# IRS Oversight Board
## Annual Report to Congress
## 2009

April 2010

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## Message from the Internal Revenue Service Oversight Board

The Internal Revenue Service (IRS) Oversight Board is pleased to have the opportunity to report to the President, Congress, and taxpayers on the progress the IRS is making in achieving its mission: to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

In pursuit of this mission, the IRS, with the approval of the Oversight Board, established the following strategic goals and strategic foundations in the *IRS Strategic Plan 2009-2013:*

- **Goal 1:** Improve service to make voluntary compliance easier
- **Goal 2:** Enforce the law to ensure everyone meets their obligations to pay taxes
- **Strategic Foundations:** Invest for high performance in people and technology

It is in the best interest of every taxpayer for the IRS to be successful in achieving these goals. The IRS collects 96 percent of federal revenue. Taxpayers who do not meet their tax obligations cost the US government $290 billion every year, or an average of over $2,600 per household. To the extent that the IRS can reduce this uncollected tax revenue—or tax gap as it is known—economic benefit is provided to the vast majority of taxpayers who pay what they legally owe.

In addition, by making it easier for taxpayers to understand, calculate, and report their tax obligations, and to remit payment conveniently, the IRS relieves taxpayers of significant administrative burden. Difficult economic times in the last few years have been the catalyst for new tax code provisions designed to provide economic assistance to taxpayers. As a result it is even more important that the IRS helps taxpayers understand their tax obligations. In short, an IRS that makes compliance easier and enforces the tax laws effectively benefits all taxpayers.

This report has a dual focus: it evaluates the IRS' performance during the past year, but also looks at the IRS' ability to meet its strategic goals in the future. Although 2009 presented the IRS with more than the usual number of challenges, for the most part the agency delivered a successful tax filing season.

In 2009, the IRS faced taxpayer service challenges in implementing a number of tax law provisions designed to assist taxpayers in difficult economic times, such as:

- The Economic Stimulus Act of 2008, which provided taxpayers who did not receive the full stimulus payment in 2008 with a recovery rebate credit;
- The Housing and Recovery Act of 2008, which included a first-time homebuyers credit of up to $7,500; and
- The American Recovery and Reinvestment Act of 2009, which increased the maximum first-time home-buyers credit to $8,000 and eliminated the payback feature.

Rapid implementation of tax law is always important, but quick implementation of the 2009 provisions was particularly essential to achieve the economic effects envisioned by public policymakers. In rapid fashion, the IRS had to inform taxpayers, tax preparers, and tax software providers of the new tax provisions, update its forms and publications, make changes to its processing systems, and combat fraud involving the new provisions as it occurred. Although the IRS was able to meet most of its service goals in FY2009, the most significant service challenge was keeping up with the additional volume of calls on IRS toll-free telephone lines. Because of the growing volume of calls to the IRS toll-free telephone number and the relatively fixed IRS resources to service those calls, the level of service (LOS) on toll-free telephones in 2009 was 71 percent. This LOS was an improvement over the 53 percent achieved in 2008, but still far less that the levels achieved in FY2003 to FY2007 when LOS ranged between 82 and 87 percent.

IRS enforcement activity in 2009 was generally stable and consistent with FY2008 results, with a few exceptions. Enforcement revenue fell from $56.4 billion in FY2008 to $48.9 billion in FY2009. A total of 1,099,630 audits of individuals were conducted in FY2009, 34,307 more than FY2008. Audits of individuals with income in excess of $1 million increased from 21,874 in FY2008 to 28,349 in FY2009, a growth rate of 29 percent. Audits of corporations with assets over $10 million grew from 9,406 in FY2008 to 9,536 in FY2009, a growth of 1.4 percent. However, because more corporate returns were filed, the coverage rate decreased from 15.3 percent to 14.5 percent. Appendix 1 contains a full array of measures the Board uses to assess the IRS' annual performance for service, enforcement, people, and technology.

Notwithstanding the importance of a smooth and effective filing season, the Oversight Board also must maintain a strong focus on improving tax administration in the long term by ensuring that the IRS is successfully implementing its strategic plan. The remainder of this message addresses the IRS' efforts to achieve its long-term goals.

As reported last year by the Oversight Board, the tax administration system continues to have two serious and systemic weaknesses: the tax gap and archaic information technology. The annual tax gap is the difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time. It serves as an overall measure of taxpayer compliance with the tax laws. The most recent estimate of the annual net tax gap is $290 billion, an amount that the Oversight Board views as unacceptably high.

The IRS Business Systems Modernization (BSM) program has been designated by the Government Accountability Office (GAO) as high risk since 1995 because it believes that the IRS relies on obsolete automated systems for key operational and financial management functions.

Correcting these two weaknesses will require a sustained long-term effort, and both weaknesses continue as the IRS made little measurable progress this past year in correcting them. Nonetheless, the IRS took several actions in 2009 that have excellent potential for remedying these weaknesses in the future, but effective and sustained follow-on action is required to achieve a successful outcome. These actions include the regulation of professional tax preparers, identifying taxpayers who are hiding money in foreign tax jurisdictions, placing a new focus on non-compliance by very wealthy taxpayers, and the restructuring of the Customer Account Data Engine (CADE) program. The first three have the potential to reduce the tax gap, and the fourth will greatly improve IRS information technology. Although it is too soon to fully assess the improvements that will result from these actions, the potential for improvement is significant.

During FY2009, in recognition of the fact that tax preparation is essentially an unregulated industry, the IRS conducted a thorough review of the benefits and issues associated with the establishment of standards for the professional tax preparation industry. This review included extensive input from key stakeholders in the tax administration community. At the completion of the review, the IRS announced plans to undertake a multi-year initiative to register, test, and impose continuing education requirements on paid tax preparers. Paid preparers are used by approximately 60 percent of taxpayers to prepare individual tax returns, and they have a large role in ensuring their clients' tax compliancy. Based on survey data gathered by the Board, this program should be well-received by taxpayers, and provide them with greater assurance that their paid preparers are helping them comply with the tax laws.

The IRS also initiated a major effort in 2009 to identify taxpayers who were hiding money in offshore tax jurisdictions. With the support of the IRS and the Department of Justice, the federal government aggressively sought the names of 4,450 US taxpayers from the United Bank of Switzerland (UBS), and in August 2009, reached an agreement with the Swiss government to receive information on US holders of accounts at UBS. Although more action must be taken by the Swiss government, the US expects to receive the information it sought. In parallel with that action, the IRS also established an offshore voluntary disclosure program to encourage taxpayers who had not reported their offshore income to come forward and disclose the required information to the IRS voluntarily. Over 14,700 taxpayers took advantage of the opportunity, providing the IRS with a wealth of information to mine for future enforcement efforts.

In addition, in a related effort, the IRS established a Global High Wealth Industry Group to focus IRS enforcement efforts on high wealth individuals and related entities controlled by those individuals. Patterned after similar efforts in the United Kingdom (UK), Australia, Canada, Japan, and Germany, among other countries, the intent is to take an integrated look at the full range of entities controlled by high wealth individuals, such as trusts, real estate investments, companies, and flow-through entities. The purpose of this integrated view is to provide a better assessment of overall tax compliance.

Lastly, the IRS has restructured its Customer Account Data Engine (CADE) program, designating the restructured program as CADE 2, so it could focus on the completion of the taxpayer account database. The IRS plans to implement key components of its CADE 2 program for the 2012 filing season, so that 140 million individual account records will be stored in a modern database that has the capability to update taxpayer account information on a daily basis. The implementation of this capability will mark a new era for management of the IRS' central taxpayer records for individuals, with resultant gains in IRS efficiency and taxpayer service. Although the IRS appears to be meeting its intermediate milestones for the CADE 2 development program, true success will only be achieved upon implementation and operation.

Each of the actions described above has the potential to change the relationship between the IRS and taxpayers in fundamental ways. Whether this potential is achieved, however, remains to be seen, and it will take several years to evaluate the full effect of each action. Nonetheless, each action represents a positive step forward and has the full support of the Board. The Board will be evaluating the success of these actions using outcome-based performance measures, so that the benefits to taxpayers can be quantified and changes made as necessary.

The common thread running through the initiatives described above, plus other initiatives underway at the IRS, is improving the IRS' ability to make informed decisions based on timely and current taxpayer data. Making more data-driven decisions across the full range of IRS activities, from service to enforcement, will enable the IRS to better serve taxpayers who want to comply and more effectively enforce the law with those who do not.

A second overarching issue that touches every aspect of tax administration is enterprise risk management. The Board highlighted this issue at its February 2009 public meeting, and has stressed to IRS top management the importance of identifying, managing, and mitigating risk to all operations, starting at the top of the agency. Whether the risk be natural or man-made, external or internal, directed at employees or facilities, the IRS must be vigilant in its efforts to protect its employees, its facilities, and its operations from threats of all kinds.

## Preface

In June 1997, the National Commission on Restructuring the IRS recommended the creation of an IRS Oversight Board to serve as a new governance and management body that would focus on strategic issues facing the IRS. The following year, the IRS Restructuring and Reform Act of 1998 (RRA 98) established the Board to "oversee the Internal Revenue Service in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws or related statutes and tax conventions to which the United States is a party."[1]

The Board is composed of nine members; seven come from "private life" and are appointed for five-year terms by the President and confirmed by the Senate. These private life members have professional experience or expertise in key business and tax administration areas. Of the seven, one must be a full-time federal employee or a representative of employees. The Secretary of Treasury and the Commissioner of Internal Revenue also serve as members of the Board. However, to preserve its independent oversight responsibilities and objectivity, neither the Secretary nor the Commissioner approve the Board's annual report, although their comments and guidance are both solicited and welcomed.

RRA 98 requires that the private life members of the Board be appointed without regard to political affiliation, and solely on the basis of their professional experience and expertise in one or more of the following areas:

- Management of large service organizations
- Customer service
- Federal tax laws, including tax administration and compliance
- Information technology
- Organization development
- The needs and concerns of taxpayers
- The needs and concerns of small businesses

The Board has many characteristics of a corporate board of directors, but is tailored to fit a public sector organization. RRA 98 gives the Board specific responsibilities to review and approve strategic plans of the IRS; review IRS operational functions; review the selection, evaluation, and compensation of IRS senior executives; review and approve the budget request of the IRS prepared by the Commissioner; and to review and approve plans for major reorganizations.

This report satisfies a statutory requirement in RRA 98 for the Board to report annually to the President and Congress. It contains a summary of the IRS' performance in FY2009, a discussion of the strategic challenges facing the IRS, and discussion of the measures the Board uses to assess the IRS' progress in achieving its strategic plan.

# I. Introduction

The Internal Revenue Service (IRS) Oversight Board is pleased to report to the Congress and the American public on the progress that the IRS has achieved during the past year on its journey toward a modern tax administration system.

This report has a dual focus. First, it reports on the IRS' performance during the past year. More importantly, it also reports on the agency's progress in meeting the goals and strategic foundations established in the *IRS Strategic Plan 2009-2013:*

- **Goal 1:** Improve service to make voluntary compliance easier
- **Goal 2:** Enforce the law to ensure everyone meets their obligations to pay taxes
- **Strategic Foundations:** Invest for high performance in people and technology

Section II provides an overview of IRS performance during fiscal year 2009 (FY2009) using productivity, output, and outcome measures. Section III provides the Oversight Board's assessment of the strategic challenges facing the IRS and actions the IRS is taking to meet its long term goals. Section IV identifies the measures the Oversight Board and the IRS will use to evaluate its success in achieving the goals identified above and Section V provides a brief summary.

## II. Fiscal Year 2009 IRS Performance

Fiscal year (FY) 2009 was a challenging year for the IRS. The filing season was unusually complex because of the large number of tax law changes that were passed in 2008 and 2009 that created new programs intended to provide relief for taxpayers experiencing difficult economic times. For these provisions to provide the economic relief intended by public policymakers, the IRS was required to quickly incorporate them into its processing systems, forms, and publications; educate taxpayers about their availability along with any eligibility requirements; train its service personnel how to answer taxpayer inquiries regarding these new programs; and train its personnel how to identify potential fraudulent use of these provisions and ensure benefits were going only to qualified taxpayers.

Examples of these tax law provisions include:

- The Economic Stimulus Act of 2008, which provided taxpayers who did not receive the full stimulus payment in 2008 with a recovery rebate credit;
- The Housing and Recovery Act of 2008, which included a first-time homebuyers credit of up to $7,500; and
- The American Recovery and Reinvestment Act of 2009, which increased the maximum first-time home-buyers credit to $8,000 and eliminated the payback feature.

The effect of these new provisions is felt across the full range of service and enforcement functions. IRS taxpayer service is designed to assist all taxpayers to understand and meet their tax obligations through outreach, education, development of printed forms and publications, maintenance of a web site that offers both assistance and electronic transactions, tax return processing, and issuance of refund checks or direct electronic deposits. Each service function must be evaluated and changed to reflect current tax law.

IRS enforcement activities affect those taxpayers who the IRS has reason to believe may be non-compliant in meeting their tax obligations. Non-compliance may be unintentional, caused by ignorance of the law, mistakes, or misunderstanding of the complexity of the tax law. On the other hand, some non-compliance is intentional, caused by taxpayers consciously disregarding the law and making a deliberate effort to conceal their true tax obligations. IRS enforcement programs, from notices to criminal prosecution, are focused on all types of non-compliance, with the most severe actions being reserved for the most serious cases.

The following sections summarize the IRS' performance during FY2009 for both its service and enforcement activities. In addition, Appendix 1 provides a full array of performance measures the Oversight Board uses to evaluate IRS' annual performance.

### Taxpayer Service Trends in 2009

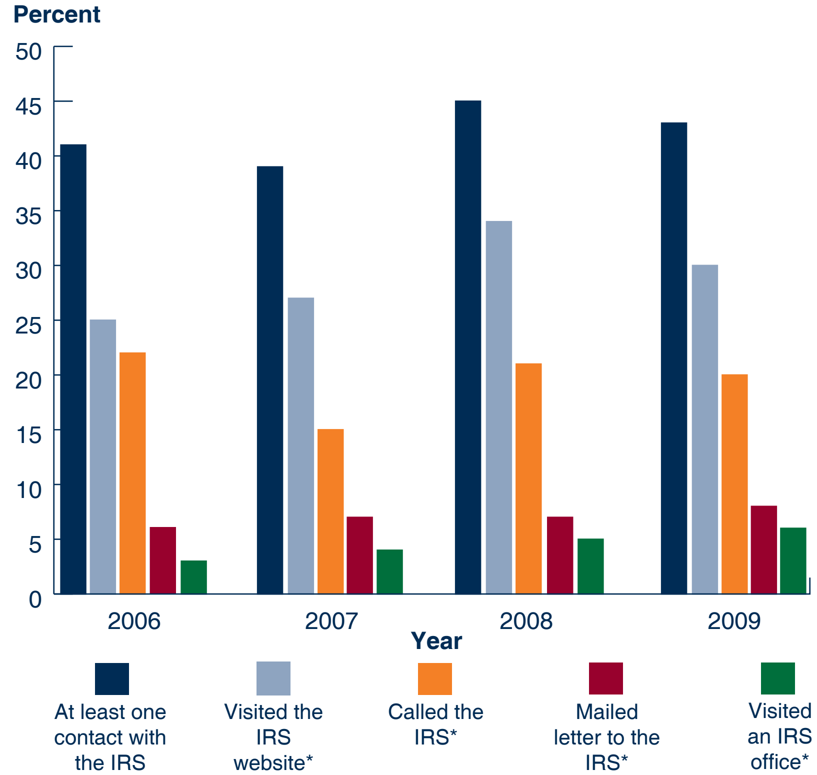
Generally, the IRS met the challenges it faced during the filing season with one major exception: service over its toll-free telephone channel. The IRS serves taxpayers by providing three major operations during the filing season: answering taxpayer inquiries over its toll-free telephone system, providing information and services to taxpayers through its Internet site (www.IRS.gov), and processing individual tax returns and refunds. Table 1 shows the number of transactions associated with each of these three service operations.

**Table 1. IRS Major Service Transactions During the 2007-2009**

| **Major IRS Service Transactions** | | | |
|---|---|---|---|
| Filing Season (FS) | **FS 2007** | **FS 2008** | **FS 2009** |
| **Toll-free Telephone Volume (in millions)** | | | |
| Assistor calls answered | 22 | 27 | 26 |
| Abandoned calls | 13 | 34 | 21 |
| Busies and IRS disconnects | 1 | 14 | 5 |
| Automated calls answered | 21 | 43 | 25 |
| **IRS.gov Activity (in millions)** | | | |
| Total visits | 178 | 304 | 246 |
| Downloads | 128 | 145 | 150 |
| Searches | 146 | 175 | 184 |
| "Where's My Refund" inquiries | 32 | 39 | 53 |
| Recovery Rebate Check Calculator | NA | NA | 7 |
| "How Much Was My 2008 Stimulus Payment" inquiries | NA | NA | 55 |
| **Individual Returns and Refunds Processed (in millions unless otherwise indicated)** | | | |
| Electronic returns | 79 | 88 | 94 |
| Paper returns | 56 | 54 | 45 |
| Total returns | 135 | 142 | 139 |
| Refunds | 104 | 105 | 109 |
| Dollars refunded | $234 billion | $247 billion | $298 billion |
| Average refund | $2,259 | $2,347 | $2,737 |
| Number of direct deposits | 61 | 66 | 72 |

To present a more complete picture of taxpayers' use of the various service channels offered by the IRS, Figure 1 shows the extent to which taxpayers used IRS service channels to meet their needs from 2006 through 2009. Survey data indicate that about 43 percent of taxpayers contacted the IRS for assistance at least once during 2009.

**Figure 1. Percent of Public Contacting the IRS, 2006-2009**

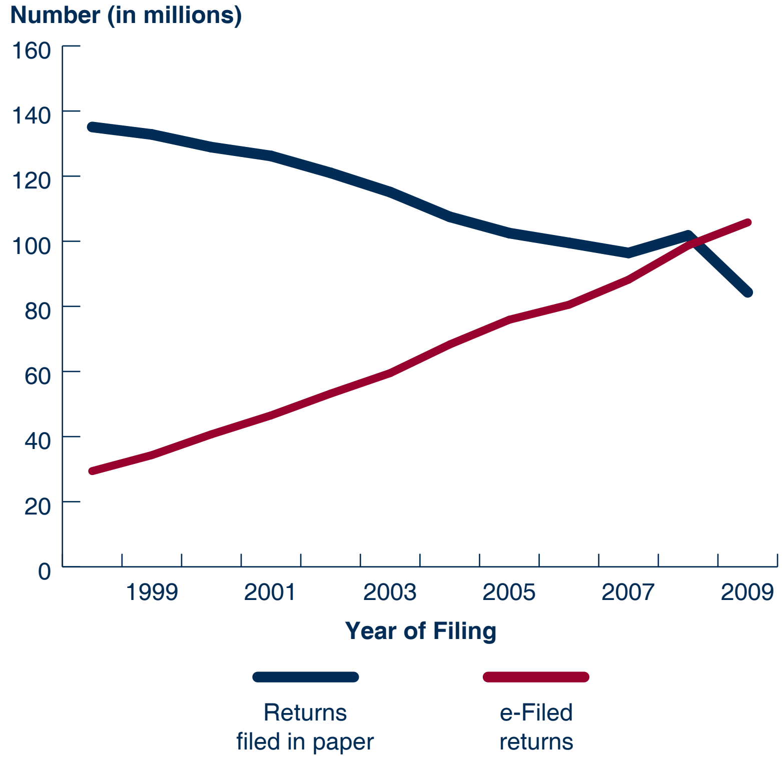



*Source: IRS Oversight Board Channel Preference Survey (2006) and IRS Market Segment Survey (2007-2009).*

* Percentages are not mutually exclusive

The IRS offers taxpayers two methods to file their tax returns: electronic or paper. Because of the many benefits electronic filing offers taxpayers and the IRS, the agency has a goal to make electronic filing the method of choice for all types of major tax returns, whether the returns come from individuals, businesses, or non-profit organizations. Figure 2 presents the number of returns processed by both methods from 1998 through 2009. The number of individual returns filed electronically is expected to grow even more than usual in 2011 as new mandates for electronic filing by professional tax preparers take effect.

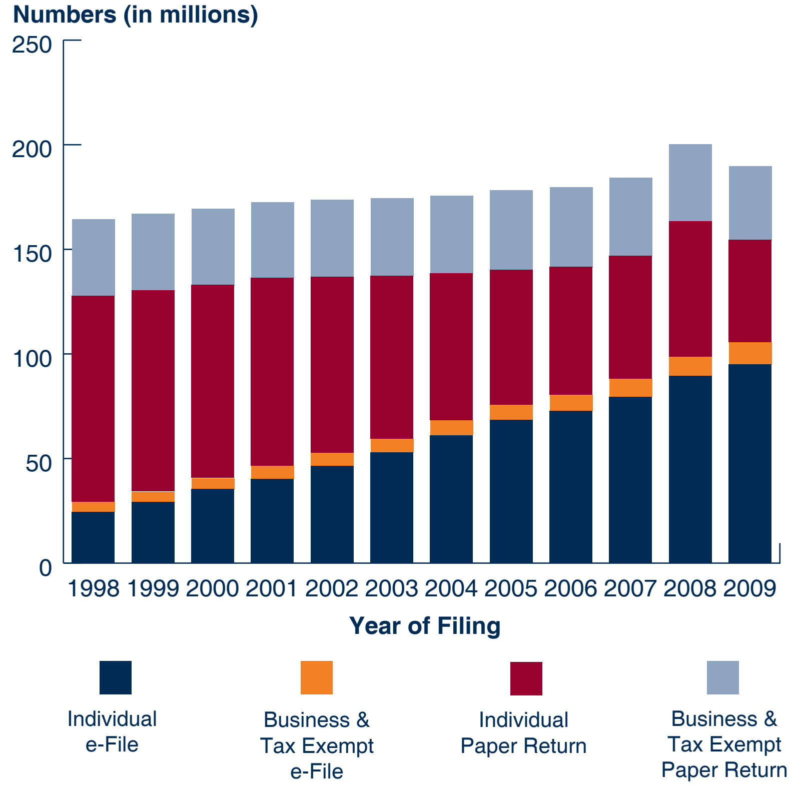
**Figure 2. Number of Major Tax Returns Filed: e-Filed vs. Paper**




*Source: IRS*

Although electronic filing of individual tax returns has shown a steady growth for over ten years, electronic filing of other tax return types has been more modest, due in part to the limited availability of flexible e-file options. With more business and tax exempt returns now able to be filed electronically, the number of these return types is starting to grow at a faster rate, as shown in Figure 3. However, despite new e-file applications and some electronic filing mandates for large corporations and tax exempt organizations, there are still far more paper than electronic returns filed by businesses and tax exempt organizations.

**Figure 3. Major Tax Return Types Filed by Taxpayer Type and Filing Method**




*Source: IRS*

The most significant service problem the IRS encountered during FY2009 was service levels on its toll-free telephones. As shown in Table 2, 2007 was the most recent filing season during which the level of service (LOS) exceeded 80 percent, a level that the Oversight Board considers as a minimum acceptable level. For the past two years, IRS toll-free telephone service has been characterized by constant resources and growing demand; the inevitable result of these two factors has been a decline in service levels. Not only has the level of service declined, but taxpayers also waited longer for assistance.

**Table 2. IRS Toll-Free Telephone Service Measures during FY2007-FY2009**

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Assistor LOS (in percent for entire fiscal year) | 82 | 53 | 70 |
| Assistor LOS (in percent during filing season) | 81 | 57 | 68 |
| Actual average wait time in minutes (during filing season) | 4.6 | 8.6 | 8.4 |

*Source: GAO Report GAO-10-225, December 2009.*

Table 3 illustrates the root cause of the decline in LOS by providing information on the number of calls for assistance the IRS received during the 2007 through 2009 filing seasons. The IRS received far more calls in 2008 and 2009 than it had during the 2007 filing season. The IRS attributes the growth in telephone demand to the number of tax law changes in recent years, including the rebate program, economic stimulus program, and the tax law provisions found in the ARRA. In addition, the complexity of recent tax law changes has resulted in more time needed to resolve each call. To its credit, as shown in Table 3, the IRS has kept its accuracy rates high for both tax law and tax account questions despite the high call volume.

**Table 3. IRS Toll-Free Telephone Call Volumes During the 2007-2009 Filing Seasons**
(counts in millions except where noted)

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Assistor calls answered | 22 | 27 | 26 |
| Abandoned calls | 13 | 34 | 21 |
| Busies and IRS disconnects | 1 | 14 | 5 |
| Automated calls answered | 21 | 43 | 25 |
| Total calls received | 57 | 118 | 78 |
| Tax law accuracy rate (Note 1) | 90.7%±0.9 | 90.3%±0.9 | 92.5%±0.8 |
| Accounts accuracy rate (Note 1) | 93.2%±0.5 | 95.1%±0.4 | 93.5%±0.4 |

*Source: GAO Report GAO-10-225, December 2009.*

*Note 1: Based on representative samples from January through June. The percentage of calls in which telephone assistors provided accurate answers for the call type and took the appropriate action, with a 90 percent confidence interval.*

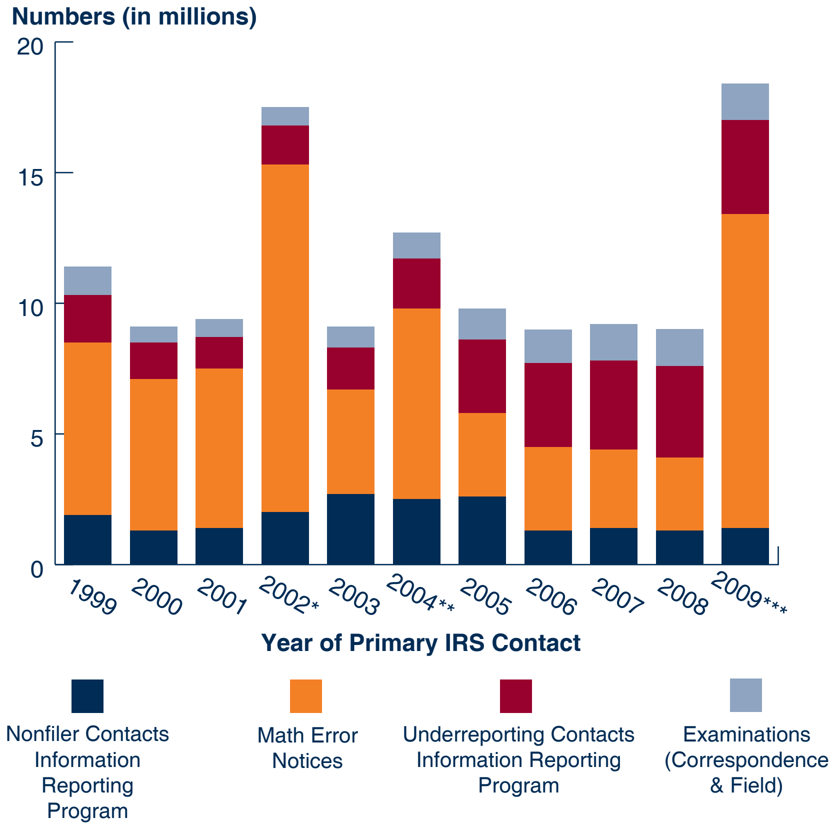
## Enforcement Trends in 2009

The IRS enforces the tax law in a number of ways. For individual taxpayers, some of the more common methods may include:

- sending a notice to a taxpayer because the IRS has an information return that indicates a taxpayer has income, but has not filed a tax return;
- correcting a mistake made by the taxpayer, using its authority to correct math errors and related problems on a return as filed;
- informing a taxpayer that it has a record of income that does not appear on a tax return;
- conducting an examination by mail, known as correspondence exams; and
- notifying a taxpayer that he or she is being subject to a face-to-face (field) audit.

Figure 4 shows the approximate number of these common enforcement "touches" for individual taxpayers for the period 1999 through 2009.

**Figure 4. Number of IRS Enforcement Contacts with Individuals by Method**




*Source: IRS*

* *Includes a large number of math error notices associated with Rate Reduction Credit*

** *Includes a large number of math error notices associated with advance Child Tax Credit payments*

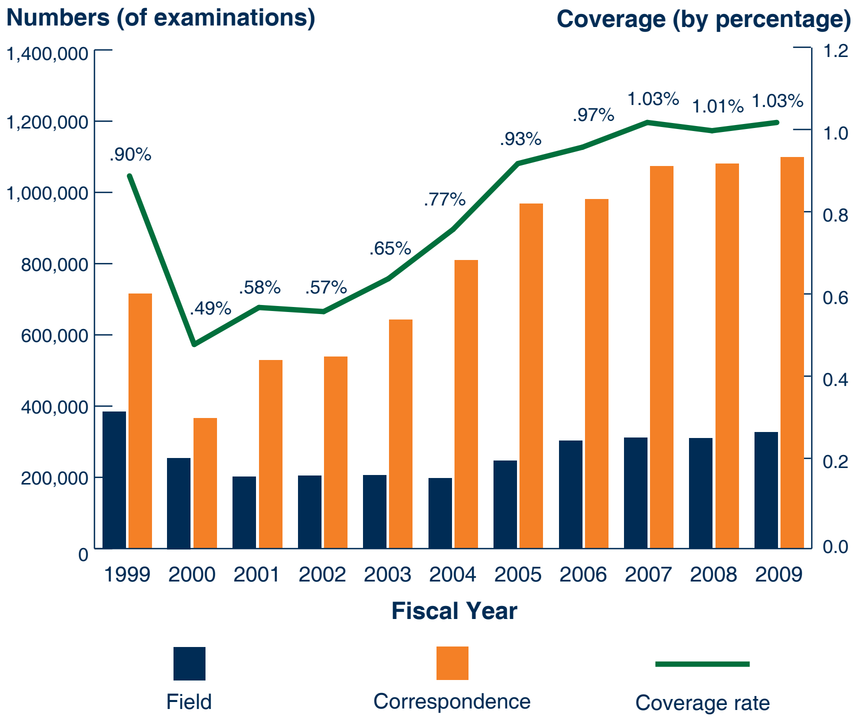
*** *Includes a large number of math error notices associated with the Recovery Rebate Credit*

With a few exceptions associated with years involving one-time-only credits, the number of total annual IRS enforcement contacts has been relatively steady during the last ten years at around nine million, although the reasons for contacting taxpayers have changed. In recent years, the number of non-filer contacts and math error notices has decreased while the number of underreporter contacts has increased. Examinations, either in-person or correspondence, have also been generally increasing but make up a relatively small percentage of total contacts.

FY2009 saw a dramatic increase in the number of math error authority (MEA) contacts, from 2.8 million in FY2008 to 12.0 million in FY2009. Approximately 75 percent of MEA notices in FY2009 related to Recovery Rebate credit, some of which include errors that were in the taxpayers' favor because they did not realize they were entitled to this credit.

Of the four methods of "touching" taxpayers shown in Figure 4, examinations are the most comprehensive. Field examinations are more comprehensive than correspondence audits, which usually focus only on a single issue. Figure 5 shows the number of examinations of individual tax returns conducted by the IRS from FY1999 to FY2009. The examination rate hit a low point in FY2000, when only 0.49 percent of all individual returns were subject to examination. Since then, the coverage rate (the percent of returns subject to examination) has doubled, exceeding the one percent mark in FY2007, when the coverage rate was 1.03 percent, a mark equaled again in FY2009 after dipping slightly to 1.01 percent in FY2008.

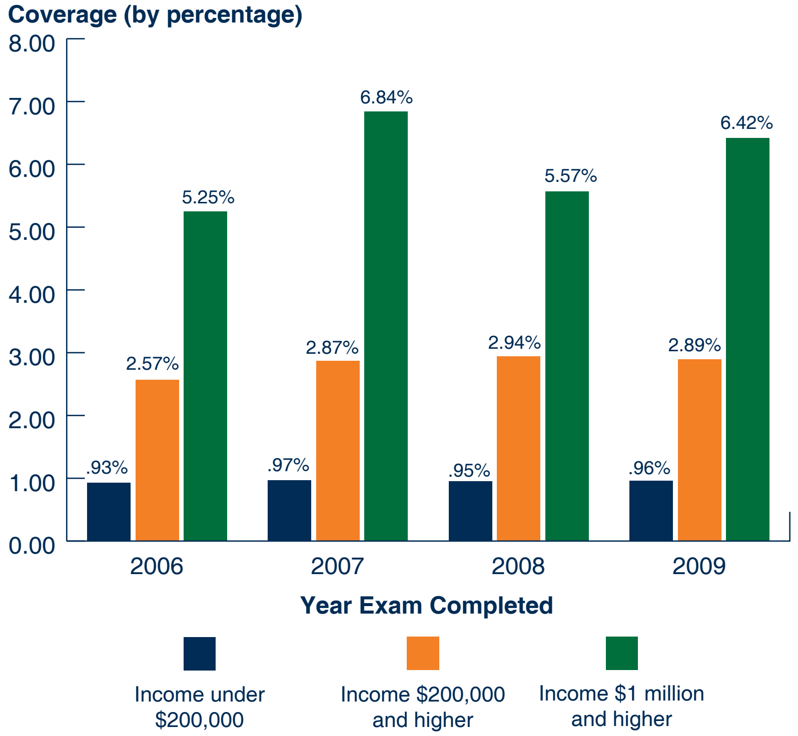
**Figure 5. Individual Examination Trends FY1999 to FY2009**




*Source: IRS*

Although the overall exam coverage rate for individual taxpayers has been relatively constant for several years, Figure 6 illustrates that the examination coverage rate for taxpayers with income over $1 million is six times higher than lower income taxpayers. It averaged over six percent during FY2007 to FY2009, even though it decreased slightly in FY2008.

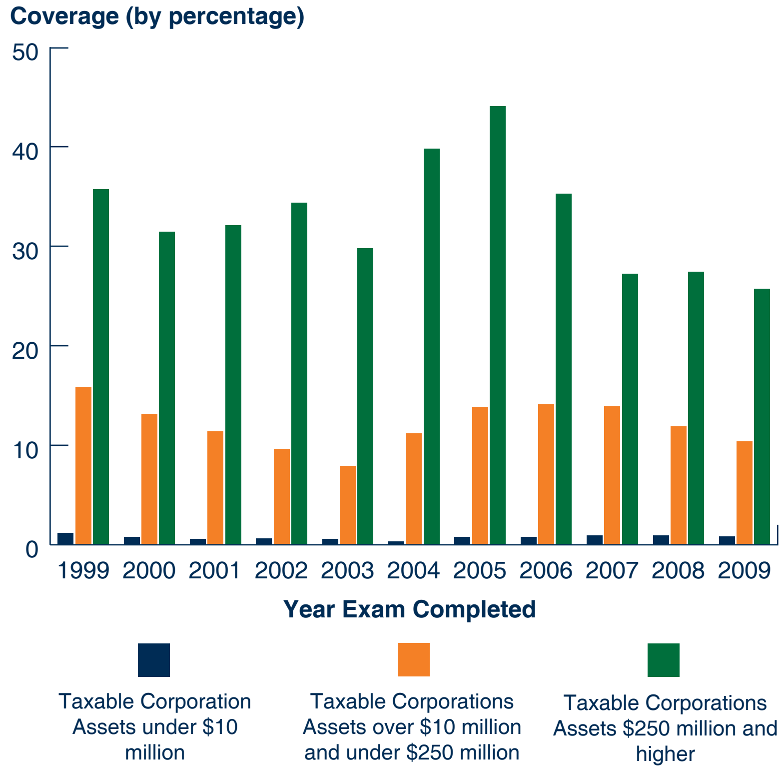
**Figure 6. Examination Coverage Rates for Individual Filers by Income Range For FY2006-FY2009**




*Source: IRS*

The IRS' approach to examining corporate tax returns follows a similar pattern, as shown in Figure 7, with corporations with larger assets having a higher examination rate. In 2008, examination rates for the largest corporations have decreased from a high point in 2005. Nevertheless, the coverage rate for these large corporations remains substantially higher than corporations in smaller asset categories. Although the coverage rate for the largest corporations has decreased since its 2005 high, the number of audits of the largest corporations has been increasing in the last three years. In FY2007, the IRS completed 3,424 examinations of this size corporation out of a total of 12,584 returns filed the prior year, for a coverage rate of 27.2 percent. In FY2009, the number of completed examinations grew to 3,771, a 10.1 percent increase in examinations. However, the number of returns filed the prior year grew to 14,773, a growth of 16.6 percent. Hence, the coverage rate decreased to 25.7 percent even though the overall number of audits increased.

**Figure 7. Examination Coverage Rates for Taxable Corporation Returns by Asset Size**




*Source: IRS*

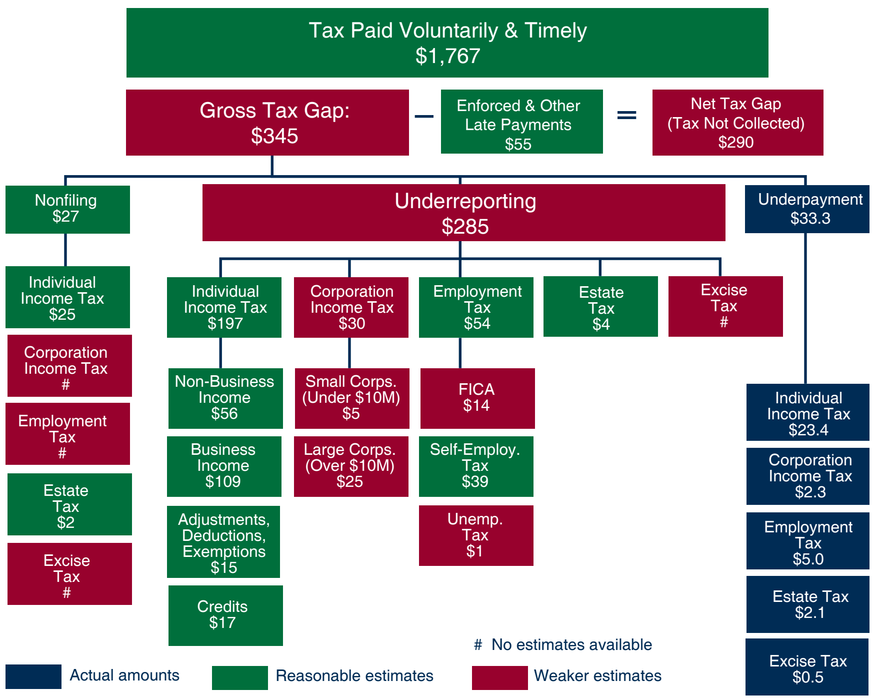
# III. Strategic Challenges to Tax Administration

In its *2008 Annual Report to Congress*, the IRS Oversight Board reported that the tax administration system had two serious systemic weaknesses that required attention: the tax gap and IRS' archaic information technology systems. Failure to mitigate these weaknesses, in the opinion of the Board, will cause long-term performance issues for the tax administration system.

## The Challenge of the Tax Gap

The annual tax gap is the difference between the amount of tax that taxpayers legally owe the government and the amount that is actually paid voluntarily and on time. It serves as an overall measure of taxpayer compliance with our nation's tax laws. The IRS' most recent estimate of the net tax gap is $290 billion, as shown in Figure 8.[2] As a result of the tax gap, the federal government has $290 billion less each year than it should if all taxpayers complied with the law, an average of over $2,600 per household.[3]

**Figure 8. Tax Gap for Tax Year 2001** (in $ billions)

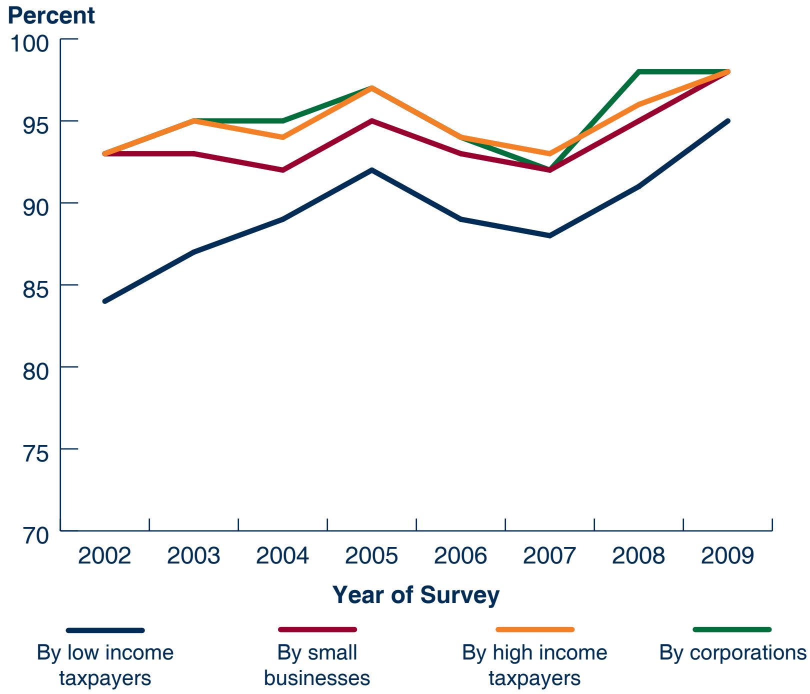



*Source: IRS*

The tax gap is caused by a wide variety of factors, including willful non-compliance, unintentional non-compliance, lack of IRS enforcement and service resources, and tax code complexity. There is little question that the tax gap is a serious tax administration problem, and both the GAO and Treasury Inspector General for Tax Administration (TIGTA) have expressed serious concerns about it. The GAO has designated the enforcement of tax laws as "high risk" since it first began reporting on risk in 1990.[4] TIGTA considers the tax gap as one of the top three critical challenges facing the IRS.[5]

The tax gap is not just an arcane statistic of interest only to tax administrators. It has real meaning to taxpayers, who want to know that the IRS is fulfilling its mission and ensuring fairness to all by collecting from everyone who owes taxes. IRS Oversight Board survey results, shown in Figure 9, demonstrate that the public has high expectations for the IRS to collect the proper amount of tax from all types of taxpayers, from large corporations to low income taxpayers.

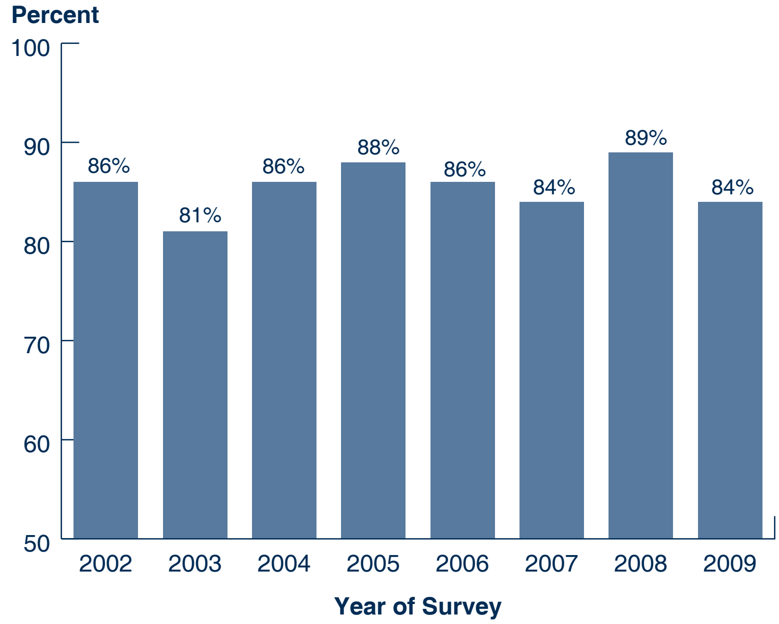
**Figure 9. Percent of Public Who Say It is Somewhat or Very Important IRS Ensures Taxes are Paid Honestly**




*Source: IRS Oversight Board Taxpayer Attitude Survey*

The Board believes it is imperative to tax administration that taxpayers recognize the importance of compliance. One way to gauge taxpayers' attitudes is by asking their views towards cheating. One of the signature questions of the Board's annual taxpayer surveys is, "How much is an acceptable amount to cheat on your income taxes?" Figure 10 shows the public's response to this question from 2002 to 2009. Clearly the vast majority of taxpayers believe that it is not acceptable at all to cheat on taxes.

**Figure 10. Percent of Public Who Say It Is Not At All Acceptable to Cheat on Your Income Taxes**




*Source: IRS Oversight Board Taxpayer Attitude Survey*

## Measuring Progress in Reducing the Tax Gap

Currently, it is difficult, if not impossible, for the Oversight Board, the IRS, or any other member of the tax administration community to determine with any degree of certainly that the IRS is making progress in reducing the tax gap, because the IRS' estimates of the tax gap since 2005 have remained unchanged. Although the IRS continues to conduct research, it has not yet developed a schedule to release updated tax gap estimates.

In 2001, the IRS began the National Research Program (NRP) to measure individual taxpayer reporting compliance based on tax year 2001 returns. The IRS randomly selected about 46,000 returns for review, examination, and analysis. Following the completion of NRP audits in 2004, the IRS published a preliminary estimate of the tax gap based on 2001 returns in March 2005. At that time, the gross tax gap was estimated in ranges, with the tax gap estimated at between $312 billion to $353 billion a year, and the net tax gap, which considers subsequent payments to the IRS, estimated at between $257 billion and $298 billion.

The IRS published an update in February 2006, also based on 2001 tax returns, which estimated the gross tax gap at $345 billion a year and the net tax gap at $290 billion per year. The most recent Department of Treasury report on the tax gap, *Update on Reducing the Federal Tax Gap and Improving Voluntary Compliance*, dated July 8, 2009, also reported a net tax gap of $290 billion annually, again based on 2001 tax returns.

The IRS continues to conduct research of taxpayer compliance under the auspices of the NRP. Starting with tax year 2006 returns filed in 2007, the IRS began a process of conducting annual compliance studies of individual Form 1040 returns with the intent to develop a three-year moving average estimate. The Oversight Board urges the IRS to use the results of its NRP audits to update the estimates of the tax gap on a regular basis. Without this information, it is difficult to evaluate progress in reducing the tax gap.

### Promising Developments

Despite the lack of quantitative evidence to evaluate changes in the tax gap, the IRS took two significant actions in 2009 that the Oversight Board believes have the potential to reduce the tax gap in future years: tax preparer regulation and the initiation of a major effort to identify taxpayers who are hiding money in offshore tax jurisdictions.

During FY2009, in recognition of the fact that tax preparation is essentially an unregulated industry, the IRS conducted a thorough review on the benefits and issues associated with the establishment of standards for the professional tax preparation industry. At the completion of the review, the IRS announced plans to undertake a multi-year initiative to register, test, and impose continuing education requirements on paid tax preparers. Paid preparers are used by approximately 60 percent of taxpayers to prepare individual tax returns, and they have great influence over their clients' tax compliance.

Proposals to regulate federal tax return preparers have been circulating for many years. The National Taxpayer Advocate's 2002 and 2003 *Annual Reports to Congress* recommended that a federal program be established to regulate unenrolled preparers. The National Taxpayer Advocate said then:

> *A licensing program – one with enough resources to provide real consequences for tax preparers who contribute to non-compliance, whether through ignorance or deliberate act – has the potential to achieve significant improvements in taxpayer compliance at a much lower cost than extending audit coverage to the affected population.*[6]

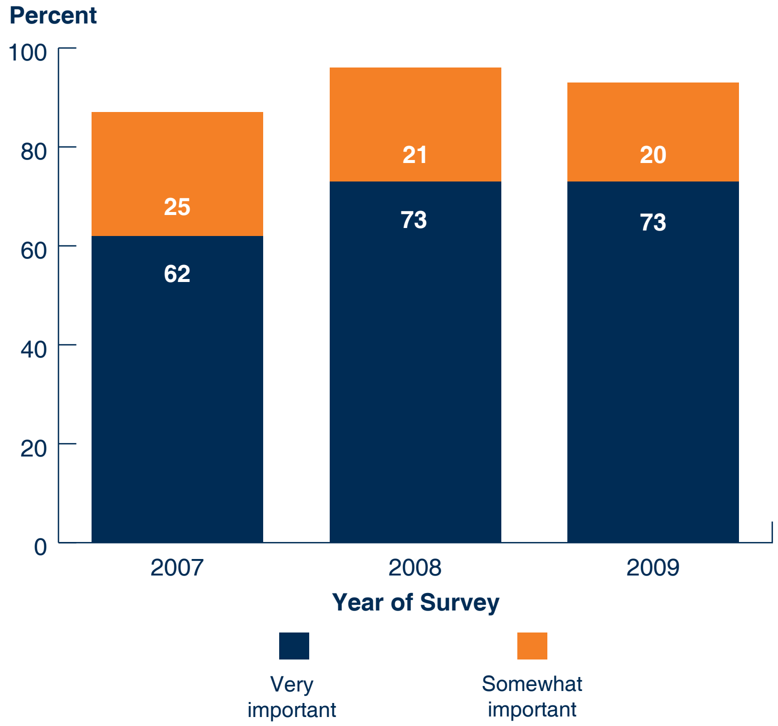
Since 2005, the Board has asked tax preparers about registration and regulation issues at the IRS Nationwide Tax Forums. From these conversations the Board learned that many tax professional organizations favored some form of registration and/or regulation for tax preparers and wanted a national discussion on the topic. They believed that an honest and ethical practitioner community would be one of the IRS' biggest allies in achieving high voluntary compliance. Preparers also believed that effective IRS enforcement was essential to a successful program.

In its *2006 Annual Report*, the Board recommended six strategies that would constitute an over-arching plan to reduce the tax gap, one of which was a more productive partnership between the IRS and the tax administration community. Two years later, the Board's *2008 Annual Report* recommended that:

> *The IRS should not and cannot be the sole organization promoting tax compliance. Tax professionals must do their part to ensure the integrity of the tax system.*[7]

Based on survey data taken by the Board, preparer regulation should be well-received by taxpayers, and provide them with greater assurance that their paid preparers are helping them be compliant with the tax laws. In 2007, the Board began to measure taxpayer attitudes about preparer regulation issues and found that taxpayers strongly support preparer regulation. In 2009, 86 percent of taxpayers responded that they would be greatly or somewhat influenced if their choice of preparer were subject to federal or state regulations or licensing. Also, as shown in Figure 11, nearly 93 percent of taxpayers said it was either very important or somewhat important that paid return preparers meet competency standards to enter the tax preparation business.

**Figure 11. Percent of Public who Say It is Important that Paid Return Preparers Meet Competency Standards to Enter Federal Tax Preparation Business**




*Source: IRS Oversight Board Taxpayer Attitude Survey*

In the *IRS Strategic Plan 2009-2013,* the IRS recognized that the role of various forms of third party assistance in tax return preparation in the United States had become increasingly important, and that it had the necessary authority to move forward.

The IRS began its Return Preparer Review in June 2009, with the goal to have an open and transparent discussion of issues with the tax return preparer community, the associated industry and consumer advocacy groups, and the American public. The IRS solicited input from a diverse community of stakeholders, and issued its final report and recommendations in January 2010. The recommendations extend requirements to all return preparers not already subject to oversight and include:

- Mandatory tax return preparer registration
- Competency examination requirements
- Continuing professional education
- Ethical standards
- Enforcement
- Public awareness and service enhancements
- Task forces to review tax return preparation software and refund settlement products

The IRS issued proposed regulations in 2010 and continues to gather feedback from the stakeholder community. The program will be implemented in stages throughout 2010 and 2011, with preparer registration beginning in late 2010.

For preparer regulation to successfully improve taxpayer compliance, several elements are required. First, taxpayers need to do their part. They need to ensure that the individual who prepares their return is properly registered and complies with the new requirements, and be willing to report preparers who are not in compliance. Secondly, the IRS will need to determine the measures it will use to evaluate how effectively the program is affecting key outcomes, such as improved quality of tax returns from professional preparers. Such a measure may be possible by using a sample of NRP returns done by preparers. Finally, the IRS must carefully and systematically enforce the preparer regulation provisions. The new regulations can have a significant impact on tax administration, but without a significant enforcement effort, the impact will be greatly reduced.

In a second major action in 2009, the IRS achieved significant milestones in its long-term efforts to combat the use of offshore financial institutions to evade US tax. In August, the IRS and the Department of Justice announced the successful negotiation of an agreement with Swiss government that would result in the IRS receiving an unprecedented amount of information on United States holders of accounts at the Swiss bank UBS.

In a parallel action, the IRS established an offshore voluntary disclosure program to encourage taxpayers who had not reported their offshore income to come forward and disclose the required information to the IRS. The perceived threat to taxpayers who had not properly disclosed their foreign accounts was that the IRS has the tools and information it needs to identify such taxpayers, and they would be much better off by disclosing their account information to the IRS so as to reduce their exposure to civil tax penalties and possible criminal prosecution. Over 14,700 taxpayers took advantage of the opportunity, providing the IRS with a wealth of information to mine for future enforcement efforts. The IRS will use the new information to further understand how taxpayers use foreign accounts to evade taxes and identify promoters and financial institutions who may be assisting taxpayers in their efforts.

A third step was the establishment of a Global High Wealth Industry Group to focus IRS enforcement efforts on high wealth individuals and related entities controlled by those individuals. Patterned after similar efforts in the United Kingdom (UK), Australia, Canada, Japan, and Germany, among other countries, the intent is to take an integrated look at the full range of entities controlled by high wealth individuals such as trusts, real estate investments, companies, and flow-through entities. The purpose of this integrated view is to provide a better assessment of overall tax compliance. The new group is contained in the IRS' Large and Mid-Sized Business Division, as this group has the most experience in dealing with high wealth and understanding complex relationships among various tax entities.

### The Challenge of Information Technology

The IRS Oversight Board has long emphasized the importance of the IRS Business Systems Modernization (BSM) program, starting with its first *Annual Report to Congress* in 2001, in which it said:

> *The longer it takes 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, at least ten years. For these reasons, 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 lowers cost and risk.*[8]

Almost a decade later, the Oversight Board must still report that the IRS' information technology remains a serious weakness in tax administration. The BSM program has been designated by the GAO as an area of high risk since 1995. TIGTA considers modernization one of the top three challenges facing the IRS.[9] This situation has been caused by a variety of factors, including in its early years an inability to manage the BSM program and persistent underfunding. Especially in light of the other challenges facing the IRS, such as the regulation of tax return preparers and administering new health care laws, having modern information technology tools is essential if the IRS is to meet its mission.

### Measuring Progress in Modernizing the IRS

One measure the Board uses to evaluate the IRS' progress in modernizing itself is the rate at which taxpayers electronically file their tax returns. Although there is far more to electronic tax administration than the e-filing of tax returns, it is one quantifiable measure to evaluate progress. With the Board's approval, the IRS has recommitted itself to the 80 percent e-file goal first promulgated in RRA 98. That reframed goal calls for an overall 80 percent e-file participation rate for all major individual, business, and exempt organization tax returns by 2012.

However, reaching that 80 percent e-file rate will not be easy. Figure 2 on page 14 indicates the progress made by the IRS since 1998. In 2009, approximately 56 percent of all major tax returns were filed electronically, which is also the first year the volume of e-filed returns exceeded the number of returns filed on paper. Still, the Board's analysis indicates that under the current rate of growth, even with the added boost from the electronic filing mandate for individual return preparers, the e-file rate for all major tax returns will fall short of the 80 percent goal in 2012. The IRS must also overcome other major challenges to achieve the full Electronic Tax Administration (ETA) vision. These include acquiring the funding, and marshalling the necessary management and employee skills, to deliver the key components of the IRS' BSM program, and to replace the aging computer technology that prevents the agency from moving fully into the modern age.

Nevertheless, the Board believes the IRS can meet these challenges and achieve the 80 percent e-file goal by 2012 through further innovation, the continued support from policymakers, and the advice and assistance of IRS' key partners in the tax community. The Board further notes the importance of the IRS focusing on three particular taxpayer segments that are key to attaining the 80 percent goal. These segments comprise the bulk of the tax returns filed on paper: individual returns submitted through paid preparers; individual returns filed by self-preparers; and employment tax returns (Form 941) filed by employers in the business and non-profit sectors.

During 2009, the IRS has made incremental progress in developing ongoing BSM projects, including the following accomplishments:

- The IRS deployed CADE Release 4.2 in January 2009, which added capabilities to process prior-year and decedent returns, remittances, estimated tax payments, requests for extensions, and surname changes. In FY2009, CADE processed over 40 million returns and issued more than 34.9 million refunds.
- The IRS deployed the Modernized eFile (MeF) Release 5.5 that included the capability to process the redesigned Form 990.

- The IRS completed the 2009 release of the Account Management Services (AMS) project, which provided additional real-time address changes to CADE. AMS processed over 2.3 million accounts since deployment and more than 2.2 million electronic transcript cases were distributed.

The Form 1040 MeF platform is being implemented in a three-phase process, starting with the capability to process a certain set of core individual returns (and schedules) during the 2010 filing season. The MeF platform adds new capability in 2011 and progresses to handling all individual returns by the 2012 filing season. Compared to the current legacy e-file technology for individual returns, the Form 1040 MeF platform promises to provide a much more flexible system, enabling the IRS to receive and process returns in an Internet format, provide real-time processing of e-file acknowledgements, and streamline error detection.

The Form 1040 MeF application will also give taxpayers the capability to attach PDF documents, accommodate year-round processing, and for the first time, enable the electronic filing of amended individual income tax returns. The eventual delivery of an e-file capability for amended individual returns is particularly important because the Board has long heard many complaints from practitioners that the IRS has continued to burden taxpayers with erroneous balance due notices and other demands for payments, while the amended returns that would resolve the issues sit unprocessed at IRS campus facilities handling paper returns.

### Promising Developments

In spite of the progress noted above, IRS technology continues to be seriously behind that used by virtually every financial institution in the country. The IRS' inability to access and update records on a daily basis is even more serious when considering the scope of IRS records, which include every taxpayer in the US.

Nonetheless, there were some notable events that occurred during the last year that bode well for the future of IRS modernization. Concerned about security and resource issues, plus the need to define a path to completion of the CADE project, the IRS restructured its CADE project, which has been re-designated as CADE 2, to define a path that allows it to implement a new taxpayer account database for the 2012 filing season, and which supports daily updating of tax account information.

The Board believes the CADE 2 project, when implemented, has the potential to change tax administration in significant ways that will benefit taxpayers.

In a related development, the President's budget request for FY2011 recognizes the importance of the BSM program and proposes that the BSM budget, which funds the CADE 2 project and several other key BSM projects, be raised by 46 percent to a total of $387 million. The Board believes this increase will help to fund the BSM program at sustainable levels. Figure 12 shows the BSM funding history, including the funding levels recommended by the Oversight Board, requested by the President, and appropriated by Congress during the period FY2003 to FY2011. The Board considers it noteworthy that the President's budget and its own recommendations are identical for the first time, and hopes Congress will appropriate the recommended amount.

**Figure 12. BSM Funding FY2003-FY2011**


The IRS briefs the Board at every meeting on the progress of the CADE 2 project. Although the IRS has met its interim milestones to date, the Board recognizes that the most important milestone is final delivery and operation.

The Board would also offer the following caution. Benefits of value to taxpayers do not flow from the technology but from improved business processes. The implementation of an updated database and the capability to update accounts on a daily basis represents an important technology achievement. However, benefits to taxpayers are only realized when the IRS modifies its business processes to take advantage of the new BSM technology to deliver better services, such as faster refunds, more accurate and faster transactions, improved resolution of problems, and more effective enforcement.

### Other Challenges

The challenges of the tax gap and information technology encompass any number of issues, and many of the other challenges facing the IRS could be expressed in terms of these two serious weaknesses. However, recognizing and focusing on specific challenges can be an important part of overcoming them. In that spirit, the Board recognizes some additional challenges on which the IRS will need to place some attention:

- Making more effective use of data
- Developing a high-performing workforce
- Managing risk at the enterprise level
- Becoming more of a program administrator

Each challenge will be discussed in the succeeding paragraphs.

*Making More Effective Use of Data*

As tax administration continues to grow in complexity, so does the amount of data the IRS acquires and stores. The IRS already performs information matching and other compliance checks, but as the volume of data grows, and patterns become more difficult to discern, the IRS must increase its ability to use data more effectively in making service, enforcement, and resource allocation decisions.

Many of the initiatives described in the succeeding paragraphs provide opportunities for the IRS to capture and analyze additional data. For example, the registration and regulation of tax preparers will provide the IRS with a single database of all professional tax preparers, which promises to be of value when investigating professional preparers who have provided improper tax advice to clients or have demonstrated a tendency to introduce systemic errors into their clients' tax returns. The availability of 14,700 disclosures of heretofore hidden offshore bank accounts also promises to reveal a wealth of data to IRS investigators. Implementation of the CADE 2 system allows the IRS to streamline its business processes to take advantage of having a current and integrated database.

In addition, the IRS will be receiving new information returns in 2011 and 2012. These new information returns will report the cost basis of stock that was sold by brokers and the amount of credit, debit, and gift card sales that merchants receive. This latter information is expected to provide new insight into small business sales and help increase compliance in one of the major areas of the tax gap—underreporting of business income by sole proprietors.

A more data-centric IRS will be able to make better decisions on case identification and selection for audits, lead to quicker resolution of problems, improve the IRS' ability to quickly identify delinquent tax accounts, and resolve problems faster. In addition, consistent with proper security and authentication procedures, it should facilitate the day when taxpayers will be able to access their own tax account information, as envisioned by RRA 98.[10]

*Developing a high-performing workforce*

During the past year, the IRS added approximately 3,100 new employees to support new enforcement initiatives. In addition, it hired almost 2,000 other new employees from outside the agency to replace people who retired or left for other reasons. The IRS' ability to recruit and hire this large number of employees was aided by recommendations made the prior year by the Workforce of Tomorrow task force, including centralizing recruiting activities, developing consistent messaging for recruits at various stages in their careers, allowing applicants to submit one application for multiple similar vacancies, strengthening relationships with selected universities, improving and shortening the hiring process, and developing a new "on-boarding" process for new hires.

However, more work is still needed to implement intermediate and long term recommendations made by the task force, including the reduction of management burden, updating managerial training, improving leadership development, and improving employee engagement. The IRS plans to hold an Annual Workforce Summit to continue its focus on workforce issues, evaluate progress, and engage leaders throughout the organization.

The Board believes that the planned hiring of several thousand employees each year for the next several years to replace retiring workers and fill new positions represents both a challenge and an opportunity for the IRS. It is a challenge to train these new employees and enculturate them, while simultaneously taking advantage of the education, experiences, and skills the new employees bring to the IRS. To further explore this issue, the Board conducted a panel at its February 2010 public meeting, where it asked federal and private sector experts to address how best to cross-enculturate new employees to achieve a high performing workforce. The panel's remarks led to four recommendations:

- View recruiting, hiring, and enculturating as an inter-connected chain of events.
- Ensure continuing involvement of employees by establishing a structure or system that encourages involvement, enculturation, and the sharing of values.
- Develop an environment where new hires learn the culture of the IRS and where the existing workforce is sufficiently flexible to learn from new employees.
- Expand personnel flexibilities to have a positive impact on recruiting, hiring, and retention.

The Board believes there is much evidence to link employee engagement with a high performing workforce, and asked the IRS to establish a long term goal for reaching a high level of employee engagement. In response, the IRS has developed, and the Board has approved, a goal for the IRS to be in the top quartile of large federal agencies for employee engagement, as measured by the *Federal Employee Viewpoint Survey*, by the year 2012.

*Managing Risk at the Enterprise Level*
Enterprise Risk Management (ERM) is recognized by private and public sector organizations as a necessary discipline for coping with the vicissitudes of an increasingly uncertain world. The scope of risks that organizations must deal with include man-made risks such as acts of terror, natural risks such as severe weather, health risks such as pandemics, changes in economic conditions, and information risks such as cyber crimes and identity theft.

To gain a better understanding of how the best private sector companies organize and implement their ERM programs, the Board conducted a panel discussion on the subject at its 2009 public meeting. Panelists were asked how their organizations manage the various categories of internal and external risk, including business-driven, data-driven, and event-driven risks, and how to develop capabilities to predict, prevent, and mitigate areas of vulnerability. They were also asked how the Board could help the IRS anticipate and prepare for unforeseen risk.

The Board received the following advice:

- 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;
- A common understanding in an organization of the true business risks must be developed by focusing on common principles that are outlined and reinforced across the organization;
- The top management of the organization must set the right tone to deliver a quality product in a safe and secure manner; and
- Risk assessment never ends; to succeed in mitigating risk requires a combination of commitment of leadership and a long-term plan for the organization.

These principles were provided to the IRS with a request for a briefing on how the IRS manages its ERM-related programs. In response, the IRS provided the Board with the following information:

- A review of how risk management practices and disciplines have evolved at the IRS;
- An identification of the key strategic risks and strategies the IRS has defined to address the identified risks; and
- Risk management control points and activities within the IRS that address the major risks the IRS has identified.

The *IRS Strategic Plan 2009-2013* identifies the risks that the IRS has identified, which includes the following:

- Increasing complexity of tax administration;
- Growing human capital challenges;
- Explosion in electronic data, online interactions, and related security risks;
- Accelerating globalization;
- Expanding role of tax practitioners and other third parties in the tax system; and
- Accelerating change in business models.

In addition, the recent tragedy in Austin, TX, in which an individual flew a plane into a building housing approximately 200 IRS employees, killing one and injuring others, is a reminder of the importance of physical security, the need to keep the workforce safe, and the vital role that people play in effective tax administration.

Overall, the Board believes the IRS has demonstrated in recent years its ability to cope with unforeseen events and respond quickly to emergency situations, including its response to the flooding of IRS headquarters in 2006, the attack on its Austin office, and its assistance to victims of Hurricane Katrina, which was praised by the GAO. The IRS has also been able to respond effectively to rapid changes in tax law, implementing a number of programs in the last three years to stimulate the economy and assist taxpayers who were experiencing economic hardship.

The Board also recognizes, however, that constant vigilance is required to identify and mitigate risks from unforeseen sources. The explosion of cyber attacks, the growth of identity theft, H1N1 flu and other pandemic threats, and violence against IRS workforce and facilities are only a few of the threats that could disrupt the people and tools that the IRS relies on to perform its tax administration responsibilities. Therefore, it urges the IRS, and other members of the tax administration community, to continually assess the environment for all potential threats and take steps to mitigate risk wherever possible.

*Becoming More of a Program Administrator*

Many members of the tax administration community, including the Oversight Board, stakeholders, and the IRS itself, have observed a trend in the last several years to use the tax code to deliver economic benefits to taxpayers. These include efforts for economic relief, to stimulate the automotive or housing market, to deliver unemployment or health insurance assistance to unemployed taxpayers, and to broadly stimulate the economy. With the recent passage of health care legislation, more responsibilities are being placed on the IRS.

The Board's enabling legislation dictates that it has no role in establishing tax policy. However, public policy has gradually been evolving to use the IRS as a program administrator in addition to its tax administration responsibilities. The Board offers two observations on this trend:

- It is imperative that IRS resources keep pace with the growth of any new responsibilities for program management that the IRS is assigned. Failure to do so increases the risk that the IRS will not be able to perform its essential tax administration responsibilities.
- The need for the IRS to modernize its IT systems becomes even greater if it is to effectively manage additional administrative responsibilities.

# IV. Measuring Strategic Goals

The IRS Oversight Board has approved quantitative measures and associated target values to assess the IRS' progress in achieving its strategic objectives and has identified other important measures it will use to monitor progress. Such measures and target values are the primary tools the Board and other oversight groups and stakeholders can use to gauge the success of the IRS over the long term.

The *IRS Strategic Plan 2009-2013* identifies measures that the IRS will use to evaluate its performance. The Board has approved target values for some of the measures shown in Table 4 and placed them on the Board's website so the IRS' progress can be monitored by the public. The Board expects to take similar actions in 2010 for the remaining measures with the target values still to be determined.

**Table 4. IRS Long Term Measures and Target Values**

| Measure | Definition | Target Value |
|---|---|---|
| **e-File participation rate for major tax returns** | *The percentage of all major tax returns filed electronically by individuals, businesses, and tax exempt organizations* | 80 percent by filing year 2012 |
| **Individual tax filer satisfaction** | *Based on the corresponding American Customer Satisfaction Index (ACSI) score* | 72 by survey year 2013 |
| **Voluntary compliance rate** | *The percentage of tax that is paid voluntarily and timely divided by the estimate of true tax liability* | 86 percent by tax year 2012 |
| **Employee engagement** | *An index score computed from responses to 11 specific questions from the Federal Employee Viewpoint Survey* | Top quartile of large federal agencies by 2012 |
| **Taxpayer satisfaction with IRS service interactions** | *Taxpayer satisfaction score based on surveys of taxpayers who have completed service interactions with the IRS* | To be determined |
| **Taxpayer satisfaction with IRS enforcement interactions** | *Taxpayer satisfaction with their interactions with the IRS on a tax enforcement matter based on surveys of taxpayers* | To be determined |
| **Modernization** | *Delivery of the CADE 2 and Form 1040 MeF systems* | CADE 2 and MeF functionality in place by 2012 |

As noted in the *IRS Strategic Plan 2009-2013*, the Board will also continue to work with the IRS to establish additional measures that will be used to evaluate IRS performance. However, target values for these measures will not be established. The measures will be used by the Board to monitor changes in IRS performance levels that may indicate important trends that require further evaluation:

- **Non-Revenue Enforcement Activities:** An index of enforcement activities that do not directly increase revenue but promote compliance
- **Non-Filers:** The estimated number of individuals who have an obligation to file but do not do so
- **Enforcement Contacts:** The total number of enforcement contacts annually, including audits, notices, and Automated Underreporter contacts
- **Effectiveness of Recruitment:** The average time it takes the IRS to fill a job from the applicant's point of view
- **New Hire Retention Rate:** A measure of IRS success in retaining the employees it hires

# V. Conclusion

The IRS was faced with many challenges during FY2009 and has performed well in response to several additional demands. Nonetheless, there have been unsatisfactory levels of service on IRS toll-free telephone lines that resulted from above average demand for services by taxpayers, notwithstanding productivity improvements by the IRS.

However, despite good performance in response to its annual operational goals, the IRS Oversight Board believes the tax administration system continues to face two serious systemic weaknesses that need attention: the tax gap and the archaic nature of the IRS information technology systems. Although little measurable improvement could be documented during FY2009, the IRS took several actions that have the potential to remedy these two weaknesses in the future if the IRS can follow up on these actions effectively.

These actions include the registration and regulation of tax preparers, increased enforcement activity against taxpayers who hide taxable assets in offshore accounts, the restructuring of the CADE 2 program, and more realistic budget requests for IRS modernization accounts.

The IRS Oversight Board will continue to evaluate the IRS' performance to determine whether these actions lead to improved tax administration outcomes in the future. A key element of the Board's oversight will be to use outcome measures to assess how changes in tax administration deliver measureable benefits to taxpayers.

## Endnotes


1. Public Law 105-206, Title I, Section 1101.
2. US Treasury Report, *Update on Reducing the Federal Tax Gap and Improving Voluntary Compliance*, July 8, 2009.
3. Office of the National Taxpayer Advocate, Written Statement of Nina E. Olson before the Committee on the Budget, US House of Representatives, Hearing on the IRS and the Tax Gap, February 16, 2007.
4. US Government Accountability Office, *High-Risk Series: An Update,* GAO-09-271, January 2009.
5. Treasury Inspector General for Tax Administration Memorandum for Treasury Secretary Geithner, *Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2010*, October 15, 2009. According to TIGTA, the top three challenges to the IRS in FY2010 are the Business Systems Modernization program, security issues, and compliance issues, including the tax gap.
6. *2002 Taxpayer Advocate Annual Report to Congress* and *2003 Taxpayer Advocate Annual Report to Congress.*
7. IRS Oversight Board *2006 Annual Report to Congress*.
8. IRS Oversight Board *2001 Annual Report to Congress*.
9. Treasury Inspector General, *ibid*.
10. Public Law 105-206, Title 2, Section 2005.

## Appendices

1: IRS FY2009 Performance Report

2: Summary of Stakeholder Comments

3: Biographies of Private Life Members

4: FY2009 IRS Oversight Board Operations

## Appendix 1: IRS FY2009 Performance Report

### Explanation

The following scorecards illustrate the IRS' FY2009 performance. Performance results for FY2007 and FY2008 and plans for FY2010 are included for comparison purposes. The first set of scorecards (Tables A-1 through A-3) includes measures the IRS generally submits with its fiscal year budget submission. The second set of scorecards (Tables B-1 through B-3) include IRS measures the IRS Oversight Board monitors and includes in its annual budget report—referred to as "IRS Standards of Performance." In order to illustrate a more robust picture of IRS performance, the IRS Oversight Board supplements the IRS Budget Level Performance Measures with the "Standards of Performance" (identified in Tables B1- through B-3). Therefore, these Standards of Performance, in conjunction with the IRS Budget Level Performance Measures, create a more balanced view of the IRS' performance that incorporates tangible indications of IRS progress toward desired outcomes.

Each scorecard is organized by IRS' strategic goals, strategic foundations, and then further categorized by the type of measure. In general, the scorecards contain both outcome measures (including taxpayer behavioral measures and measures of customer satisfaction) and operational measures. Therefore, those interested in understanding how well the IRS is conducting its internal operations should direct their attention to the timeliness, workload, quality, and cost effectiveness measures. Those seeking to understand how IRS activities impact taxpayers will want to begin looking at the outcome measures identified in the scorecards. In an effort to establish a personal connection to the taxpayer experience, each scorecard has also been enhanced with additional explanations about the importance of each measure from the taxpayer perspective.

These charts and definitions of each measure can be found at www.irsoversightboard.treas.gov.

Table A-1: FY2009 IRS Budget Level Performance Measures

**Performance Measures for Strategic Goal 1:**
**Improve Service to Make Voluntary Compliance Easier**

| Performance Measure | Desired Change | Status | FY07 Actual | FY08 Actual | FY09 Actual | FY09 Plan | FY10 Plan | Why is this important to taxpayers? |
|---|---|---|---|---|---|---|---|---|
| **Goal 1: Improve Service to Make Voluntary Compliance Easier** | | | | | | | | |
| **Behavioral Outcome Measures:** Behavioral outcome measures evaluate taxpayer transactions with the IRS to determine how effectively the IRS is influencing taxpayer behaviors, such as using the IRS web site, filing electronically, or voluntarily fulfilling their tax obligations. | | | | | | | | |
| Percent of eligible taxpayers who file for Earned Income Tax Credit (EITC) | ↑ | TBD | * | * | NA | 75%-80% | 75%-80% | Many taxpayers who are eligible for EITC do not file for it. |
| Taxpayer self assistance rate | ↑ | GREEN | 49.5% | 66.8% | 69.3% | 64.7% | 61.3% | Taxpayers can get their questions answered faster by using IRS' self-assisted services on the IRS web site. |
| **Quality Measures:** Quality measures evaluate key characteristics of taxpayer products and services, such as completeness, timeliness, consistency, and accuracy. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the IRS. | | | | | | | | |
| Customer accuracy: tax law phones | ↑ | GREEN | 91.2% | 91.2% | 92.9% | 91.0% | 91.2% | Taxpayers should receive accurate information when asking questions about tax law. |
| Customer accuracy: accounts (phones) | ↑ | GREEN | 93.7% | 93.7% | 94.9% | 93.5% | 93.7% | Taxpayers should receive accurate responses when asking questions about their account. |
| **Timeliness Measures:** Timeliness measures evaluate how quickly an IRS product or service can be delivered. The timely execution of activities by the IRS can help taxpayers avoid potential burdens resulting from long wait times (such as fees, penalties, and opportunity costs due to delayed actions). Surveys indicate that timeliness is highly correlated with taxpayer satisfaction. | | | | | | | | |
| Timeliness of providing critical individual filing season tax products to the public | ↑ | GREEN | 83.5% | 92.4% | 96.8% | 92.0% | 94.0% | Taxpayers should be able to get the forms and publications needed to file taxes in a timely manner. |
| Timeliness of providing critical Tax Exempt/Government Entities and Business tax products to the public | ↑ | GREEN | 84.0% | 89.5% | 95.2% | 89.0% | 90.0% | Businesses and other organizations should be able to get the forms and publications needed to file taxes in a timely manner. |
| Sign-up time (days) - Customer engagement (HCTC) | ↓ | GREEN | 93.3 | 94.0 | 91.3 | 97.0 | Baseline[1] | Taxpayers should expect their benefits to be delivered in a timely manner without excessive delay. |
| Refund timeliness: individual (paper) | ↑ | GREEN | 99.3% | 99.1% | 99.2% | 98.4% | 98.4% | Taxpayers who expect a refund from the IRS expect to receive it as quickly as possible. Refunds made available in a matter of days versus weeks are important to many. |
| **Workload Measures:** Workload measures (a.k.a. productivity measures) illustrate the volume of products or services produced by a resource (such as an FTE, project team, or organization) over a period of time. Higher workloads generally indicate increased levels of productivity, therefore saving both taxpayers and the IRS valuable time and money. | | | | | | | | |
| Percent individual returns e-filed | ↑ | GREEN | 57.1% | 57.6% | 65.9% | 64.0% | 70.2% | Filing electronically provides taxpayers with faster refunds and fewer errors. |
| Percent of business returns e-filed | ↑ | GREEN | 19.1% | 19.4% | 22.8% | 21.6% | 24.3% | Filing electronically provides businesses with faster refunds and fewer errors. |
| Customer service representative level of service | ↑ | GREEN | 82.1% | 52.8% | 70.0% | 70.0% | 71.0% | Higher levels of service mean that more taxpayers who call for assistance are getting the help they need. |
| Customer contacts resolved per staff year | ↑ | GREEN | 7,648 | 12,634 | 12,918 | 10,386 | 9,398 | The higher the number of customer issues resolved per staff year, the more taxpayers can be assisted. |
| **Cost-Effectiveness Measures:** Cost effectiveness measures evaluate the resources (expressed in dollars) necessary to achieve an outcome. Higher cost effectiveness is beneficial for both taxpayers and the IRS. | | | | | | | | |
| Cost per taxpayer served (HCTC) | ↓ | GREEN | $14.90 | $16.94 | $13.79 | $17.00 | Baseline[1] | Effectiveness at a lower cost benefits taxpayers. |

Status key: GREEN: Meets or exceeds plan YELLOW: Results are within 10% of plan RED: Results fail to meet plan by a difference of more than 10%
TBD: To be determined NA: Not applicable

[1]: As a result of the American Recovery and Reinvestment Act, the IRS will establish a new baseline in FY2010.

Table A-2: FY2009 IRS Budget Level Performance Measures

**Performance Measures for Strategic Goal 2:**
**Enforce the Law to Ensure Everyone Meets Their Obligations to Pay Taxes**

| Performance Measure | Desired Change | Status | FY07 Actual | FY08 Actual | FY09 Actual | FY09 Plan | FY10 Plan | Why is this important to taxpayers? |
|---|---|---|---|---|---|---|---|---|
| **Goal 2: Enforce the Law the Ensure Everyone Meets Their Obligations to Pay Taxes** | | | | | | | | |
| **Quality Measures:** Quality measures evaluate key characteristics of taxpayer products and services, such as completeness, timeliness, consistency, and accuracy. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the IRS. | | | | | | | | |
| Field exam national quality review score | ⇧ | YELLOW | 87.0% | 86.0% | 85.1% | 87.0% | 86.3% | Taxpayers should expect a high quality exam. |
| Office exam national quality review score | ⇧ | GREEN | 89.4% | 90.0% | 92.1% | 90.0% | 90.9% | Taxpayers should expect a high quality exam. |
| Examination quality - industry | ⇧ | GREEN | 87.0% | 88.0% | 88.0% | 88.0% | 89.0% | Business taxpayers should expect a high quality exam. |
| Examination quality - coordinated industry | ⇧ | YELLOW | 96.0% | 97.0% | 95.0% | 96.0% | 96.0% | Business taxpayers should expect a high quality exam. |
| Field collection national quality review score | ⇧ | GREEN | 84.0% | 79.0% | 80.5% | 80.0% | 81.0% | Taxpayers benefit when the IRS meets certain quality standards, such as fairness and consistency, when collecting taxes. |
| Automated collection system (ACS) accuracy | ⇧ | GREEN | 92.9% | 95.3% | 94.3% | 92.0% | 92.5% | Taxpayers benefit when the IRS meets certain quality standards, such as fairness and consistency, when collecting taxes. |
| Conviction rate | ⇧ | YELLOW | 90.2% | 92.3% | 87.2% | 92.0% | 92.0% | High conviction rates for taxpayers who are fraudulently non-compliant increases the fairness of the tax administration system. |
| **Workload Measures:** Workload measures (a.k.a. productivity measures) illustrate the volume of products or services produced by a resource (such as an FTE, project team, or organization) over a period of time. Higher workloads generally indicate increased levels of productivity, therefore saving both taxpayers and the IRS valuable time and money. | | | | | | | | |
| Examination coverage - individual | ⇧ | GREEN | 1.0% | 1.0% | 1.0% | 1.0% | 1.1% | Higher levels of productivity save both taxpayers and the IRS valuable time and money. |
| Examination coverage - business | ⇧ | YELLOW | 6.8% | 6.1% | 5.6% | 5.8% | 5.1% | “ ” |
| Examination efficiency - individual | ⇧ | GREEN | 133 | 138 | 138 | 132 | 132 | “ ” |
| Automated Underreporter (AUR) efficiency | ⇧ | GREEN | 1,956 | 1,982 | 1,905 | 1.855 | 1,868 | “ ” |
| Automated Underreporter (AUR) coverage | ⇧ | GREEN | 2.5% | 2.55% | 2.6% | 2.5% | 3.0% | “ ” |
| Collection coverage - units | ⇧ | YELLOW | 54.0% | 55.2% | 54.2% | 54.4% | 50.5% | “ ” |
| Collection efficiency - units | ⇧ | YELLOW | 1,828 | 1,926 | 1,845 | 1,872 | 1,898 | “ ” |
| Criminal investigations completed | ⇧ | YELLOW | 4,269 | 4,044 | 3,848 | 3,900 | 3,900 | “ ” |
| Number of convictions | ⇧ | YELLOW | 2,155 | 2,144 | 2,105 | 2,135 | 2,135 | “ ” |
| Tax Exempt/Government Entities determination case closures | ⇧ | GREEN | 109,462 | 100,050 | 96,246 | 94,000 | 140,465 | The higher the number of closures the IRS performs shows that more tax exempt and gov't entities are getting their requested information. |
| **Cost Effectiveness Measures:** Cost effectiveness measures evaluate the resources (expressed in dollars) necessary to achieve an outcome. Higher cost effectiveness is beneficial for both taxpayers and the IRS. | | | | | | | | |
| Conviction efficiency rate ($) | ⇩ | YELLOW | $301,788 | $315,751 | $327,328 | $317,100 | $331,000 | This represents the average costs associated with criminal IRS convictions. |

Table A-3: FY2009 IRS Budget Level Performance Measures

**Performance Measures for Strategic Foundations: Invest for High Performance**

| Performance Measure | Desired Change | Status | FY07 Actual | FY08 Actual | FY09 Actual | FY09 Plan | FY10 Plan | Why is this important to taxpayers? |
|---|---|---|---|---|---|---|---|---|
| **Strategic Foundations: Invest for High Performance** | | | | | | | | |
| **Earned Value Measures:** Earned value measures evaluate the actual cost and schedule results compared to planned cost and schedule targets during project development. | | | | | | | | |
| Percent of Business Systems Modernization (BSM) projects within +/- 10% schedule variance | ⇧ | GREEN | ** | 92.0% | 90.0% | 90.0% | 90.0% | Business Systems Modernization (BSM) projects provide IRS employees with modernized business support to perform their jobs more efficiently. Significant project delays result in decreased productivity. |
| Percent of BSM projects within +/- 10% cost variance | ⇧ | *** | ** | 92.0% | 60.0% | 90.0% | 90.0% | Business Systems Modernization (BSM) projects provide IRS employees with modernized business support to perform their jobs more efficiently. Significant cost overruns can indicate wasteful government spending. |

Status key: GREEN: Meets or exceeds plan YELLOW: Results are within 10% of plan RED: Results fail to meet plan by a difference of more than 10%
TBD: To be determined NA: Not applicable

* The target is to limit the increases in rent expense to the rate of non-pay inflation in the President's Budget.

** Cost and schedule variance is based on +/- 10% and is reported on several project releases/subreleases.

*** This measure is applied to individual BSM project development phases. In FY2009, the BSM program had 10 measureable project phases and a total budget of $230 million. Three phases associated with the AMS project had cost variances that each exceeded 10 percent (a total of $9.2 million), and one phase associated with the MeF project was under budget by more than 10 percent (a total of $2 million). Thus, four of ten projects had cost variances that exceeded ten percent, with an aggregate negative cost variance of $7.2 million.

Table B-1: FY2009 IRS Budget Level Performance Measures

**Standards of Performance for Strategic Goal 1:**
**Improve Taxpayer Service**

| Performance Measure | Desired Change | Status | FY07 Actual | FY08 Actual | FY09 Actual | FY09 Plan | FY10 Plan | Why is this important to taxpayers? |
|---|---|---|---|---|---|---|---|---|
| **Goal 1: Improve Service to Make Voluntary Compliance Easier** | | | | | | | | |
| **Taxpayer Satisfaction Outcome Measures:** Taxpayer satisfaction measures evaluate approval levels reported by taxpayers during various IRS transactions and identify potential areas for service improvement. | | | | | | | | |
| Exempt Organization (EO) determination customer satisfaction | ⇧ | YELLOW | 69.0% | 76.0% | 67.0% | 72.0% | 70.0% | Organizations applying for tax exempt status should experience high levels of satisfaction with the process. |
| Accounts management customer satisfaction (adjustments) | ⇧ | YELLOW | 67.0% | 65.0% | 64.0% | 65.1% | 65.0% | Taxpayers should experience high levels of satisfaction in their transactions with the IRS. |
| Practitioner toll-free customer satisfaction | ⇧ | GREEN | 93.0% | 92.0% | 94.0% | 91.0% | 91.0% | Practitioners should experience high levels of satisfaction in seeking assistance from the IRS. |
| **Behavioral Outcome Measures:** Behavioral measures evaluate taxpayer transactions with the IRS to determine how effectively the IRS is influencing taxpayer behaviors, such as using the IRS web site, filing electronically, or voluntarily fulfilling their tax obligations. | | | | | | | | |
| Wage & Investment average wait time on hold (in seconds) | ⇩ | GREEN | 266 | 626 | 526 | 624 | 698 | Taxpayers should not have to wait long periods of time when seeking assistance by phone. |
| Primary abandoned call rate | ⇩ | YELLOW | 15.3% | 17.4% | 15.8% | NA | NA | A low incidence of abandoned calls indicates that taxpayers' expectations for service are being met. |
| Secondary abandoned call rate | ⇩ | YELLOW | 12.6% | 20.0% | 19.4% | NA | NA | A low incidence of abandoned calls indicates that taxpayers' expectations for service are being met. |
| **Quality Measures:** Quality measures evaluate key characteristics of taxpayer products and services, such as completeness, timeliness, consistency, and accuracy. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the IRS. | | | | | | | | |
| Correspondence Error Rate with systemic errors | ⇩ | RED | * | 3.9% | 5.3% | 3.8% | 5.3% | IRS errors add to taxpayers' burdens. |
| Deposit Error Rate - combined | ⇩ | GREEN | 1.3% | 1.0% | 0.7% | 1.0% | 1.0% | IRS errors add to taxpayers' burdens. |
| **Timeliness Measure**s: Timeliness measures evaluate how quickly an IRS product or service can be delivered. The timely execution of activities by the IRS can help taxpayers avoid potential burdens resulting from long wait times (such as fees, penalties, and opportunity costs due to delayed actions). Surveys indicate that timeliness is highly correlated with taxpayer satisfaction. | | | | | | | | |
| EO determination letters timeliness (days) | ⇩ | YELLOW | 122 | 112 | 116 | 106 | 139 | Taxpayers' expectations for timely action are a primary driver of taxpayer satisfaction. |
| EP determination letters timeliness (days) | ⇩ | GREEN | 401 | 368 | 303 | 369 | 215 | Taxpayers' expectations for timely action are a primary driver of taxpayer satisfaction. |
| **Workload Measures:** Workload measures (a.k.a. productivity measures) illustrate the volume of products or services produced by a resource (such as an FTE, project team, or organization) over a period of time. Higher workloads generally indicate increased levels of productivity, therefore saving both taxpayers and IRS valuable time and money. | | | | | | | | |
| AUR telephone level of service | ⇧ | GREEN | 73.8% | 74.0% | 80.4% | 80.0% | 80.0% | A high level of service means that more taxpayers are being served. |

Status key: GREEN: Meets or exceeds plan YELLOW: Results are within 10% of plan RED: Results fail to meet plan by a difference of more than 10%
TBD: To be determined NA: Not applicable

Table B-2:FY2009 IRS Budget Level Performance Measures

**Standards for Performance for Strategic Goal 2:**
**Enhance the Law to Ensure Everyone Meets Their Obligations to Pay Taxes**

| Performance Measure | Desired Change | Status | FY07 Actual | FY08 Actual | FY09 Actual | FY09 Plan | FY10 Plan | Why is this important to taxpayers? |
|---|---|---|---|---|---|---|---|---|
| **Goal 2: Enforce the law to ensure everyone meets their obligations to pay taxes** | | | | | | | | |
| **Taxpayer Satisfaction Outcome Measures:** Taxpayer satisfaction measures evaluate the approval levels reported by taxpayers during various IRS transactions and identifies potential areas for service improvement. | | | | | | | | |
| Correspondence exam CS (SB/SE) | ⇧ | GREEN | 50.0% | 52.0% | 54.0% | 45.0% | 45.0% | Regardless of outcome, taxpayers should have high levels of satisfaction during enforcement actions as an indication they received fair treatment. |
| Correspondence exam CS (W&I) | ⇧ | GREEN | 43.0% | 44.0% | 51.0% | 45.0% | 51.0% | “ ” |
| AUR CS (SB/SE) | ⇧ | YELLOW | 60.0% | 60.0% | 59.0% | 61.0% | 62.0% | “ ” |
| AUR CS (W&I) | ⇧ | GREEN | 64.0% | 62.0% | 63.0% | 63.0% | 64.0% | “ ” |
| Compliance Services Collection Operations (CSCO) CS (SB/SE) | ⇧ | GREEN | 55.0% | 58.0% | 54.0% | 51.0% | 54.0% | “ ” |
| CSCO CS (W&I) | ⇧ | YELLOW | 59.9% | 69.8% | 69.0% | 72.0% | 69.0% | “ ” |
| Field Collection CS | ⇧ | GREEN | 60.0% | 62.0% | 65.0% | 62.0% | 65.0% | “ ” |
| Field Exam CS | ⇧ | YELLOW | 65.0% | 64.0% | 60.0% | 65.0% | Baseline | “ ” |
| **Timeliness Measures:** Timeliness measures evaluate how quickly an IRS product or service can be delivered. The timely execution of activities by the IRS can help taxpayers avoid potential burdens resulting from long wait times (such as fees, penalties, and opportunity costs due to delayed actions). Surveys indicate that timeliness is highly correlated with taxpayer satisfaction. | | | | | | | | |
| W&I SC Correspondence Exam Timeliness (discretionary) (days) | ⇩ | GREEN | 149 | 147 | 154 | 156 | 170 | Taxpayers undergoing a correspondence exam can avoid unnecessary burden by completing this process as soon as possible. |
| W&I SC Correspondence Exam Timeliness (EITC) (days) | ⇩ | GREEN | 185 | 190 | 196 | 203 | 203 | “ ” |
| SB/SE Correspondence Exam cycle time (EITC) (days) | ⇩ | YELLOW | 177 | 181 | 180 | 177 | 177 | “ ” |
| SB/SE Correspondence Exam Cycle Time (non-EITC) (days) | ⇩ | GREEN | 177 | 170 | 172 | 177 | 177 | “ ” |
| CSCO days to close - business | ⇩ | YELLOW | 20.4 | 20.1 | 24.1 | 21.0 | 21 | The collection process is less burdensome for taxpayers if it can be resolved expeditiously. |
| CSCO days to close - individual | ⇩ | YELLOW | 13.9 | 17.5 | 17.5 | 17.0 | 17 | “ ” |
| Exam timeliness (CIC and industry combined) (months) | ⇩ | GREEN | 32.7 | 32.1 | 30 | 30 | 29 | Large- and mid-sized businesses undergoing an examination can avoid unnecessary burden by completing this process as soon as possible. |
| % OIC field cases closed in less than 9 months | ⇧ | GREEN | 68.0% | 74.0% | 82.9% | 74.0% | 77.0% | Waiting for a response on an Offer in Compromise is an unnecessary burden on taxpayers. |

Status key: GREEN: Meets or exceeds plan YELLOW: Results are within 10% of plan RED: Results fail to meet plan by a difference of more than 10%
TBD: To be determined NA: Not applicable

Table B-3: FY2009 IRS Budget Level Performance Measures

**Standards of Performance for Strategic Foundations: Invest for High Performance**

| Performance Measure | Desired Change | Status | FY07 Actual | FY08 Actual | FY09 Actual | FY09 Plan | FY10 Plan | Why is this important to the IRS? |
|---|---|---|---|---|---|---|---|---|
| **Strategic Foundations: Invest for High Performance** | | | | | | | | |
| **Customer Satisfaction Outcome Measures:** Customer satisfaction measures can evaluate the value of the services provided to the IRS' internal customers (listed below) as well as external customers (taxpayers and practitioners referenced in the IRS' strategic goals). | | | | | | | | |
| Internal customer satisfaction (MITS) | ⇧ | YELLOW | 87.3% | 87.5% | 88.0% | 90.0% | 90.0% | When IRS employees are satisfied with their information technology tools they are better equipped to perform their mission. |
| **Behavioral Outcome Measures:** The following behavioral measures evaluate outcomes associated with IRS' internal customers. | | | | | | | | |
| Percentage of mission critical positions hires achieved (HCO) | ⇧ | GREEN | 100% | 102% | 100% | 100% | 100.0% | Ability to staff mission critical functions directly relates to the IRS' ability to fulfill its mission. |
| Percentage of managers receiving leadership training timely (HCO) | ⇧ | YELLOW | NA | 70% | 77.0% | 80.0% | 80.0% | Timely leadership training is directly related to quality of supervision. |
| **Quality Measures:** Quality measures evaluate the value of a program's implementation or of taxpayer products and services resulting from program activities. They include aspects such as completeness, timeliness, consistency, and accuracy. Issues of access and communication are also important when considering the quality of products or services. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the IRS. | | | | | | | | |
| FISMA Systems with Valid Authority to Operate (ATO) | ⇧ | GREEN | 98.0% | 100% | 98.0% | 90.0% | 90.0% | FISMA qualified systems are compliant with government security regulations and protect taxpayer data. |
| **Timeliness Measures:** Timeliness measures evaluate how quickly a product or service can be delivered for internal customers. | | | | | | | | |
| Timeliness of completed service calls (MITS) | ⇧ | YELLOW | 80.5% | 80.0% | 77.0% | 88.0% | 88.0% | Computer outages that last longer than the standard affect the quality of service and enforcement functions. |
| **Cost Effectiveness:** Cost effectiveness measures evaluate the resources expressed in dollars necessary to achieve an outcome. Higher cost effectiveness is beneficial for both taxpayers and the IRS. | | | | | | | | |
| Real estate portfolio cost (AWSS)[*] | ⇩ | GREEN | 1.99% | -1.28% | 0.56% | 2.0% | 2.5% | Lower IRS real estate costs save taxpayers money. |

Status key: GREEN: Meets or exceeds plan YELLOW: Results are within 10% of plan RED: Results fail to meet plan by a difference of more than 10%
TBD: To be determined NA: Not applicable

[*] The target is to limit the increases in rent expense to the rate of non-pay inflation in the President's Budget. The FY2008 and FY2009 targets are the rate of non-pay inflation, currently set at 2.4% and 2.0%, respectively.

[**] Cost and schedule variance is based on +/- 10% and is reported on several project releases/subreleases.

## Appendix 2: Summary of Stakeholder Comments

*The IRS Oversight Board reaches out to a wide variety of external stakeholders each year to listen to their views on tax administration and its impact on taxpayers. The Board consults regularly with external groups that include tax professionals, representatives of state tax departments, taxpayer advocacy groups, business associations, IRS advisory councils and committees, IRS employees, the National Treasury Employees Union (NTEU), and other groups that have an interest in tax administration.*

*During 2009, Board members and staff met with tax professionals and IRS employees at the six IRS Nationwide Tax Forums in Las Vegas, San Diego, Orlando, New York, Dallas, and Atlanta. In February, the Board also conducted a public forum in Washington, DC, with discussions focusing on employee engagement, risk management, and IRS appropriations as investments in the country's economic health. The following is a summary of the central themes from stakeholder meetings this year:*

### Underlying Themes from the 2009 IRS Oversight Board Public Meeting

**The meeting featured three panels, addressing areas of interest to external groups as well as Board members. The first panel discussed ways the IRS could increase employee engagement.**

*It is good for employees to be satisfied with their jobs; however, it is better for customers if employees are also fully engaged.* Panelists agreed that satisfaction is different from 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. Surveys show links between employee engagement and productivity, and links between satisfaction and how happy employees are at their job.

*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 whether public sector employees are more engaged or less engaged than employees in the private sector.

*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.

*Communication, perspective, accountability will help the IRS achieve its long-term goal for employee engagement.* Panelists suggested actions the IRS could take to achieve its goal, including effectively communicating survey data to managers and employees, and identifying actionable elements from the survey.

**The second panel discussed the IRS approach to risk management to ensure business continuity and protection of the tax system. Panelists discussed how their companies anticipate and prepare for various types of risk.**

*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.

*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.

*It is important for top management 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.

*Risk assessment never ends; mitigating risk requires a combination of commitment by 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.

*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.* 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.

**The third panel discussed appropriations 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 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 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. The IRS' increasing productivity and technology savings are not enough to offset the rate of growth of the population.

*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. 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.

*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. 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.

## Underlying Themes from the Meetings with Employees and Practitioners at the 2009 IRS Nationwide Tax Forums

### IRS Employees

#### Employee Engagement

Senior IRS leaders have set as a long term goal for the IRS to be in the top quartile of large federal agencies for employee engagement. Employees believe they should be included as the agency builds its business plans each year, and should be encouraged to provide input all the time, not just at survey time. Understanding why the work is necessary makes employees feel connected to the outcomes and understand the reasons behind decisions at the senior level.

Some employees said they feel less empowered today because there are too many levels of review before a front line employee can act. These individuals also said, in some cases, there are pressures to meet productivity measures rather than latitude to pursue complex issues and possible fraud.

#### Career Development

Employees had mixed views about their perceived opportunities to advance within the IRS. Some see the IRS organizational structure built around the business operating divisions limiting the career opportunities of employees seeking to move from an occupation in one division to a different and higher graded position in another division.

However, other employees disagree that there are limited career advancement opportunities. Employees within the LMSB division praised its use of industry groups and said the new organizational framework is better than the framework of the old district office structure. These employees agreed that much of their work at the IRS remains a rewarding and meaningful public service experience for them personally, despite the challenges presented by any bureaucratic constraints within which they must operate.

Employees voiced opposition to the IRS' process for evaluating front line manager performance and the related managerial "pay banding." Other employees said that with the current caps on civil service pay, many employees see no incentive to assume the greater responsibilities of management without financial rewards. However, some employees noted that managers can influence others to succeed, and said this can be the prime motivating factor for some to become managers.

#### Recruitment, Retention, and Training

Employees commented on IRS efforts to onboard the large influx of new hires during FY2009. Employees suggested that prospective applicants may not have accurate information about the daily aspects of being an IRS employee. Some employees described aspects of IRS work that can be "confrontational and intrusive in nature" and which can be a surprise to some new hires, who subsequently decide they are not a good fit for the IRS. Employees said the IRS needs to find ways to better communicate this information at the beginning of the hiring process so that prospective hires with compatible dispositions could be brought onboard and retained.

Employees discussed the fact that new hire attrition rates at the IRS have been rising over the past several years. Factors contributing to the high attrition rates include the use of rigid hiring practices, wherein new hires are not given sufficient flexibility over their choice of work location; and misunderstanding the requirements of the position. As a positive, employees said the economic downturn is causing an improvement in the attrition rates, but only for the short term. Employees also said they thought inadequate cost of living and locality pay adjustments would drive away new hires as the economy improves.

Employees provided a positive assessment of the quality of the orientation and initial training being provided to the recent IRS hires in their area. There has been a concerted organizational effort to plan for and deliver quality training in a timely manner for new hires. By the time new revenue agents take on field casework, they have the background to do the work properly. Some employees indicated concern as to whether the new hires were receiving the right mix of traditional classroom training, individualized computer-based training, on-line group "e-learning" sessions, and on-the-job training (OJT). While new hires are very comfortable with e-learning approaches, new hires would also benefit from classroom training and the unique opportunities to build professional relationships it provides. Employees believe the real challenge is for the creators of training, regardless of the delivery method, to ensure the content is relevant and of high quality.

### Training for Managers

Employees favorably commented that new managers are now getting appropriate training quickly after their promotion to management. The IRS has restructured its management training program to deliver key training in a timely and proper sequence, and using a better of mix of classroom versus electronic delivery methods. Better training for new managers enables them to properly complete important managerial and administrative duties that help improve employee morale.

### Regulation of Federal Tax Return Preparers

There was general agreement that all paid tax preparers should be regulated, and that IRS should set a minimum level of testing standards nationwide. Employees believe that enforcement needs to reflect serious efforts to root out and penalize those who prepare returns for a fee but fail to sign those returns, and that audit plans for Revenue Agents should include incentives to enforce preparer penalties. Employees also believe that taxpayers need to be educated to not accept returns that are either prepared by unregulated preparers or not signed by the preparer.

### Other Comments

Employees said they were generally happy with the communications the Commissioner sends to all IRS employees. Employees are pleased the Commissioner has a good relationship with policymakers and has been able to secure needed funding and increased staffing levels for the IRS. They would like to see more messages that identify funding priorities for activities that reduce the tax gap.

## Practitioners

Members of the IRS Oversight Board and Board staff met with tax practitioners to learn their thoughts and opinions about the IRS' proposed regulation of federal tax return preparers. The practitioners generally agreed upon a number of areas listed below:

**A National Regulatory Program is Necessary**

There was widespread agreement among practitioners that a national program is necessary. Participants emphasized that preparation of a federal tax return is a critically important financial and civic action and those who are paid to prepare such returns need to have a demonstrated competency to do so. The practitioners said that the current system, where credentialed preparers are held to certain standards while unenrolled preparers are not, is a disservice to taxpayers who depend upon assistance for accurate preparation of their returns. A national regulatory program would protect taxpayers against unethical or incompetent tax preparers and also protect the nation's tax system from being undermined by unscrupulous preparers.

Practitioners discussed their responsibilities to the tax administration system, citing knowledge of tax laws and regulations; the responsibility to stay current in their knowledge; educating their clients to be in compliance; respect for ethics; and to be mindful of their responsibilities to both their clients and the tax system so that taxpayers accurately report and pay what they owe, but no more than they are responsible for under the law.

**Registration with a Unique Identifying Number**

There was general agreement that an effective regulatory regime would also need to include the use of standardized identification numbers that uniquely identify each individual authorized federal paid return preparer and the returns he or she prepares. A benefit would be that IRS could develop an associated on-line system that taxpayers could use to quickly verify the authenticity of any given preparer. The IRS could also use a standardized preparer number to identify returns from each preparer and analyze the data to identify preparers who have higher instances of errors or other issues and take corrective actions. A unique identifier would also allow the IRS to promptly follow up on reports of preparer improprieties.

**Demonstration of Competency and Annual Continuing Professional Education**

Practitioners agreed that any regulation of federal tax return preparers should set high educational standards, both in the initial testing phase to be certified as a licensed federal tax return preparer and also in any subsequent continuing professional education (CPE) requirements to renew and retain that license. However, practitioners were not in agreement as to how to best accomplish this. Some favored a testing/licensing system with an initial examination and a continuing education requirement applicable to all preparers. Some favored a testing system that recognizes different levels of expertise, distinguishing between those preparers competent to prepare corporate returns and those competent to prepare individual returns. Others favored a "grandfathering" of experienced preparers into the regulatory regime, allowing them to bypass the initial testing requirement based on their years of experience. Others favored allowing existing practitioners with certified credentials to be exempt from the competency testing.

There was general agreement about continuing professional education, especially "tax update courses" to keep preparers current on tax law changes. One participant suggested that any educational component be expanded beyond pure tax issues to include administrative issues such as disclosure and electronic filing, for example. Finally, one attendee said the continuing education component could provide a good way for the IRS to do a public-private partnership with national practitioner organizations to develop an exceptionally well-rounded program.

**Ethics Training**

Practitioners emphasized the need for ethics training to be an integral component of the education/CPE requirements—noting that there is value in reiterating to preparers the importance of acting ethically to the credibility of the tax system. Also, return preparers are privy to sensitive taxpayer financial information and have an ethical duty to protect it.

**Consistent Enforcement and Dedicated Resources**

Practioners provided a variety of ideas about how a regulatory system could be enforced, but stressed the importance of IRS' role in enforcing the regulations. They agreed that no amount of regulation will matter unless the IRS can impose effective enforcement of the rules. In discussion about how to fund the

IRS for its enforcement efforts, practitioners suggested registration fees, testing fees, and renewal fees all be dedicated to enforcement, as well as specific budgetary funding for the IRS to develop and maintain the licensing system.

Many participants supported instituting significant penalties that would effectively put preparers who refuse to sign tax returns out of business, while also maintaining different levels of sanctions commensurate with the type and frequency of offense for all preparers. Practitioners suggested another important component of enforcement that included fining taxpayers for using paid preparers who are either not registered or refuse to sign their returns.

**Public Awareness Campaign**

Most practitioners support an effective public education component. To protect the public, the IRS should educate the public on the requirements of any new program, and educate taxpayers on how to select an appropriate, registered preparer. The IRS should especially reiterate the requirement that paid preparers must sign the returns they prepare. A good publicity program would ensure taxpayers understand that all paid federal tax return preparers must be certified or licensed and provide their unique ID number on the return, and educate the public on the means for reporting to the IRS any preparers who do not comply with these requirements. Another suggestion was to promote the use of a searchable list that publishes the names of tax preparers who have had their privileges revoked.

**Other Relevant Comments**

Practitioners raised questions about “preparation” versus “representation,” and how any new regime of regulating all preparers of federal returns would address the issue of representing clients before the IRS, such as during an audit, a case in Appeals, or an Offer-in-Compromise (OIC) situation. There was general agreement that “representation” involves a different skills set than does “return preparation;” and taxpayers should understand the difference when they choose a licensed professional to address their needs.

Practitioners said that the growing use of computers and software in the tax preparation industry is creating new problems with tax preparers. Some software companies have advertised that with their programs, “anyone can do a tax return.” In today’s market, it is easy for an individual with a computer and an inexpensive tax preparation software package to open a business preparing returns with the semblance of respectability, but with no background or training in tax law. In this environment, a program to regulate return preparers would provide needed taxpayer protections.

## Appendix 3: Biographies of Private-Life Members

The Board, by statute, consists of nine members, including the Secretary of the Treasury and the Commissioner of the Internal Revenue. Following are profiles of the private-life members, who are appointed by the President and confirmed by the U.S. Senate without regard to political affiliation and solely on the basis of their professional experience and expertise:

### Paul Cherecwich, Jr., Chairman

**Retired Corporate Tax Counsel**

Paul Cherecwich, Jr. is presently retired, having had a successful career as a tax attorney employed both in the business world and practitioner world. Employed by three Fortune 500 corporations, he retired in 2000 from Cordant Technologies, Inc. as Vice President of Tax and Tax Counsel. He subsequently joined the law firm of Miller & Chevalier, Chartered as "Of Counsel", from where he retired at the end of 2004. During his career he participated in several professional groups. As a result of his contributions, he was asked to serve leadership roles on several trade association tax committees. In addition, he was selected by his peers to be the 1997-1998 International President of The Tax Executives Institute (TEI), the preeminent association of corporate tax executives in North America. Mr. Cherecwich has served on the boards of several charitable organizations. He has also served on several government advisory groups, including the Massachusetts Governor's Management Task Force, the United States Trade Representative's Industry Advisory Committee on Customs, and the IRS Advisory Council, where he was selected to be the 2002 Chair. Mr. Cherecwich earned a B.E.E. from Rensselaer Polytechnic Institute, an M.B.A. from Northeastern University, a J.D. (cum laude) from Suffolk University Law School, and an LL.M. (taxation) from Boston University School of Law.

### E. Edwin Eck

**Professor, University of Montana School of Law**

Edwin Eck has been a member of the school's faculty since 1981. He teaches courses in Federal Tax Procedure and Practice, Estate and Gift Taxation, and Wills and Trusts. From 1995 to 2009, he served as dean of the school. During his tenure as an administrator, the School focused on practice skills as well as legal theory. The School's required clinical program expanded to 17 clinics, certificate programs in alternative dispute resolution and natural resources were added, and a joint JD/MBA program was established. Additionally, the School substantially increased its continuing legal education programs with sessions held at rural Montana venues. Prior to serving as dean, Mr. Eck also practiced law and served the estate planning and estate administration needs of owners of small businesses, including farmers and ranchers. Mr. Eck has served as a law clerk to U.S. District Court Judge James F. Battin and was an Assistant U.S. Attorney for the District of Montana. Mr. Eck earned a B.A. from Carleton College (magna cum laude), a J.D. from the University of Montana School of Law, and an LL.M. (in taxation) from Georgetown University Law Center. He is a member of Phi Beta Kappa. He chairs the Oversight Board's Operations Support Committee.

### Robert M. Tobias

**Director of Public Sector Executive Education, American University**

Robert M. Tobias is a professor, Director of Public Sector Executive Education, and Director of the Institute for the Study of Public Policy Implementation at American University in Washington, D.C. Mr. Tobias left the National Treasury Employees Union (NTEU) in 1999 after 31 years. He served as General Counsel from 1970 to 1983, and as National President from 1983 to 1999. At NTEU, and as a member of the President's National Partnership Council, Mr. Tobias focused on establishing cooperative/collaborative labor-management relationships in the federal government. In 1996, President Clinton appointed him to the National Commission on Restructuring the IRS. Mr. Tobias also was a member of the IRS Executive Committee. He is a graduate of the University of Michigan, where he received a Master's degree in Business Administration, and from The George Washington University, where he received his law degree. He chairs the Oversight Board's Operations Committee.

### Raymond T. Wagner, Jr.

**Government & Public Affairs Vice-President, Enterprise Holdings**

Raymond T. Wagner, Jr. is Government & Public Affairs Vice-President for Enterprise Holdings, headquartered in St. Louis, Missouri. Previously, he served in the cabinet of Illinois Governor Jim Edgar as the Illinois Director of Revenue until 1995. Prior to that, he was Director of the Missouri Department of Revenue under then-Governor John Ashcroft. Since 1993, he has been an Adjunct Professor of Law at Washington University School of Law. He served as Law Clerk for then-Chief Justice Andrew Jackson Higgins of the Missouri Supreme Court. He received his Master of Business Administration and undergraduate degrees from St. Louis University, and his law degree from University of Missouri-Kansas City School of Law. He also holds a Master of Laws-Taxation degree from Washington University School of Law.

### Deborah L. Wince-Smith

**President, Council on Competitiveness**

Deborah L. Wince-Smith is president of the Council on Competitiveness–a premiere group of CEOs, university presidents and labor leaders committed to driving U.S. competitiveness. She is an internationally known expert, author, and speaker on global competitiveness, economic policy, science and technology, and economic development. She has more than 20 years of experience as a senior government official, including as Assistant Secretary for Technology Policy in the Department of Commerce during the first Bush administration. She serves on or chairs four Cabinet-level advisory groups, including a task force on nuclear energy for the Secretary of Energy. Ms. Wince-Smith is active in the governance of various national scientific labs, including the Argonne National Laboratory, Los Alamos and Lawrence Livermore National Laboratories. Ms. Wince-Smith earned a degree in classical archaeology and graduated magna cum laude and Phi Beta Kappa from Vassar College. She earned her Master's degree from King's College, Cambridge University. In December 2006, she received an honorary Doctor of Humanities degree from Michigan State University.

## Appendix 4: FY2009 IRS Oversight Board Operations

The IRS Oversight Board has completed its eighth year of operation. During FY2009 the Board has engaged in a variety of activities, meeting five times as a full Board, and more at the committee level. The Board met on the following dates:

- December 2-3, 2008
- February 17-18, 2009
- April 23, 2009
- June 3, 2009
- September 3, 2009

On February 17, 2009, the Board held a public meeting at which it discussed the following topics with private and public sector experts:

- Employee engagement
- Enterprise risk management
- The Internal Revenue Service budget: Investment or Expense?

A summary of the discussion and themes emerging from the meeting can be found on the Board's web site, www.irsoversightboard.treas.gov.

During 2009, the Oversight Board developed four reports: the Board's *2008 Annual Report to Congress*, its *2008 Electronic Filing Report to Congress*, a budget report that presented the Board's recommendations on the FY2010 IRS budget, and the Board's annual *Taxpayer Attitude Survey*. The first two reports are statutorily required; the other two were discretionary on the part of the Oversight Board. All reports are available on the Board's web site.

The Board continued its program of conducting stakeholder outreach to hear independent perspectives of IRS progress from various external stakeholders. In addition to the February public meeting, the Oversight Board had representation at all six IRS Nationwide Tax Forums during the summer months. At these meetings, each attended by approximately 2,000 or more tax professionals, the Oversight Board sought out the opinions of attendees on IRS operations, and conducted small group meetings with both tax professionals and employees to discuss IRS issues.

In addition, the Board visited the IRS' Atlanta Campus in June 2009 and visited Volunteer Income Tax Assistance (VITA) sites during the year in Dallas, Las Vegas, and Boston. Board members met with Large and Mid-Size Business Compliance Assurance Program (CAP) teams in Boston and New York City. The Board also attended three public forums, two in Washington and one in Chicago, the IRS held to obtain industry input on preparer regulation.

The Oversight Board focused on a number of strategic issues during the year, including the Customer Account Data Engine (CADE) 2 program restructuring, globalization, preparer regulation, the Workforce of Tomorrow, strategic planning for research, electronic tax administration, employee engagement, taxpayer privacy, and development of IRS long-term performance measures.

There were no changes in Board membership during FY2009, although in October 2008, Board member Ed Eck was confirmed for a second term that expires in September 2013. The Board currently has two vacancies and three seats that are being filled by members in holdover status.

The three committees of the Oversight Board also met periodically in person or by telephone. The Operations and Operations Support Committees each met several times during the year with IRS executives to review progress in meeting performance goals for major IRS operational and support divisions. Measures of interest included customer and employee satisfaction, quality, and selected productivity goals.

In keeping with the Oversight Board's statutory responsibility to review the selection, evaluation, and compensation of senior IRS executives, the Executive Committee conducted a thorough review of the performance commitments of senior IRS executives in the beginning of the fiscal year, followed by a review of the performance evaluations and proposed bonuses for the same executives at the conclusion of the fiscal year.

In keeping with the RRA 98 requirement to report Oversight Board travel expenses to Congress, the Board incurred $69,287 in travel expenses for Board members and staff in FY2009, primarily for travel to and from Board and Board committee meetings, and to attend the Nationwide Tax Forums.

**IRS Oversight Board**

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