigations (millions)	0.8	0.7
				Automated collection system level of service	80.0%	81.0%
Payment compliance—field collection	572	593	21	Field collection customer satisfaction (7-point scale)	4.94	5.04
				Closures—taxpayer delinquent accounts (millions)	0.8	0.9
				Closures—taxpayer delinquency investigations (millions)	0.1	0.2
				Field collection quality score	86.4%	89.0%
				Offers in compromise processed	73,068	77,470
					37.7%	39.6%
Tax reporting compliance—document matching	61	69	9	Automated underreporter closures (millions)	2.9	3.3
				Automated underreporter quality score	94%	94%
Tax reporting compliance—electronic/correspondence examination	125	130	5	Service center examination customer satisfaction (7-point scale)	4.30	4.45
				Correspondence returns examined	558,655	519,664
				Service center examination quality score	72.0%	78.0%
				Innocent spouse modules closed	57,659	62,133
Tax reporting compliance—field examination	1,408	1,466	58	Field examination customer satisfaction (7-point scale)	4.6	4.9
				Individual returns examinations greater than \$100,000	113,699	167,282
				Individual returns examinations less than \$100,000	152,964	173,855
				Individual returns examined	266,663	341,137
				Field examination case quality score	60%	62%
				Business and general industry returns examined	142,441	168,712
				Large cases examined	475	475
				Large case returns closed	3,831	3,356
				Employee plans/exempt organizations examination customer satisfaction (7-point scale)	5.7	5.8
				Employee plans/exempt organizations examination cases closed	19,300	11,000
				Employee plans/exempt organizations examination quality score	83%	85%
				Criminal investigations	351	365
Currency transaction reporting	18	19	1			
Appeals	149	156	7	Appeals cases closed	73,013	72,842
Litigation	144	149	5	Tax Court cases	12,000	11,000
Taxpayer advocate case processing	122	127	4	Taxpayer advocate cases closed	244,941	252,289
				Taxpayer advocate quality index	68.3%	69.7%
<b>Compliance services budget activity</b>	<b>3,294</b>	<b>3,443</b>	<b>149</b>	<b>Enforcement revenue (billions)</b>	<b>\$34.0</b>	<b>\$34.9</b>

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Dollars in millions						
Program and budget activity	FY 2001	FY 2002	Change	Corresponding measure	FY 2001	FY 2002
Research	58	60	2			
Statistics of Income	29	30	1			
<b>Research and Statistics of Income budget activity</b>	<b>88</b>	<b>90</b>	<b>3</b>			
<b>Information systems improvement programs budget activity</b>	<b>40</b>	<b>40</b>	<b>0</b>			
Unit management	105	107	2			
Applications support	392	367	(26)			
Operations and maintenance (O&M) infrastructure management	21	21	0			
O&M enterprise systems and assets management	13	13	0			
O&M telecommunications	303	304	1			
O&M enterprise operations	286	291	5			
O&M field desktop support	234	243	8			
O&M desktop management	93	93	0			
Rulings and agreements	0	0	0			
Electronic tax administration	1	1	0			
Submission processing	3	3	0			
Account management and assistance	0	0	0			
Facilities services	3	4	0			
Personnel	32	32	0			
Procurement	0	0	0			
Unit general M&A	8	8	0			
Headquarters M&A	10	32	23			
Communications and liaison	0	0	0			
Payment compliance—electronic correspondence	1	1	0			
Payment compliance—field collection	1	1	0			
Tax reporting compliance—field examination	1	1	0			
Research	1	2	0			
Statistics of Income	0	0	0			
<b>Information services budget activity</b>	<b>1,509</b>	<b>1,523</b>	<b>14</b>			
<b>Business systems modernization business activity</b>	<b>72</b>	<b>397</b>	<b>325</b>			
Taxpayer communication and education	3	4	1			
Rulings and agreements	0	0	0			
Electronic tax administration	0	0	0			
Submission processing	19	19	0			
Account management and assistance—electronic	3	3	0			
Account management and assistance—field	5	5	0			

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Dollars in millions						
Program and budget activity	FY 2001	FY 2002	Change	Corresponding measure	FY 2001	FY 2002
Communications and liaison	1	1	0			
Tax reporting compliance—electronic	40	40	0			
Tax reporting compliance—field	31	31	0			
Criminal investigations	23	23	0			
Appeals	2	2	0			
Litigation	1	1	0			
Taxpayer advocate case processing	2	2	0			
Research	4	4	0			
Applications support—9B	10	10	0			
Applications support—9E	2	2	0			
<b>Earned income tax credit budget activity</b>	<b>145</b>	<b>146</b>	<b>1</b>		<b>0.16%</b>	<b>0.15%</b>
<b>Total IRS</b>	<b>\$8,841</b>	<b>\$9,422</b>	<b>\$582</b>	<b>Primary returns processed (millions)</b> <b>Agencywide employee satisfaction</b> <b>Other education and outreach staff years</b> <b>Full-time equivalents (including earned income tax credit) (thousands)</b> <b>Full-time equivalents in taxpayer contact programs (including earned income tax credit)</b> <b>Full-time equivalents per billion dollars of real gross domestic product</b>	<b>215.4</b> <b>60%</b> <b>694</b> <b>100</b> <b>67,852</b> <b>10.42</b>	<b>219.0</b> <b>62%</b> <b>1,338</b> <b>101</b> <b>69,965</b> <b>10.12</b>

Legend: FY = fiscal year.

Notes: (1) The shared support services, general M&A, research and Statistics of Income, information systems improvement programs, information services, business systems modernization, and earned income tax credit activities did not have specific measures. According to IRS, the resources for these activities contributed to meeting the targets for measures reported in the pre-filing services, filing and account services, and compliance services budget activities. (2) A table like this could be created for each IRS organizational unit. (3) Shading denotes a measure that is not found in the budget justification but that exemplifies what was included in IRS's draft Summary of Balanced Measures and Workload Indicators from Program Plans, which we obtained in October 2000, before the CJ was prepared. (4) The numbers for the measures are not necessarily the entire numbers for the measures; they are only the numbers relating to the individual program. (5) To shorten the table, some of the measures could be combined. (6) The numbers do not always add to the totals because of rounding. (7) According to an IRS budget official, replacing the dollar amounts in the table with FTEs would provide a more meaningful comparison of resource changes with changes in performance and workload.

Sources: Except for note 3, IRS's fiscal year 2002 CJ; the Commissioner's May 7, 2001, fiscal year 2003 strategic planning guidance memo, attachment 4 within attachment c; and a knowledgeable IRS official.

As indicated by the shading in table 2, we included in the table two IRS measures that were not among the 65 measures that IRS chose to put in its fiscal year 2002 CJ. One of the shaded measures was for the \$146 million earned income tax credit appropriation, for which the CJ provided no measures. The other was for the offer in compromise program that IRS uses to collect part of the delinquent taxes it is owed. For this program, the CJ mentioned improving the timeliness of offer in compromise processing without clearly showing how the improvement would be measured.

Other topics similarly lacked measures in the CJ. Although the CJ noted that audit coverage was expected to increase by 0.05 percentage points, and although the President's budget called coverage a critical performance measure, the CJ included no measures for it. Likewise, the CJ had no measure for the 350-FTE initiative it

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described as matching information returns against trust and partnership return filings with \$500 billion in pass-through income.

Trade-offs would be involved in revising the CJ to include measures in all these areas. The Congress would have more information at its disposal to flesh out information that it had been given, such as the 0.05 percentage point increase in audit coverage, but the level of detail might become too great.

As figure 2 shows, IRS featured programs in a November 2000 presentation to the IRS Oversight Board.

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Figure 2: Excerpts from an IRS November 2000 Presentation to the IRS Oversight Board, Showing FTE Information by Program

Budget by Program	FY 2000	FY 2001	FY 2002	% Change, 2000 to 2002
	Actuals	Financial Plan	Financial Plan	
	FTE	FTE	FTE	
<b>Tax Administration Programs</b>	<b>80,120</b>	<b>82,960</b>	<b>85,766</b>	
<b>Taxpayer Contact Programs</b>	<b>65,415</b>	<b>68,267</b>	<b>72,256</b>	<b>10%</b>
<b>Pre-Filing Services</b>	<b>2,826</b>	<b>3,692</b>	<b>4,731</b>	<b>67%</b>
1A Pre-Filing Management	171.09	224.28	223.15	
1B Tax Law Interpretation	169.32	172.80	221.79	
1C Taxpayer Education & Communication	1,081.84	1,767.99	2,751.90	
1E Rulings & Agreements	1,222.76	1,308.70	1,312.94	
1H Electronic Tax Administration	145.89	165.00	167.97	
1J Taxpayer Advocacy	34.68	53.59	53.26	
<b>Filing and Account Services</b>	<b>15,973</b>	<b>16,619</b>	<b>18,204</b>	<b>14%</b>
2A Filing Management	378.74	375.82	374.77	
2C Accounts Mgmt - Elec. Assistance	14,094.42	14,207.43	15,158.87	
2D Account Mgmt - Field Assistance	1,499.98	2,035.63	2,670.49	
		728.40		
		31,855.77		
<b>Post-Filing - Compliance Services</b>	<b>46,617</b>	<b>47,956</b>	<b>49,321</b>	<b>6%</b>
7A Post-Filing Management	1,079.89	1,018.75	1,013.13	
7C Payment Compliance - Remote Coll.	4,890.34	5,063.01	5,736.46	
7D Field Collection				
Revenue Officer	5,607.53	5,993.01	6,089.40	
Field Clerical/Other	2,712.50	3,022.22	2,975.99	
7E Tax Reporting Compliance - Doc Matching	1,214.87	1,510.06	1,687.16	
7F Tax Reporting Compliance - Corr. Exam	3,219.32	3,266.35	3,358.57	
7G Field Examination				
Revenue Agent	12,773.18	12,654.12	12,827.37	
Tax Auditor / Tax Compliance Officer	1,688.44	1,760.20	1,923.14	
Clerical/Other	4,832.06	4,384.48	4,347.77	
7H Criminal Investigations				
Special Agents	2,408.67	2,467.40	2,569.39	
Other Staff	1,152.68	1,133.70	1,169.20	
7J Currency Transaction Reporting	314.00	314.00	312.07	
7K Appeals	1,974.07	1,895.93	1,884.50	
Appeals Officer	1,075.89	1,046.89	1,040.60	
Other	898.18	849.04	843.90	
7L Counsel	1,459.41	1,478.11	1,444.15	
Attorneys	857.25	870.79	865.67	
Other	602.16	607.32	578.48	
7M Taxpayer Advocate Case Processing	1,289.72	1,994.51	1,982.43	
<b>Submission Proc. &amp; Information Rept.</b>	<b>14,705</b>	<b>14,693</b>	<b>13,510</b>	<b>-8%</b>
2B Returns Processing	14,281.72	13,964.52	12,605.80	
2E Information Reporting	422.93	728.40	904.14	

Legend: FY = fiscal year; FTE = full-time equivalent; Mgmt = Management; Elec. = Electronic; Coll. = Collection; Doc. = Document; Corr. Exam = Correspondence Examination; Proc. = Processing; Rept. = Reporting

Source: IRS.

The excerpts in figure 3 show how IRS used measures in an easy-to-read format in that same November 2000 presentation to the Oversight Board. The format facilitates

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analysis of the changes occurring from year to year. However, it does not show the corresponding changes in budget dollars that we showed in table 2.<sup>10</sup>

**Figure 3: Excerpts Showing Measures, from an IRS November 2000 Presentation to the IRS Oversight Board**

Summary of Expected Results - Performance Measures for FY2001 and FY2002

*Pre-Filing Programs -- Assisting Taxpayers in Understanding their Tax Responsibilities and Preparing Accurate Returns*

	FY2000	FY2001	Change FY00-FY01	FY2002	Change FY01-FY02	Change FY00-FY02
Education and Outreach Staff-Years	1,081.84	1,767.99	63%	2,751.90	56%	154%
<i>Volunteers Helping Taxpayers</i>						
Volunteer Hours Reported	2,274,732	2,297,700	1%	3,005,400	31%	32%
Number Volunteer Locations	18,207	17,472	-4%	18,693	7%	3%
Small Business Products Disseminated (Workshops)	334	371	11%	408	10%	22%
<i>Rulings and Agreements</i>						
EP/EO Determination Letters	109,461	134,500	23%	257,600	92%	135%
Private Letter Rulings Issued	1,913	1,920	0%	1,930	1%	1%
APA's and Pre-Filing Agreements	67	202	201%	338	67%	404%
Small Business Agreements	2,700	3,000	11%	3,300	10%	22%
Electronic Tax Law Questions Received	303,758	310,050	2%	434,070	40%	43%
Taxpayer Advocacy Projects	76	80	5%	80	0%	5%

Legend: FY = fiscal year; EP/EO = employee plans/exempt organizations; APA = advance pricing agreement.

Source: IRS.

Table 3 aligns a few IRS measures with various factors throughout the CJ that contribute to the measures' changing between years. As opposed to table 2, which starts with specific changes in budget dollars and relates them to changes in measures, table 3 starts with changes in a few measures and relates them to budget dollars and statements in various parts of the CJ. The Congress and IRS could agree on who would select the measures to be displayed and on what basis they would be selected.

<sup>10</sup>Because our aim is only to show different ways of displaying IRS's appropriation request, we did not explore why some of the numbers in figure 3 differed from those in table 2.

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**Table 3: Examples of IRS Measures That Are Affected by Many Factors**

<b>Measure changing from fiscal year 2001 to fiscal year 2002</b>	<b>Factors contributing to the change</b>
Percentage of returns filed electronically increased from 32.6 percent to 38 percent (p. PAM-15 of CJ)	<ul style="list-style-type: none"> <li>• Increase of about \$400,000 in electronic tax administration budget (PAM-10)</li> <li>• Implementation of the e-Services project, included in the BSM budget for \$26 million and designed to induce tax preparers to file electronically on behalf of their clients (SD-8, BSM-11)</li> </ul>
Toll-free level of service (rate at which taxpayers who called IRS toll-free actually got through and received service) increased from 63.4 percent to 71.1 percent (PAM-16)	<ul style="list-style-type: none"> <li>• Increase of \$30 million in electronic/correspondence account management and assistance budget (PAM-14)</li> <li>• Implementation of the Customer Communications 2001 business systems modernization project to improve the level of service without commensurate increases in the number of FTEs handling calls (SD-8)</li> <li>• Possible negative effect on productivity owing to attrition among senior front-line staff (SD-6)</li> <li>• Improvement in level of access as a result of telephone assistors being helped to do more (PAM-6)</li> </ul>
Number of offers in compromise processed increased from 73,068 to 77,470 (TLE-12)	<ul style="list-style-type: none"> <li>• Increase of \$21 million in payment compliance (field collection) budget (TLE-9)</li> <li>• Expected improvement in timeliness due to centralization of offer case processing (SD-6)</li> </ul>
Number of individual returns examined increased from 266,663 to 341,137 (TLE-12)	<ul style="list-style-type: none"> <li>• Increase of \$58 million in tax reporting compliance (field examination) budget (TLE-10)</li> <li>• Expected increase of audit coverage by 0.05 percentage points, owing to reduced diversion of revenue agents, tax auditors, and revenue officers to customer service activities (SD-6)</li> </ul>

Source: Table 2 and various pages of the CJ, as noted.

Enclosure II

**Relating IRS's Appropriation Request to IRS's Organizational Structure**

This enclosure presents a way to relate IRS's appropriation request to IRS's organizational units. Table 4 expands on table 1 by adding information on individual IRS organizational units that was taken from an internal fiscal year 2002 IRS spreadsheet that had information on many more units than are included here. The fiscal year 2002 congressional justification (CJ) did not include unit information.

**Table 4: IRS Fiscal Year 2002 Budget Authority, by Organizational Unit**

Dollars in millions							
Budget activity	Total	Unit				Subtotal	Other
		Wage and Investment	Small Business and Self-Employed	Large and Mid-Size Business	Tax Exempt and Government Entities		
Prefiling services	\$591	\$378	\$50	\$31	\$60	\$519	\$71
Filing and account services	1,532	997	516	7	10	1,530	2
Shared support services	1,018	0	0	0	0	0	1,018
General management and administration	643	16	57	15	20	108	534
<b>Processing, assistance, and management</b>	<b>3,783</b>	<b>1,391</b>	<b>623</b>	<b>53</b>	<b>89</b>	<b>2,158</b>	<b>1,626</b>
Compliance services	3,443	246	1,672	586	105	2,608	834
Research and Statistics of Income	90	6	14	6	0	26	64
<b>Tax law enforcement</b>	<b>3,533</b>	<b>251</b>	<b>1,686</b>	<b>592</b>	<b>105</b>	<b>2,634</b>	<b>899</b>
Information systems improvement programs	40	0	0	0	0	0	40
Information services	1,523	5	2	2	0	10	1,514
<b>Information systems</b>	<b>1,563</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>10</b>	<b>1,554</b>
<b>Business systems modernization</b>	<b>397</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>397</b>
Earned income tax credit	146	74	31	0	0	105	41
<b>Total IRS</b>	<b>\$9,422</b>	<b>\$1,721</b>	<b>\$2,343</b>	<b>\$647</b>	<b>\$195</b>	<b>\$4,906</b>	<b>\$4,516</b>

Note: The numbers do not always add to the totals because of rounding.

Source: U.S. General Accounting Office, *Fiscal Year 2002 Budget Request for the Internal Revenue Service*, GAO-01-698R (Washington, D.C.: May 1, 2001).

Some executive branch and congressional officials whom we interviewed favored displaying IRS's appropriation by organizational unit. According to them, an organizational break-out allows individuals to be held accountable for large pieces of the budget and is useful as background.

## Enclosure II

However, an organizational break-out also creates concerns for some agency and congressional officials. The following concerns were cited:

- At the time a CJ is prepared, IRS has not allocated all amounts, such as training, to specific organizational units, making the units' dollar totals incomplete.
- IRS has not considered evolving operational factors such as how a filing season will go or how hiring efforts will work out, and, consequently, IRS organizational heads might be locked into untenable published budget numbers for their units.<sup>11</sup>
- If an organizational break-out were presented, inappropriate comparisons might be made among organizations serving different segments of taxpayers.<sup>12</sup>
- The budget focus might be on stove-piped units, not on IRS as an integrated organization. This could lead to particular interest groups focusing on the budgets for particular units, undermining the trade-offs that need to be made within the entire organization and among all types of taxpayers.

Figure 4 shows excerpts of the formatted grids that IRS already uses to collect 3 years of program information for each organizational unit on table 4. If they desired, congressional parties could collect these grids from IRS for selected units. In a further refinement, they could receive them or the CJ spreadsheet electronically, allowing for staff analysis and presentation at different levels of detail. Presenting program information in the CJ would provide a greater level of detail than currently exists but would also allow for more analysis than is currently possible.

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<sup>11</sup>It seems that this argument could also be applied to any organization as a whole, because any allocation is subject to adjustment as uncertainty diminishes.

<sup>12</sup>Of course, proper comparisons might be made as well.

Enclosure II

Figure 4: Excerpt from IRS Grid for Collecting Program Information, by Organizational Unit

<b>Org Unit Resource Matrix</b> (dollars in thousands)					
<b>Business Unit:</b>					
Program Activities	FY 2001		FY 2002		FY2
	FTE	Dollars	FTE	Dollars	FTE
<b>BAC 21 - Pre-filing Services</b>	0	0	0	0	0
1A - Pre-filing Services Management					
1B - Published Guidance Preparation					
1C - Taxpayer Comm. & Education					
1E - Rulings and Agreements					
1H - Electronic Tax Administration					
1J - Taxpayer Advocacy					
<b>BAC 22 - Filing and Account Services</b>	0	0	0	0	0
2A - Filing and Account Services Mgmt					
2B - Submissions Processing					
2C - Account Mgmt and Assist. (Elec/Corr)					
2D - Account Mgmt and Assist. (Field)					
2E - Information Reporting					
<b>BAC 37 - Compliance Services</b>	0	0	0	0	0
7A - Compliance Services Management					
7C - Payment Compliance (Elec/Corr Collect.)					
7D - Payment Compliance (Field Collect.)					
7E - Tax Reporting Compliance - Doc. Match.					
7F - Tax Reporting Compliance - Elec/Corr Exam					
7G - Tax Reporting Compliance - Field Exam					
7H - Criminal Investigation					
7J - Currency Transaction Reporting					
7K - Appeals					
7L - Litigation					
7M - Taxpayer Advocate Case Processing					
<b>BAC 80 - EITC</b>	0	0	0	0	0
1C - Taxpayer Comm. & Education					
1E - Rulings and Agreements					
1H - Electronic Tax Administration					
2B - Submissions Processing					
2C - Account Mgmt and Assist. (Elec/Corr)					
2D - Account Mgmt and Assist. (Field)					
5C - Communications & Liaison					
7F - Tax Reporting Compliance - Elec/Corr Exam					
7G - Tax Reporting Compliance - Field Exam					
7H - Criminal Investigation					
7K - Appeals					
7L - Litigation					
7M - Taxpayer Advocate Case Processing					
8A - Research					
9B - Applications Support					
9E - OM - Telecommunications					
<b>BAC 25 - General Management and Administration</b>	0	0	0	0	0
5A - Unit General Mgmt & Admin.					
5B - National HQ Mgmt & Admin					
5C - Communications & Liaison					
5D - General Legal Services					
5E - Benefit Payments					
<b>BAC 38 - Research and SOI</b>	0	0	0	0	0
8A - Research					
8B - SOI					
<b>BAC 24 - Shared Support Services</b>	0	0	0	0	0

Legend: Org = Organizational; FY = fiscal year; FTE = full-time equivalent; BAC = budget activity code; Comm. = Communication; Mgmt = Management; Assist. = Assistance; Elec/Corr Collect. = Electronic/Correspondence Collection; Doc. Match. = Document Matching; Elec/Corr Exam = Electronic/Correspondence Examination; EITC = earned income tax credit; OM = Operations and Maintenance; HQ = Headquarters; SOI = Statistics of Income

Source: IRS.

Enclosure III

**Relating IRS's Appropriation Request to IRS's Organizational Structure and Measures**

This enclosure presents ideas on how to relate IRS's appropriation request to IRS's organizational structure and measures. Within organizational units, table 5 shows examples of large or important programs and selected related measures. The information comes from the internal fiscal year 2002 IRS spreadsheet mentioned in enclosure II and from other internal IRS sources. The level of detail in this enclosure is greater than that in enclosure II; the potential for analysis is also greater.

Enclosure III

Table 5: Budget Authority for Selected Programs and Examples of Corresponding Measures

Dollars in millions							
Budget activity and program	IRS unit	FY 2001 dollar amount <sup>a</sup>	FY 2002 requested dollar amount	Measure	Measure in FY 2001	Measure in FY 2002	Long-term measure <sup>c</sup>
Prefiling services—taxpayer communication and education	Wage and Investment		\$340	Education and outreach staff years	392	712	
Prefiling services—electronic tax administration	Wage and Investment		35	Percentage of individual returns filed electronically	32.6%	38.0%	
Filing and account services—submission processing	Wage and Investment		486	Timeliness of refunds to individuals filing paper returns	Baseline	To be determined	
Filing and account services—account management and assistance (electronic, correspondence)	Wage and Investment		374	Toll-free level of service, <sup>b</sup> telephone timeliness, and account quality	63.4%, 95%, and 63%	71.1%, 96%, and 65%	
Filing and account services—account management and assistance (electronic, correspondence)	Small Business and Self-Employed		345	Toll-free level of service <sup>b</sup>	63.4%	71.1%	
Compliance services—payment compliance (field collection)	Small Business and Self-Employed		593	Percentage of offers in compromise processed within 6 months	37.7%	39.6%	
Compliance services—tax reporting compliance (field examination)	Small Business and Self-Employed		783	Percentage of field examination cases overage	40%	37%	
Compliance services—tax reporting compliance (field examination)	Large and Mid-Size Business		578	Industry cycle time in months	31.42	31.00	
Compliance services—criminal investigation	Criminal Investigations		365	Subject criminal investigations initiated	3,320	3,368	
Shared support—rent	Agencywide Shared Services		574	None given			
Information services—applications support	Chief Information Officer		367	None given			
<b>Total</b>			<b>\$4,840</b>				
<b>All IRS</b>			<b>\$9,422</b>				

Note: Measures selected are limited to those IRS had. Shading indicates that the measure was not included in the 2002 CJ and that the values associated with it predated the CJ and could have changed by the time the CJ was issued.

<sup>a</sup>Dollar amounts for fiscal year 2001 did not appear in the materials we reviewed.

<sup>b</sup>Toll-free level of service is the rate at which taxpayers who call IRS toll-free actually get through and receive service.

### Enclosure III

Long-term measures would be included only to the extent that they exist. The fiscal year 2003 CJ mentioned long-term IRS-wide goals of 90 percent telephone level of service on taxpayer accounts and 85 percent on tax law inquiries. It also noted the congressional goal of IRS's receiving 80 percent of all tax and information returns electronically by 2007.

Sources: IRS spreadsheet on fiscal year 2002 CJ; the Commissioner's May 7, 2001, fiscal year 2003 strategic planning guidance memo, attachment 4 within attachment c; format for the fiscal year 2001 Monthly Business Performance Summary; and draft Summary of Balanced Measures and Workload Indicators from Program Plans.

Figure 5 shows the formatted grid that IRS uses to collect information on programs and measures for each IRS organizational unit. If they desired, congressional parties could collect these grids from IRS for selected organizational units and programs. To supplement either table 5 or figure 5, IRS could submit narrative program summaries already prepared as part of IRS's strategic planning process.

Enclosure III

Figure 5: IRS Grid for Collecting Information, by Program, Measure, and Organizational Unit

**Program Resources Summary**  
**FY 2001-2003**

Business Unit: \_\_\_\_\_ BAC: \_\_\_\_\_  
Appropriation: \_\_\_\_\_ PAC: \_\_\_\_\_

**Resources Required**

**Labor:**

Employment Category	FY 2001		FY 2002		FY 2003	
	FTE	\$	FTE	\$	FTE	\$
<b>Total FTE &amp; Labor Costs</b>						

**Staff Disposition (only for Applicable employment categories)**

Category	FY 2001		FY 2002		FY 2003	
	FTE	\$	FTE	\$	FTE	\$
Direct						
Indirect						
Details Out/In (-/+)						
<b>Total FTE &amp; Labor Costs</b>						

**Non-Labor:**

Budget Line Item	FY 2001	FY 2002	FY 2003
	\$	\$	\$
ADP Operations			
Communications			
Enforcement Expenses			
Equipment, Non-ADP			
Land and Buildings			
Postage			
Printing			
Space and Housing			
Rent			
Services and Supplies			
Training			
Travel			
<b>Total Labor and Non-Labor Costs</b>			

**Operational Support Contracts Summary:**

Name of Contract	FY 2001	FY 2002	FY 2003
<b>Total Funded Contracts</b>			

**Performance and/or Program Goals**

**Critical Measures:**

Measure	FY 2001	FY 2002	FY 2003

**Key Workload/Performance Indicators (other than Critical Measures):**

Indicator	FY 2001	FY 2002	FY 2003

Legend: FY = fiscal year; BAC = budget activity code; PAC = program activity code; FTE = full-time equivalent; ADP = automated data processing.

## Enclosure III

Note: "Employment category" includes such classifications as seasonal, tax technician, and "other full-time permanent" employees.

Source: IRS.

Enclosure IV

**Highlighting IRS-Wide Goals**

This enclosure presents still another way to display IRS's appropriation request—by relating it to IRS-wide goals. Table 6 shows how the IRS Oversight Board roughly allocated IRS's operations budget among IRS's three strategic goals.<sup>13</sup> However, allocating particular IRS activities, such as general management and administration, to only one goal, such as productivity, might make budgeting by goal problematic.

**Table 6: IRS's Fiscal Year 2002 Operations Budget as Proposed by the IRS Oversight Board, by IRS Strategic Goal**

Dollars in millions	
<b>Service category and strategic goal</b>	<b>Fiscal year 2002 budget requirement</b>
Prefiling services	\$359
Filing and account services	910
Tax return processing and information reporting	866
Other	23
<b>Total service to each taxpayer</b>	<b>2,158</b>
Payment, filing, and reporting compliance	3,597
<b>Total service to all taxpayers</b>	<b>3,597</b>
Tax administration training	64
Shared services programs	1,121
Information systems programs	1,593
General management and administration	358
Research and Statistics of Income	101
<b>Total productivity through a high-quality work environment</b>	<b>3,237</b>
<b>Total proposed IRS operations budget</b>	<b>\$8,992</b>

Note: We did not completely reconcile the numbers in this table with other information that we saw.

Source: IRS Oversight Board, *The IRS Budget Fiscal Year 2002: Analysis and Recommendations (Interim Report)* (Washington, D.C.: 2001).

Table 7 shows IRS's strategic measures, tied to its three strategic goals, at the beginning of fiscal year 2002 that were in various stages of development and should one day provide usable information in the form of IRS-wide and division-specific measures of IRS performance. In using these measures, IRS could show interim progress toward long-term goals and also show staff and technology resources needed for continued progress toward those goals' achievement. However, some of the evolving strategic measures might have more severe limitations than others. Also, because IRS did not link budget dollars to the strategic goals or measures, how it would relate funds received or requested to strategic goals or measures was unclear. The measures shown in table 2 and elsewhere for fiscal year 2002 did not link to the strategic goals, either. In its fiscal year 2003 annual performance plan, however, IRS noted that the strategic measures it was developing would be supported by operational measures.

<sup>13</sup>The goals are (1) top-quality service to each taxpayer in every interaction, (2) top-quality service to all taxpayers through fair and uniform application of the law, and (3) productivity through a high-quality work environment.

Enclosure IV

Table 7: IRS Strategic Measures at the Beginning of Fiscal Year 2002

IRS strategic goal	Strategic measure	Brief description	Level of reporting	Limitations
Service to each taxpayer	Customer satisfaction	An index showing customers' satisfaction with such things as the clarity and usefulness of IRS's information, the accessibility of information, and the courtesy and professionalism of IRS representatives	IRS-wide, operating division	Only 3 IRS-related activities and 250 interviewees are reflected, limiting analysis, providing only high-level guidance, and requiring more study to gain actionable results. Some taxpayer segments will only be added in future years.
	Customer satisfaction/public approval	The percentage of the public that has a favorable opinion of IRS	IRS-wide	Survey respondents may or may not have had dealings with IRS personnel. The responses cannot be used to measure the impact of specific IRS programs or services.
	Taxpayer burden	Time and out-of-pocket dollars spent, by types of taxpayers and types of activity	IRS-wide, operating division	Work to be finished in 2002 will be for wage and investment and self-employed taxpayers only, with business and employment tax burdens to come later. Separating IRS and tax code burdens may not be possible.
Service to all taxpayers	Payment compliance	The percentage of tax liability reported on timely-filed returns that is paid by the return due date or to date	IRS-wide, operating division, type of tax	Factors outside IRS's control will have to be considered in assessments of the effect of IRS activities. Complete data will not be ready until more than a year after a tax year ends. The data source was expected to be operational in fiscal year 2002.
	Filing compliance	The percentage of required individual returns that are filed on time for a given year	IRS-wide	Factors outside IRS's control will have to be considered in assessments of the effect of IRS activities. Complete data will not be ready until more than a year after a tax year ends. Data are now available for individuals only.
	Reporting compliance	The percentage of individual income tax liability that is voluntarily reported on timely-filed returns for a given tax year	IRS-wide; W&I, SB/SE individuals	Factors outside IRS's control will have to be considered when assessing the effect of IRS activities. Data are available for individuals only; the data are based on 1988 information and do not reflect 1988 underreporting, which is thought to have been significant. A more accurate measure will have to await the more current compliance data that will be available in the future.
Productivity through a quality work environment	Employee satisfaction	Survey questions of employees	IRS-wide, operating division, functional division, work group	No limitations listed by IRS.
	Workload resource index	Percentage change in IRS workload and productivity over time	IRS-wide, operating division, lower	This measure involves some questionable assumptions and places greater weight on some of its component 62 measures than on others.

Source: IRS, Data Dictionary for Strategic Measures.

## Enclosure V

### **Analyzing More Than Net Changes to the Budget Base**

This enclosure presents a final way to display IRS appropriation information, one that would facilitate analysis of more than net changes to the budget base. For the first time, IRS's fiscal year 2003 congressional justification (CJ) showed resource reductions within the base budget that were reallocated to high-priority areas. However, the fiscal year 2003 CJ did not summarize the specifics of this information in one place to show at a glance the trade-offs being made among different IRS programs.

From IRS's strategic planning process, figures 6 and 7 show excerpts from IRS formats for displaying what drives increases and decreases in IRS resource needs. The formats differ from traditional incremental CJ presentations by showing pluses and minuses before they are netted out. In addition, they show break-outs by budget activity and could show break-outs by organizational unit. The formats used in the planning process allow IRS to show, for instance, how savings in the cost of processing returns brought on by electronic filing can be reapplied to such efforts as stabilizing audit rates and pursuing high-priority tax collections. The formats could include, or be restricted to, columns with totals for all of IRS. These columns would show how trade-offs are made within IRS as a whole. Although figure 6 displays only dollar amounts, it could include full-time-equivalent staff positions as well.

Enclosure V

**Figure 6: Excerpts from IRS Grid Showing Expected Increases and Decreases in IRS Labor Costs, by Program**

<i>Dollar Cost of FTE Drivers</i>													
	All Pre-Filing Programs	Filing					Post-filing Compliance						
		Sub Proc	Field Assistance	Tel/Corr Assistance	Elec/Corr Payment	Field Payment	Elec/Corr Reporting	Field Reporting	CI	Appeals	TAS		
Servicewide	BAC 21	2B & 2E	2D	2C	7C	7D	7F	7G	7H	7K	7M		
LABOR INCREASES	Drivers of Increased Resources												
	Workload Increases												
	Compliance Strategies												
	Other												
	TOTAL												
	LABOR SAVINGS	Drivers of Resource Savings											
		Workload Decreases											
		Improvement Projects											
		Selected Tier B Projects											
		Other											
		TOTAL											
		<b>TOTAL COST OF FTE DRIVERS</b>											

Legend: FTE = full-time equivalent; Sub Proc = Submission Processing; Tel/Corr = Telephone/Correspondence; Elec/Corr = Electronic/Correspondence; CI = Criminal Investigations; TAS = Taxpayer Advocate Service.

Note: The Servicewide codes refer to the relevant budget activity (BAC 21) or program (2B, for instance) code.

Source: IRS.



Enclosure VI

**Comments from the Internal Revenue Service**



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

June 18, 2002

Mr. James R. White  
Director, Tax Issues  
U.S. General Accounting Office  
441 G Street, NW  
Washington, D.C. 20548

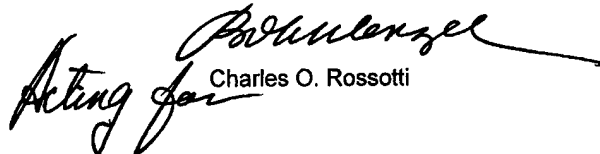
Dear Mr. White:

We reviewed your draft report, "IRS's Budget Justification: Options for Structure and Content" (GAO-02-711R). In general, we find no problems with the GAO's recommendations for improving the content and format of the IRS' congressional justification submission.

Our goal each year is to develop a presentation that best supports the IRS' budget request and meets the needs of those who review it. The Office of Management and Budget and the Department of Treasury provide us guidance on the technical content and presentation of our congressional justification. We will share this report with them for their consideration.

Thank you for the opportunity to review the draft report. If you have any additional questions, please contact W. Todd Grams at (202) 622-6400.

Sincerely,

  
Acting for Charles O. Rossotti

Enclosure VI

The following are GAO's comments on the Internal Revenue Service's letter dated June 18, 2002.

**GAO Comments**

Although the letter said that IRS found no problems with our recommendations, our draft report contained no recommendations and neither does the final report. According to an official with IRS's Office of Legislative Affairs, IRS was saying that it agreed with the content of our report.

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