

IRS Oversight Board

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IRS OVERSIGHT BOARD RELEASES ANNUAL REPORT: Good News on IRS Progress Tempered by Enforcement and Budget Challenges

The IRS Oversight Board today released its 2004 annual report on how the IRS is meeting taxpayer needs. The report paints a decidedly mixed picture of the agency's successes and shortcomings over the past year in meeting its different, but interrelated goals. The report also sets forth a number of recommendations and challenges in five key areas which it believes will help the IRS to meet both short- and long-term objectives in enforcement, customer service, modernization, human capital and measures. The report stresses that the IRS must turn around its beleaguered enforcement program while not jeopardizing hard-won gains in customer service or by slashing funding for business systems modernization.

"This past year was marked by real progress," said Board Chair Nancy Killefer. "Customer service continued to rack up significant gains in areas such as telephone service and new Web-based applications. But we must not be complacent. The IRS should commit to maintaining this upward momentum."

By contrast, the Board's annual report depicts a weakened and vulnerable IRS enforcement program which is being exploited daily by those wishing to evade the tax law. For example, in FY2003, the IRS was able to pursue only 18 percent of known cases of abusive devices designed to hide income, leaving an estimated \$447 million uncollected. There is also only one chance in four that the IRS will go after an individual who does not file a return, the report states.

"Obviously, taxpayers are not well-served with a shaky enforcement program, and we must put it on a firm footing," said Board Member Chuck Kolbe. "The Board's research shows that taxpayer attitudes towards cheating are eroding. We must re-install confidence in the fairness and effectiveness of our tax system."

Resources an Ongoing Issue

One of the Board's greatest concerns is realistic funding for the IRS. For example, in both its budget report issued earlier this year and today's annual report, the Board warns of a disturbing trend where projected hiring of new enforcement personnel evaporate in the face of resources being redirected to pay for unfunded mandates, such as pay raises. The Board has argued that investments in IRS enforcement pay for themselves many times over.

"Unfortunately, history repeated itself yet again and we can no longer afford to hide from the hard truth," said Board Chair Killefer. "Last month, the House Appropriations

Committee approved legislation providing for pay raise parity for civilian and military personnel. And as the Board predicted, the IRS will once again have to make up out of its own pockets what could easily amount to a \$100 million difference. In an all too familiar scenario, the IRS will begin its fiscal year deep in a budgetary hole. It's no wonder that tax cheats have declared open season on the IRS. We need a realistic budget for the IRS that reflects these political realities," she concluded.

BSM Program Shows Progress; Must Stay the Course

In its report, the Board also outlined the problems facing the IRS Business Systems Modernization (BSM) program which will eventually replace the IRS' antiquated computer systems. In spite of the many problems that surfaced last year, the Board still strongly believes that the long-term health and viability of the nation's tax administration system rest upon the modernization program's success.

"The IRS BSM program and its PRIME contractor did not acquit themselves well last year. Slippages in program delivery and cost overruns continued to plague the program," said Board Business Transformation Committee Chairman Larry R. Levitan. "However, new controls and management processes have been implemented which we hope will remedy what ails Modernization. And we're seeing some progress. Recently, the critical Customer Account Data Engine project successfully processed a small number of 1040EZ returns. It's a good start, but no one is breaking out the champagne. There's much hard work ahead that holds great rewards but also great risk," he went on to say.

Measuring Progress

The Board's annual report stresses too the importance of performance measures. It notes that IRS' effective use of performance measures helped improve customer service. In addition, establishing long-term goals, such as with e-File, can be very powerful in energizing an organization. However, the lack of reliable compliance data hampers the IRS' ability to effectively use enforcement measures. In this regard, the Board believes that the National Research Program will provide an accurate baseline from which the IRS can begin to set long-term goals for tax system compliance.

"Measures are more than yardsticks," said Performance Measures Committee Chair Bob Tobias. "What we measure and how we measure it can have an enormous influence for good and bad on what an organization values and tries to achieve. The IRS' single-minded focus on enforcement statistics, such as liens and levies in the 1980s and '90s, is a cautionary tale. This time the IRS has to get it right."

Focus on People Resources

The annual report also urges the IRS to better focus on people resources. "The Board believes that human capital is the IRS' greatest resource and strength, and one of its greatest challenges," the report states. Board Human Capital Committee Chairman Raymond T. Wagner, Jr. added, "The IRS must develop an agency-wide human capital strategic plan that will refresh the agency's graying workforce and give these employees and managers the skills and training needed to meet the new and rigorous demands of tax administration in the 21st century."

Board Chair Killefer concluded, "What this past year tells us is that we still have a long way to go to finish the job we began six years ago with the enactment of the IRS Restructuring Act. What this past year also tells us is that balance is critical. The IRS

must succeed in all parts of its mission if it is to truly meet the needs of America's taxpayers and our nation."