



IRS Oversight Board

Annual Report to Congress 2012

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IRS Strategic Plan

The IRS' strategic goals and strategic foundations are established in the *IRS Strategic Plan 2009-2013*, approved by the IRS Oversight Board in June 2008:

- **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

Success in achieving these goals benefits every taxpayer. By making it easier for taxpayers to understand, calculate, and report their tax obligations, and to remit payment conveniently, the IRS can reduce the administrative burden borne by taxpayers. Our tax system is complex; it is important that the IRS helps taxpayers understand their tax obligations and administers tax laws with fairness and integrity.

IRS Oversight Board Roles and Responsibilities

In June 1997, the National Commission on Restructuring the Internal Revenue Service (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.”

The IRS Oversight Board has statutory 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.

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 the 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 approves the Board’s annual report, although their comments and guidance are both solicited and welcomed.

This report satisfies a statutory requirement in RRA 98 for the Board to report annually to the President and Congress.

Message from the IRS Oversight Board

The IRS Oversight Board is pleased to present its *Annual Report to Congress 2012*.

During the past fiscal year, the IRS achieved a number of significant milestones that contributed to the performance, efficiency, and integrity of our tax system. Most notably, the Customer Account Data Engine (CADE) 2 program became operational in January 2012, allowing the IRS to successfully migrate from a weekly to a daily processing cycle for individual taxpayer accounts. This holds the potential of providing substantial benefits to taxpayers and the IRS, such as faster processing of tax refunds and up-to-date information for customer service representatives so they can better answer taxpayer account questions. In addition, the launch of the new CADE 2 relational database paves the way toward real-time data analytics that can help the IRS better detect trends and patterns in non-compliance, and therefore better focus its resources to combat it.

The IRS also had notable successes in other areas. The Return Preparer Program has matured and grown, including the issuance of over 730,000 active Preparer Tax Identification Numbers (PTINs) for filing year 2012. Competency testing for unenrolled return preparers also began in 2012, and

by the close of the fiscal year, more than 22,000 had received the new designation: “Registered Tax Return Preparer.” However, on January 18, 2013, a district court enjoined the IRS from enforcing the program (*Loving vs. IRS*). The future of the program is unclear at present. The Board will monitor the situation as it develops.

The IRS continued to push forward with its groundbreaking Offshore Voluntary Disclosure Program (OVDP). There have been 33,000 taxpayer disclosures from the first programs, and another 5,000 from the most recent program. The IRS announced in 2012 that it collected more than \$5.5 billion in back taxes, penalties, and interest from the three programs. These high-profile initiatives are not only about money collected; they are also about sending a strong deterrence message to those considering hiding money and assets overseas.

When it comes to large corporate taxpayers, the IRS has been challenging the assumption that there must be an adversarial relationship between the two parties. The IRS believes that in the end, both would like the same thing from the tax system: consistency, certainty, and efficient use of taxpayer and government resources.

To help achieve this goal, the IRS has bundled together a suite of issue resolution programs that continued to gain popularity and participation in 2012. These include the Compliance Assurance Process (CAP), the Industry Issue Resolution Program (IIR), Fast Track Settlement, the Quality Examination Program (QEP), the Advanced Pricing and Mutual Agreement Program (APMA), and Schedule UTP (Uncertain Tax Position Statement). Together, these programs can help change the entire paradigm of how the IRS and large corporate taxpayers interact.

The IRS is also operating in a high-risk environment as budget restrictions loom over virtually all its programs. The enacted FY2012 budget fell below both the President’s and the Board’s recommended levels. To deal with the resulting budget constraints in FY2012, the IRS offered early buyouts to thousands of its employees and sought efficiencies wherever it could. For example, the IRS announced in May 2012 that it is closing 43 of its smaller offices and consolidating others in the same commuting area, resulting in a cost savings of \$40 million over two years.

However, in spite of returning more than \$4 for every \$1 invested in tax administration,

the IRS remains a target for budget cuts. What happened in FY2012 could foreshadow the impact of additional budget cuts on IRS service and compliance levels in FY2013. For the 2012 filing season, toll-free telephone level of service hovered around 67 percent, down five percentage points from the previous year as the IRS did not have the resources to hire more customer service representatives. To the Board, that level of service remains inadequate. However, it bears noting that tax law and tax account accuracy during the 2012 filing season stood well above 90 percent.

The IRS also faces other customer service risks. Because of lower staffing levels, the IRS has closed some Taxpayer Assistance Centers and limited its tax preparation services in other locations. The IRS is now relying more heavily on community service organizations to prepare and e-file returns for low-income and elderly taxpayers.

Taxpayers, practitioners, and IRS employees would also like to be able to communicate, resolve issues, and conduct more transactions electronically with the IRS. Taxpayers are also customers of financial services organizations where such electronic interactions are commonplace. They want the same ability in their dealings with the IRS.

In addition, the Board is concerned that further budget cuts could erode not only IRS customer service and compliance

programs, but the agency's ability to collect the revenue to fund essential programs upon which millions of Americans rely.

One of the biggest risks the IRS faced in FY2012 was tax refund fraud. While progress is being made through the use of new filters and processes to detect and handle fraudulent returns, it is unclear how large this problem is. The IRS was able to stop \$19.3 billion in fraudulent payments from going out the door in 2012.

The Board has also seen an expansion of the IRS' duties in other areas. In recent years, the IRS has been called upon to implement major pieces of legislation, such as the *American Recovery and Reinvestment Act* and the *Affordable Care Act*. The additional challenges of its expanded portfolio of responsibilities, especially during a time of budget cuts, are worrisome. The IRS must stay focused on its key mission and strategic goals.

In addition, the IRS is a labor-intensive enterprise. People are its greatest asset and challenge when resources are tight. Nevertheless, the Board notes that under the leadership of Commissioner Shulman, the IRS has maintained its 3rd place ranking (83rd percentile) among the 15 largest Federal agencies based on the employee engagement index score developed as one of the long term measures for the *IRS Strategic Plan 2009-2013*. That is commendable.

Still, the Board is deeply

concerned by the potential for large-scale retirements, particularly if employee engagement were to deteriorate in the face of rising workload demands and declining budgets. The IRS estimated in 2009 that three-quarters of its workforce could retire from or leave the IRS by 2018. That is a major human capital risk that must be effectively managed. The Board is particularly focused on how the IRS is managing that risk as it relates to those with specialized institutional knowledge. Retirements and departures of talented IRS staff may also accelerate if policymakers change current Federal employee pay and benefits.

The Board is also concerned about the expiration of the streamlined critical pay provision in 2013. This important provision of the *IRS Restructuring and Reform Act of 1998* has allowed the IRS to bring on board experts from the private sector in areas such as technology, with proven positive results.

Lastly, the Board would like to acknowledge the departure of Commissioner Douglas H. Shulman who left the IRS in November 2012 when his term of office expired. He set a positive and focused direction for the agency and can look back with pride at the accomplishments and progress the IRS achieved during his tenure. The Board wishes him all the best in his future endeavors, and hopes policymakers appoint a new commissioner as soon as possible.

Tax Administration Accomplishments

The IRS made a number of significant achievements in FY2012 that will help improve the efficiency, effectiveness, and integrity of the tax system for years to come. They are a result of management focus, innovative approaches, partnering with stakeholders, and the hard work and dedication of IRS employees.

Customer Account Data Engine 2

The successful standup of the first phase of the Customer Account Data Engine (CADE) 2 was one of the IRS' most notable and far-reaching achievements in FY2012. For years, the IRS struggled to modernize its obsolete and fragmented technology, some of which dated back to the Kennedy Administration.

In January 2012, the IRS delivered one of the major components of the CADE 2 program, i.e., daily processing of individual taxpayer accounts. This was accomplished by enhancing the computer code within the legacy Individual Master File (IMF) system, and by successfully re-vamping decades-old practices and procedures within IRS' submission processing operations that were previously based on weekly tax account updating.

The IRS transition to daily account processing provides several tangible benefits to taxpayers. These include faster IRS issuance of refunds for millions more taxpayers; faster availability of taxpayer information on IRS web-based applications; and more efficient resolution of taxpayer account issues as tax information is made available to IRS representatives within 48 hours, as compared to two weeks under the prior processing routine.

Also, in July 2012, the IRS delivered another major component of the CADE 2 program, i.e., successful implementation of the CADE 2 relational database in a production mode. Through the execution of a complex series of computer programs, involving the application of over 5,000 trans-

formation rules and 28 days of processing time, the IRS successfully extracted and transformed all the data from the legacy IMF system and loaded it on to the new CADE 2 database using a modern "relational" storage format. This "initialization" process involved transforming hundreds of billions of specific data fields for over 270 million taxpayer accounts, yet was handled with such precision that IRS officials reported that results placed on the CADE 2 relational database "balanced to the penny."

Much work still remains to be done under the CADE 2 efforts before the IRS can fully retire the IMF and the many legacy software applications embedded in it that service other IRS processing systems. This relational database is not currently used to feed down-

CADE 2: BENEFITS FOR TAXPAYERS AND TAX PROFESSIONALS

The benefits of the successful launch of CADE 2 and the future phases to follow are substantial:

- Quicker processing of many refunds.
- Easily accessed up-to-date information for IRS customer service representatives.
- Faster resolution of taxpayer account issues.
- Faster updates to web-based applications.
- A platform for real-time analytics.
- The ability to develop new applications and systems for service and compliance.
- A solid foundation for further modernization.

The Board hopes that the successful launch of CADE 2 also acts as a cautionary reminder: The Nation cannot allow technology to lapse again at the IRS.

stream systems on an ongoing basis contrary to the original project schedule.

Nevertheless, a major foundational step has now been achieved through successful initialization of the CADE 2 relational database. Not only does this new CADE 2 database provide the ability to meet the information retention needs for the IRS' main tax account records for individuals, it does so using a relational database structure. That structure, in turn, will enable the use of modern software tools and applications in the years ahead that will ultimately deliver significantly better products and services to taxpayers, as well as greatly enhance IRS' financial management and data security controls.

The Board hopes that the successful launch of CADE 2 also acts as a cautionary reminder. The Nation cannot allow technology to lapse again at the IRS. Technology is constantly evolving and the IRS must evolve with it if it is to provide quality service that taxpayers expect and deserve and to enforce our Nation's tax laws.



LETTER OF APPRECIATION TO IRS CHIEF TECHNOLOGY OFFICER

On September 12, 2012, the Oversight Board commended IRS Chief Technology Officer Terence V. Milholland for leading the IRS information technology (IT) modernization efforts since joining the agency in 2009. Mr. Milholland manages all aspects of the IRS IT infrastructure.

The Oversight Board presented Mr. Milholland with a letter that praised him for leading and supporting numerous initiatives, most notably the successful migration from a weekly processing cycle to daily processing of tax returns under the CADE 2 program. In addition, Mr. Milholland instituted industry-standard processes, such as Information Technology Infrastructure Library (ITIL), the most widely accepted approach to IT service management in the world. Mr. Milholland's leadership was also instrumental in the efforts to improve IRS operations through Capability Maturity Model Integration (CMMI), a process improvement approach developed at Carnegie-Mellon University. CMMI entails a systematic and standardized approach to software development and documentation, and enables IT organizations to transform themselves into more efficiently run operations. In September 2012, the IRS IT group under Mr. Milholland that develops applications was accredited by the Software Engineering Services Corporation as a CMMI Level 3 organization. The IRS is the only large civilian U.S. government agency to receive this level of CMMI process maturity.

Return Preparer Program

On June 4, 2012, the IRS marked the third anniversary of its landmark Return Preparer initiative. IRS data shows that nine out of ten taxpayers employ a paid return preparer or use tax software to prepare their tax returns. However, there was little oversight, let alone licensing or basic competency requirements for paid tax return preparers. Literally anyone could prepare a return for a taxpayer for a fee. If there was an error or fraud, it was the taxpayer's responsibility to pay the tax due and interest and penalties, not the return preparer.

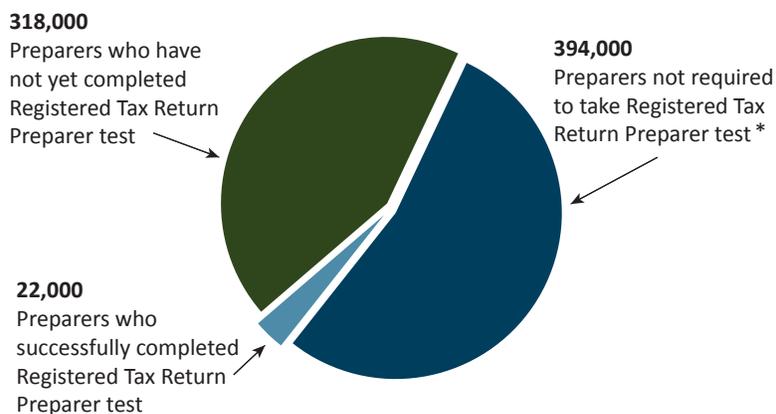
The Board believes that paid return preparers are essential to the integrity of the tax system and can be strong allies to boost service and compliance levels. Rather than engage them one-by-one, the IRS decided to leverage the entire community through the Return Preparer initiative. To this end, the IRS embarked on a staged-implementation plan, where it required the registration of all paid tax return preparers. The IRS also began administering a basic 120-question competency test to an estimated 340,000 "unenrolled" paid return preparers. Certain return preparers, such as enrolled agents, Certified Public Accountants (CPAs), and attorneys, are exempt from the test, as are those who are supervised by them or who prepare non-form 1040 returns. Effective January 2012, these unenrolled preparers also had to complete 15 hours of continuing education (CE) each year from outlets offering IRS-approved CE courses.

Plans are underway for the IRS to build a publicly-accessible database that would allow taxpayers to see if their preparer was registered, show any credentials a preparer holds, and allow taxpayers to search for a preparer by zip code.

On January 18, 2013, the District Court for the District of Columbia enjoined the IRS from enforcing its Return Preparer Program in the case *Loving vs. IRS*. The future of the program is unclear at present. The Board will monitor the situation as it develops.

FIGURE 1.

Approximate Distribution of Preparers by Status of Credentials as of the End of FY2012



SOURCE: IRS

*Certain return preparers, such as enrolled agents, CPAs, and attorneys are exempt from the test as are preparers who are supervised by them or who prepare non-form 1040 returns.

RETURN PREPARER PROGRAM CHALLENGED IN DISTRICT COURT; FUTURE UNCLEAR

In response to a lawsuit, the District Court for the District of Columbia on January 18, 2013 enjoined the IRS from enforcing its Return Preparer Program in the case *Loving vs. IRS*. Subsequently, the IRS asked the judge to suspend the injunction, arguing that it would disrupt the current tax filing season. The judge denied the IRS' request but clarified the original ruling. The IRS may continue to require that paid return preparers have a Preparer Tax identification Number (PTIN) but the agency can only operate its testing and continuing education programs on a voluntary basis. The court wrote that "some preparers may wish to take the exam or continuing education even if not required to. Such voluntarily obtained credentials might distinguish them from other preparers." At the time this report went to print, the IRS announced that it may appeal the decision.

Office of Compliance Analytics

Under Commissioner Shulman's leadership, the IRS created the Office of Compliance Analytics. Staffed by experts in data analytics and predictive modeling, the office identifies trends and patterns in non-compliance through the data it receives each year. The office works directly with the IRS' business units to improve their performance at all stages of the tax process. Through predictive analytics, the IRS can focus its resources on specific areas where non-compliance is likely the greatest. It is a very sophisticated way of connecting the dots that can expose not only non-compliance but criminal activity as well, such as tax refund fraud committed using identity theft. The Board is impressed by how the Office of Compliance Analytics uses new approaches and partners with other IRS program offices to help combat non-compliance.

The IRS has been working to root-out unscrupulous tax return preparers who prepare returns claiming fraudulent refunds. However, this has been a long and arduous process. Still, this past filing season, the Office of Compliance Analytics showed what a powerful force it can be when it takes advantage of other resources the IRS can now offer. Using the new database of paid return preparers and sophisticated data modeling, the office was able to identify in one pilot program 1,500 paid return preparers who had suspicious refundable

tax credits on their clients' returns. Because of this effort, the IRS stopped \$200 million in fraudulent payments from going out the door.

As a recent *Harvard Business Review* article on "big data" observes: "An effective organization puts information and the relevant decision rights in the same location... The artful leader will create an organization flexible enough to minimize the 'not invented here syndrome' and maximize cross-functional cooperation. People who understand the problems need to be brought together with the right data, but also with the people who have problem-solving techniques that can effectively exploit them."¹ The Board believes this is the course the IRS is taking, and that it is the right one.

Using sophisticated data modeling, the IRS identified 1,500 paid preparers whose clients' tax returns claimed suspicious refundable tax credits. The IRS stopped \$200 million fraudulent refund payments as a result of this effort.

Addressing Offshore Non-Compliance

The IRS has waged a vigorous campaign against offshore tax evasion. Individuals who illegally hide cash and assets overseas place an unfair burden on honest taxpayers who must pay for the lost revenues.

The IRS' efforts have started to bear fruit. A Swiss bank, for the first time in history, turned over the names and account numbers of thousands of US taxpayers with secret accounts. In the past, the IRS offered voluntary disclosure programs where a taxpayer hiding money offshore could come in voluntarily, pay back taxes and stiff penalties, but avoid prison. However, the response was tepid; on average, only one hundred taxpayers came in.

That would not be the case with the three high-profile, highly-publicized Offshore Voluntary Disclosure Programs (OVDP) that began in 2009; the last of the three was announced in January 2012. Perhaps feeling that the net was tightening and wanting to avoid jail time, taxpayers responded overwhelmingly to the new offer.

In June 2012, the IRS announced that the three OVDPs had resulted so far in the collection of more than \$5 billion in back taxes, interest and penalties. There have been 33,000 taxpayer disclosures from the first two programs and an additional 5,000 from the OVDP announced in January. The IRS is analyzing this data to

¹ Andrew McAfee and Eric Brynjolfsson, "Big Data: The Management Revolution," *Harvard Business Review*, October 2012.

further its investigations of banks, bankers, intermediaries, and taxpayers.

The Board agrees with the IRS that the OVDP is more than just about collecting money. First, it brings these taxpayers back into the tax system with the hope that they will continue to stay in compliance.

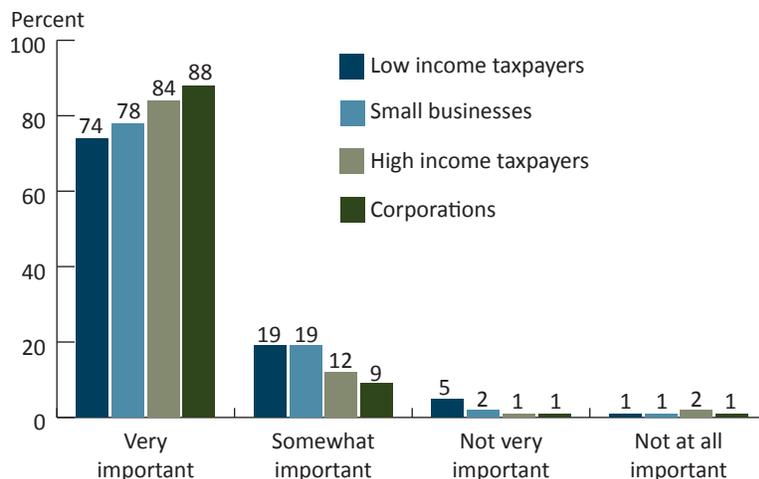
Second is the deterrent effect. For too many years, these non-compliant taxpayers would hide their money in a bank secrecy jurisdiction with no one, especially the IRS, the wiser. However, that is no longer true. Through the work of the IRS, the chances of getting caught have grown exponentially. Knowing that hiding money offshore is a losing proposition, the IRS can help prevent the next generation of taxpayers from engaging in this illegal behavior.

To maintain the integrity and fairness of the tax system, honest taxpayers must know that their government will not tolerate taxpayers hiding money in secret offshore bank accounts and that the IRS will pursue those who do. These high-profile programs go a long way toward reinforcing the perception of fairness.

The public believes that no segment of taxpayers should be exempt from vigorous IRS enforcement of the tax laws.

FIGURE 2:

Importance to the Public that the IRS Ensures Various Taxpayers Honestly Pay What They Owe



SOURCE: 2012 IRS Oversight Board Taxpayer Attitude Survey

Issue Resolution with Large Corporate Taxpayers

The IRS has recently been challenging the long-held perception that there will always be an adversarial relationship between large corporate taxpayers and the IRS. The agency once described corporate tax examinations as “protracted trench warfare” that pitted taxpayers against the IRS with cases dragging on in the examination process, only to end up in the Appeals process or the courts. This was a waste of time and resources for taxpayers and the IRS. The Board is pleased to see that

the relationship is evolving into a far more productive one focused on the goals of greater certainty, consistency, and efficiency for both corporate taxpayers and the IRS. The IRS wants to ensure these taxpayers are in compliance and keep them compliant with programs that are less time and resource intensive for everyone. Rather than waste time on issues of less importance, the IRS should focus on issues and taxpayers that pose the greatest risk of non-compliance.

According to the IRS, this evolving relationship will require greater transparency on the corporations’ part; revamping the agency’s audit

approach so auditors are pursuing productive issues; and enhancing the IRS’ ability to resolve issues quickly and clarify tax law uncertainty.

The IRS has created a suite of programs to push this process forward. There have been some problems associated with them such as lingering distrust, lower-than-expected participation rates, barriers to participation, and inadequate training of IRS agents. However, the IRS is addressing these problems in an open and forthright manner, and the Board believes that the agency should continue with its present course; the rewards far outweigh the risks.

IRS LARGE CORPORATE TAXPAYER ISSUE RESOLUTION PROGRAMS

- **Compliance Assurance Process (CAP):** In exchange for greater transparency before filing, the taxpayer gets certainty with their tax issues and obligations at the time the return is filed rather than having to wait for the regular audit.
- **Quality Examination Process (QEP):** Allows for a more focused examination that involves the corporate taxpayer throughout each step of the process.
- **Fast Track Settlement:** Allows the taxpayer to resolve an issue with an Appeals officer during the audit process.
- **Industry Issue Resolution Program (IIR):** Resolves long-standing controversies and uncertainties related to specific industry issues.
- **Schedule UTP (Uncertain Tax Position Statement):** Provides information the IRS needs regarding an uncertain tax position; also has a deterrent effect as a corporation may not take an overly aggressive position knowing they will have to report it.
- **Advance Pricing and Mutual Agreement Program (APMA):** Aligned with IRS’ transfer pricing practice, improves the agency’s ability to resolve bi-lateral issues.

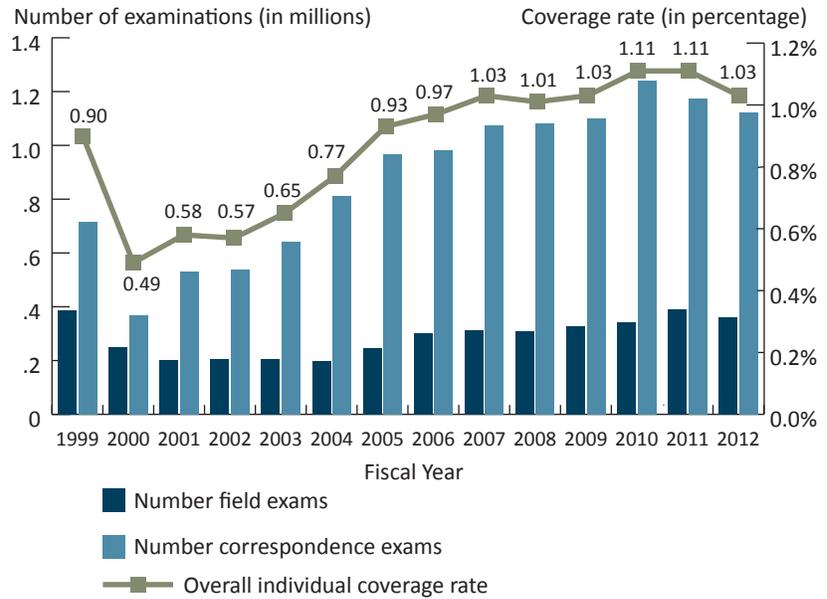
Enforcement

Under its Strategic Plan, the IRS must run a balanced program of customer service and enforcement. And while 2012 was a year of challenges, the IRS managed to maintain and deliver most of its key enforcement priorities.

Audits of individuals topped one million for the sixth year in a row, with a 1.03 percent coverage rate for all tax returns filed. Audits in the upper-income brackets remained substantially higher than other categories. Figure 3 shows IRS' Examination Trends for Individual Returns over the last 14 years (post-RRA 98). As this year's results demonstrate, the IRS managed its resources to ensure consistent coverage for field and correspondence examinations. The IRS continued to dedicate adequate resources towards performing more audits of taxpayers in higher income brackets, as shown in Figure 4.

Individual return examination activity declined in 2012, but the IRS still maintained an audit coverage rate of over one percent.

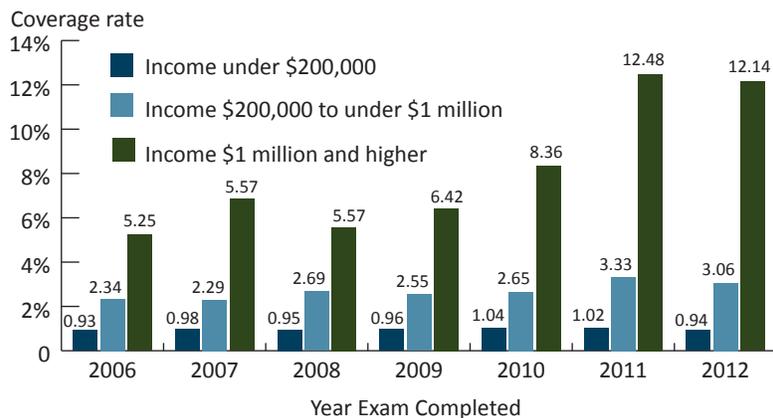
FIGURE 3.
IRS Examination Trends for Individual Returns: Number and Coverage Rates



SOURCE: IRS

While IRS audit coverage of individual filers declined in 2012 in all major income groupings, the IRS continued to focus its examination resources on the higher income groups.

FIGURE 4.
Examination Coverage Rates for Individual Filers by Income Range



SOURCE: IRS

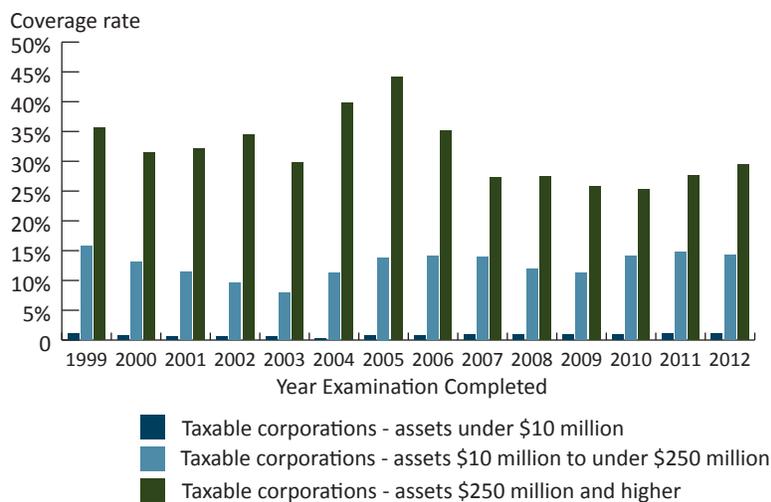
For business returns, the IRS increased examinations across all categories by more than 12 percent, with the largest increases coming in audits of flow-through entities, which include partnerships and S corporations. Examination rates exceeded 20 percent for the largest taxable corporations, as seen in Figure 5, and remained steady across the remaining large corporate classifications.

The IRS collected more than \$50 billion in enforcement revenue in FY2012. The amount was lower than the previous two years when enforcement dollars collected were unusually high due to a spike in resolving offshore tax cases through the OVDP. A still struggling economy and ongoing budget constraints also contributed to the decline in revenue.

Staffing levels at the IRS fell significantly in 2012, with a six percent decline in key enforcement positions. The number of IRS Revenue Officers and Revenue Agents declined in 2012, as shown in Figure 6. The number of IRS Special Agents remained steady relative to last year.

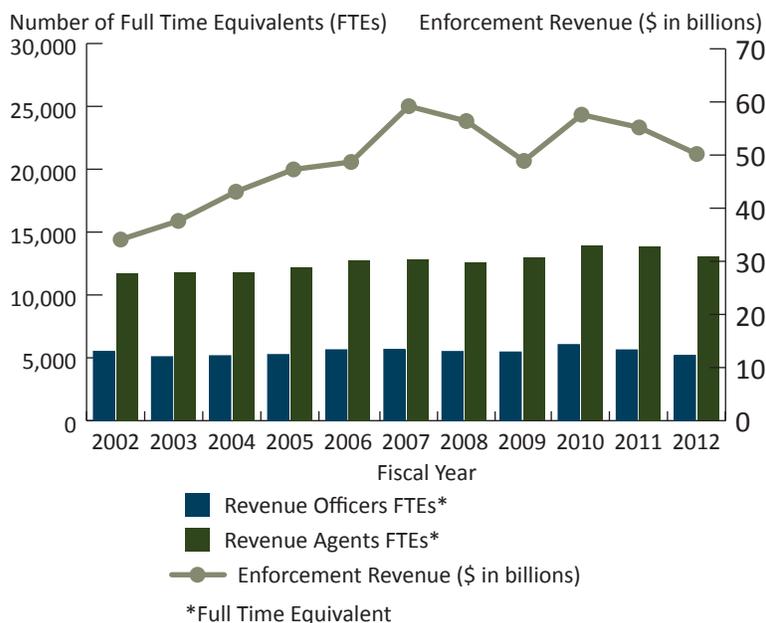
In 2012, the IRS maintained its audit coverage of corporate returns, and increased examinations of large corporations with assets over \$250 million.

FIGURE 5. Examination Coverage Rates for Taxable Corporation Returns by Asset Size



SOURCE: IRS

FIGURE 6. Staffing for Key Enforcement Occupations and Total Enforcement Revenue



SOURCE: IRS

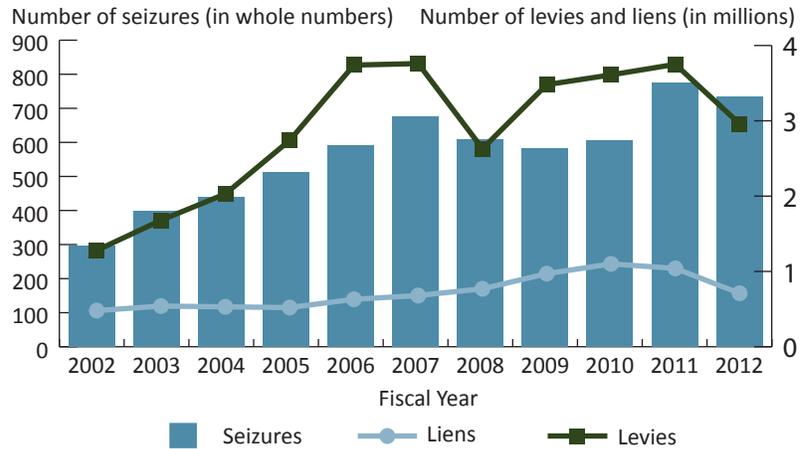
IRS enforcement actions declined slightly this year, due in part to the new collection Fresh Start initiatives that provided some relief to America's taxpayers during a slow economy. Figure 7 shows that levies were at about three million, down about 21 percent from the previous year. Liens filed were also down about 32 percent, with just over 700,000 filed. IRS seizure activity, while down from last year, has remained at a consistent level over the past six years, and through the economic downturn.

Criminal Investigation activities, including prosecutions recommended and convictions, increased in 2012. The IRS worked very closely with the Department of Justice to bring about quick adjudication in cases of tax-related identity theft refund fraud.

Finally, it is important to note that the majority of the public expressed support for additional funding for the IRS to enforce tax laws and assist more taxpayers, as shown in Figure 8.

The IRS' use of levies and liens declined in 2012 to levels similar to the 2008 period; IRS seizures also declined in 2012 compared to 2011, but remain slightly higher than other recent years.

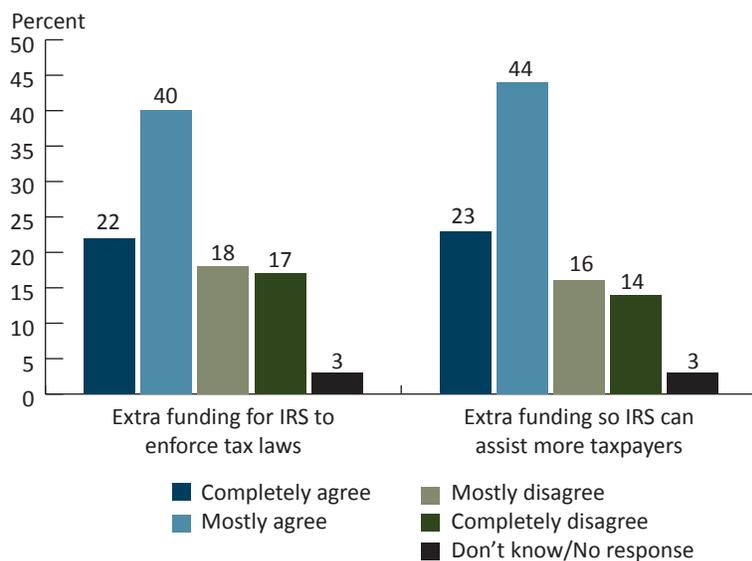
FIGURE 7.
Number of IRS Levies, Liens, and Taxpayer Seizures 2002-2012



SOURCE: IRS

Sixty-two percent of the public supports additional funding for the IRS to further enforce tax laws.

FIGURE 8.
Public Opinion on Additional IRS Funding



SOURCE: 2012 IRS Oversight Board Taxpayer Attitude Survey

NOTABLE ACCOMPLISHMENTS IN FY2012

- Implemented CADE 2 daily account processing; issued 26 percent more refunds within seven days.
- Tackled tax-related identity theft by dedicating 3,000 additional employees towards helping over 240,000 taxpayers who were victimized.
- Surpassed the 80 percent goal for individual e-filing; processed over 115 million returns through Modernized e-File (MeF).
- Expanded e-service options for taxpayers, including upgrading IRS.gov, making improvements to IRS2Go smart phone application, and offering new e-transcript tools for financial institutions.
- Deployed a new online system for over 800,000 preparers to use for renewing their Preparer Tax Identification Numbers.
- Tested new service channels, such as Virtual Service Delivery, for providing taxpayer assistance.
- Launched Fresh Start initiatives to help taxpayers who experienced financial distress due to the economy.
- Expanded OVDP to bring more taxpayers back into the tax system.
- Met Small Business Administration goals and achieved Treasury socio-economic goals in awarding IRS contracts.
- Released over 580,000 square feet of space, with an annual recurring savings of over \$12 million, and advanced agency telework initiatives.
- Secured a clean financial statement audit opinion from the Government Accountability Office.
- Achieved Information Technology Capability Maturity Model Integration (CMMI) Maturity Level 3—a first in government for a large civilian agency.
- Saved \$57 million by developing a strategy to reduce the workforce through early retirements and buyout authority.
- Continued planning and implementing *Affordable Care Act* provisions.
- Delivered more training to employees at 25 percent less cost.
- Launched 24 Geographic Leadership Communities to provide a venue for IRS managers to engage in problem solving and employee mentoring activities.

Innovative Approaches to Tax Administration

Virtual Service Delivery

The IRS deployed a successful initiative which could change the way the IRS interacts with taxpayers—Virtual Service Delivery (VSD). This innovative application of video technology offers a remote face-to-face service delivery option that improves service coverage, increases employee productivity, and reduces costs. In its first year, VSD served more than 16,000 taxpayers at over 15 locations and achieved a customer satisfaction rating of 87%. The IRS plans to expand its VSD effort in 2013 to include additional locations and it will begin testing VSD as a means for conducting virtual correspondence examinations.

Social Media and Smartphones

The IRS recognized that taxpayers – particularly younger taxpayers – often do not get their information through traditional media channels, such as newspapers and broadcast and cable news. To fill this void and ensure critical service and compliance messages reach all demographics, the IRS has put together a suite of social and new media programs that include YouTube, Twitter, and iTunes. For example, during one week in February 2012, the IRS YouTube Video, “When Will I get My Refund?” had more than 254,000 views.

The IRS is also taking advantage of the millions of taxpayers who have smartphones. In 2011, the IRS released its first smartphone app—IRS2Go—which was an instant hit with 350,000 downloads. It allowed taxpayers to check on the status of their refund and receive other helpful tax information. In February 2012, the IRS released IRS2Go2.0 which offers three new tools:

- *Watch Us:* Taxpayers can now view IRS YouTube videos on their smartphones. The IRS’ channel ranks as fourth most viewed among 125 Federal Government YouTube channels.
- *Get the Latest News:* Taxpayers can have the latest IRS news releases delivered to their phones as they become available.
- *Get My Tax Record:* Taxpayers can now order their tax return transcript from the IRS2Go2.0 app.



The IRS has put together a suite of social and new media programs available through YouTube, Twitter, and iTunes.

Real Time Tax System Concept

One of the most innovative recent ideas in tax administration is the Real Time Tax System concept advanced by the IRS. Today the IRS and most tax authorities in the world rely on the “look-back” approach. A taxpayer files his or her return and then the IRS may audit that return up to three years afterwards. In other words, the “look-back” does not deal with problems up-front. This is frustrating for taxpayers who may have to recreate records or pay penalties and interest that were accruing over time. They are perplexed and upset that they were not notified sooner.

However, under the Real Time Tax System concept, the IRS would use third-party tax information documents, such as the W-2 and 1099 forms, when the taxpayer files a return. The IRS would then place this information in its pre-screening filters. If it detects an anomaly—the taxpayer’s data does not match the IRS’ records—the IRS could ask the taxpayer to correct the return before it is accepted for processing. In other words, it is all about getting it right the first time. Although this is still very much a concept, the IRS held a number of stakeholder hearings in FY2012 and has begun to scope out the size of the issue and associated risks.



The joint audit approach is producing real results with the goal of reducing administrative burden for taxpayers while boosting compliance.

Joint Audits

When it comes to international tax administration, the IRS is working with global tax authorities to conduct joint audits of multinational corporations with the goal of reducing administrative burden for the taxpayer while boosting compliance. The ability to resolve issues bilaterally allows joint audits to be completed in less time. The Board commends the IRS for its progress in this area and urges the agency to use this innovative approach in more cases.

Enterprise Collection Strategy

The IRS established an Enterprise Collection Office in October 2011 to provide key oversight for Collection policy and programs. With the focus of this new office, the IRS expanded its Fresh Start initiatives by providing penalty relief to unemployed taxpayers, raising the installment agreement threshold for financial statement completion, and expanding the streamlined Offer in Compromise process to cover a larger group of taxpayers. Direct Debit Installment Agreements, which historically have lower default rates than traditional installment agreements, increased by more than 18 percent in FY2012, attributed in part to the Fresh Start initiative. Additionally, two other initiatives were announced with changes to the Allowable Living Expenses and the reasonable Collection Potential criteria that allow greater flexibility for taxpayers. In conjunction with the Appeals office, the Enterprise Collection Office also worked to expand the Nationwide Fast Track Settlement process which is designed to improve and promote the resolution of cases for small business taxpayers at the earliest possible opportunity.



Success of e-Filing

The IRS electronic filing (e-file) program is recognized as one of the most innovative and successful programs in all of government. The individual e-file program had very modest beginnings, with signs the rate of growth was slowing, until the *IRS Restructuring and Reform Act of 1998* called for an 80 percent e-file rate by 2007. While the IRS did not meet the congressional time frame, the goal had an energizing effect on the IRS and its partners in industry, and the e-file program did cross the 80 percent threshold for individual taxpayers in FY 2012. Overall, more than one billion e-filed returns have been processed since 1986.

E-filing is not just about providing a better service experience for taxpayers. The program is also about creating greater cost efficiencies for the IRS. It costs about 15 cents to process an e-filed return versus \$3.50 for a paper return. The growing popularity of e-file coupled with an additional congressional mandate requiring return preparers who file more than 10 individual returns to use e-file has allowed the IRS to reduce the number of its large paper return processing operations saving the Federal Government and America's taxpayers hundreds of millions of dollars.

FIGURE 9.

Number of Major Individual, Business, and Tax Exempt Tax Returns: e-File and Paper



SOURCE: IRS with IRS Oversight Board 2012 estimate.

Through 2012, the IRS and its tax partners in industry continue to make steady progress in moving paper tax return filings to electronic filings.

Challenges and Risks

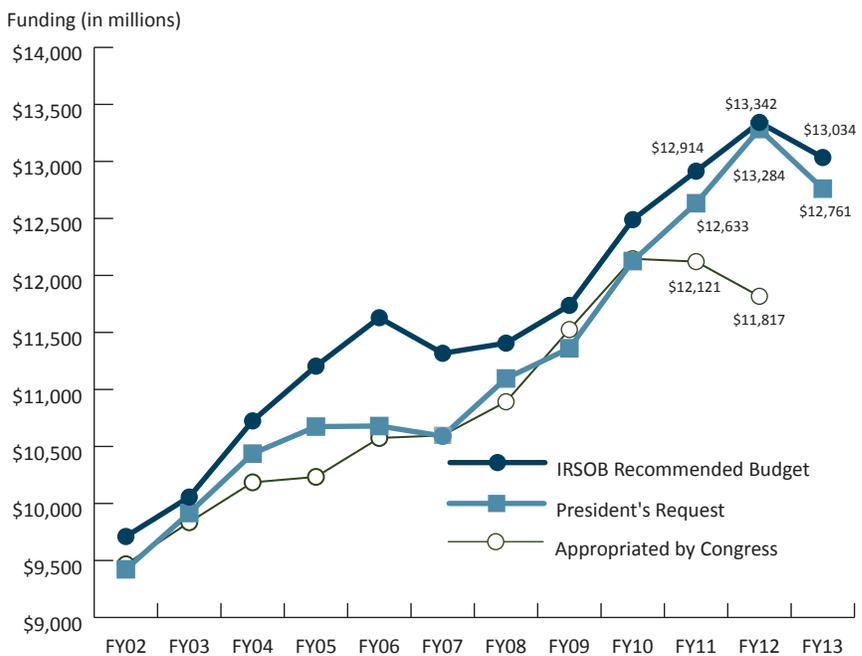
The IRS faces a number of challenges and risks going forward. They include budget uncertainty, refund fraud especially as it relates to tax-related identity theft, increasing responsibilities that go beyond the IRS traditional duties, and an aging workforce that is retiring in increasing numbers. All of these and others are cause for concern, and the Board will be working closely with the IRS to help mitigate the risk.

Budget Uncertainty

The IRS' enacted FY2012 budget fell below both the President's request and the IRS Oversight Board's recommended levels and was \$330 million less than the FY2011 level. This budget cut has real world consequences on both service and compliance programs. Nowhere was this more visible than in the further drop in IRS' toll-free telephone level of service during the 2012 filing season.

It does not seem logical to the Board to cut the budget of an agency that can typically deliver a more than \$4-to-\$1 return on investment. In previous years, the Board has recommended IRS budgets that would allow the agency to meet its strategic goals and ultimately bring in more revenues to fund the government and shrink the deficit.

FIGURE 10.
IRS Funding History, FY2002 to FY2013



SOURCE: IRS Oversight Board

To its credit, the IRS is seeking efficiencies wherever it can. In testimony in March 2012 before the House Appropriations Subcommittee on Financial Services and General Government, the IRS stated that over the past

two years it had identified over \$166.3 million in efficiency savings and other program reductions. Indeed, from FY2009 through the FY2013 proposed budget, the IRS will have achieved nearly \$1 billion in savings.

The IRS has looked at a number of ways to reduce its expenses such as cutting outside contracts, training, and non-case related travel. In addition, the IRS announced in May 2012 that it is closing 43 of its smaller offices and consolidating others in the same commuting area, resulting in a cost savings of \$40 million

It does not seem logical to the Board to cut the budget of an agency that can typically deliver a more than \$4-to-\$1 return on investment.

over two years. While the IRS is taking positive and proactive steps to manage its real-estate portfolio, annual rent increases that average six percent absorb some of the rent-reduction savings. The Board does not believe it is reasonable for the IRS to be expected to keep absorbing the increases during tough budget times.

The IRS is also a highly labor intensive organization; the agency's payroll is its biggest expense. To help deal with its reduced budget, the IRS also instituted a hiring freeze while at the same time relying on attrition to lower staffing. Job openings were only filled on an exception basis. The IRS also offered Voluntary Separation Payments to those who were eligible or close to retirement. These payments were given to 1,000 employees. As a result of all of these measures, the IRS has approximately 7,000 fewer employees than the previous year.

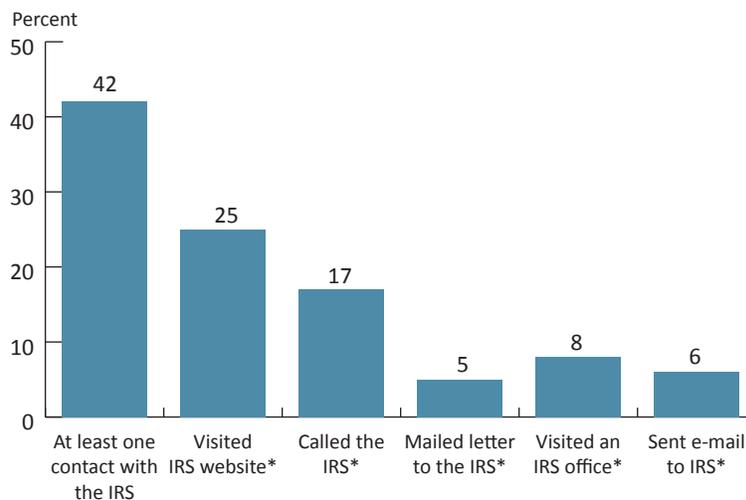
The Board cautions that additional budget cuts could further erode not only IRS customer service and compliance programs but the agency's ability to collect the revenue to fund essential programs upon which tens of millions of Americans rely.

Customer Service

IRS customer service faces a number of risks and challenges going forward. The IRS has a diverse customer base, requiring a number of different service channels and products. Although the IRS is trying to migrate

Over 40 percent of the public contacted the IRS during 2012 using various channels. The importance of IRS taxpayer service cannot be taken lightly.

FIGURE 11:
Percent of Public Contacting the IRS for Information or to Resolve a Tax Matter during 2012



SOURCE: 2012 IRS Oversight Board Taxpayer Attitude Survey
*These percentages are not mutually exclusive.

as many taxpayers as possible to self-service and Web-based options, many taxpayers still prefer face-to-face contact with an IRS representative at a Taxpayer Assistance Center. Other taxpayers prefer to call a customer service representative to get information on their tax accounts or an answer to their tax law or account questions. They may also use one of the IRS' automated phone services. As indicated in Figure 11, the Board's *2012 Taxpayer Attitude Survey* shows that at least four out of ten people interacted with the IRS to obtain information or to resolve a tax matter.

Individual taxpayer satisfaction with the return filing process enjoys relatively high marks in

recent years on the American Customer Satisfaction Index (ACSI), with an ACSI score of 75 in 2012 as compared to 60 in 2001. This level of satisfaction exceeds the IRS long-term goal of 72 for its Strategic Plan.

Primarily due to budget constraints, the IRS set a relatively low telephone Level of Service (LOS) for the 2012 filing season: 61 percent.

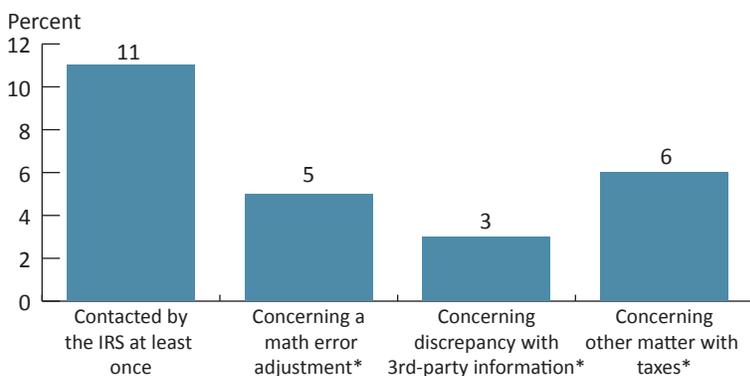
TABLE 1:
IRS Major Performance Measures During the 2008 to 2012 Filing Seasons

	2008	2009	2010	2011	2012
Assistor LOS (In percent for entire fiscal year)	53	70	74	70	68
Assistor LOS (in percent during filing season)	57	68	76	72	67
Average wait time in minutes (during filing season)	8.6	8.4	9.5	11.7	16.8
Tax law accuracy rate	90.3%	92.5%	92.4%	93.4%	93.0%
Accounts accuracy rate	93.5%	95.1%	95.6%	96.0%	95.4%
Refund timeliness (percent delivered within 45 days)	99.1	99.2	96.1	99.4	99.7

SOURCE: IRS and GAO

Eleven percent of the public report being contacted by the IRS during 2012.

FIGURE 12:
Percent of Public Contacted by the IRS During 2012



SOURCE: 2012 IRS Oversight Board Taxpayer Attitude Survey

*These percentages are not mutually exclusive.

However, as illustrated in Table 1, the IRS surpassed their target goals and achieved a 68 percent LOS in FY2012, as compared to 70 percent the previous year and 74 percent in FY2010. The last time the IRS provided a level of service over 80 percent—which the Board believes is the minimum acceptable level—was FY2007.

The demand for service is further evident from the Board’s survey, which shows that 11 percent of the public were contacted by the IRS at least once during 2012 (see Figure 12). It often takes multiple phone calls for these taxpayers to resolve the issues for which they were contacted by the IRS.

The IRS simply did not have the people to answer the phones, resulting in longer wait times, more hang-ups, and a general erosion of customer service. The IRS reported average wait time was almost 17 minutes during the 2012 filing season as compared to just under 12 minutes the year before. To the IRS assistors’ credit, tax law and account question accuracy rates remained above 90 percent in 2012.

Level of Service has also continued to decline on the Practitioner Priority Service (PPS) line, as shown in Table 2. In FY2012, the IRS provided practitioners with a 73 percent LOS, down from 78 percent the prior year. Additionally, the average time to answer calls on the PPS line increased by almost 60 percent from 13 minutes in 2011 to 22 minutes in 2012. The Board heard concerns from practitioners about

PPS service while conducting discussion groups at the 2012 IRS Nationwide Tax Forums, and it appears that practitioner frustration with customer service is increasing as wait times on the phones continue to grow. This challenge requires the IRS to use innovative, new approaches for meeting the growing demands of the practitioner community; a challenge that the Board hopes the IRS will be working to address.

While there were over 372 million web page visits to IRS.gov during FY2012, customer satisfaction with IRS.gov (as shown in Figure 13), experienced a decline.

The IRS launched a new version of IRS.gov in August 2012. The Board hopes this newly designed web site will improve customer experience.

One of the biggest risks the IRS faces is how to provide a balanced portfolio of customer service options with a smaller budget and a smaller workforce. When IRS Commissioner Shulman testified on the 2012 filing season before the House Ways and Means Subcommittee on Oversight, he observed that the IRS had 5,000 fewer personnel on its payrolls as compared to 2011. Of the 5,000 person reduction, approximately 3,000 came from enforcement staff and the balance from customer service.

The Board believes it is critical to fund the IRS so it can deliver a higher level of service to the taxpaying public who need its help in deciphering the complexity of the tax code. The IRS' current challenge to provide service to all may ultimately impact voluntary compliance and the ability of the agency to deliver its mission if it is not addressed soon.

A shrinking workforce also affects face-to-face customer service. More Taxpayer Assistance Centers (TACs) closed and many were understaffed. Some TACs reduced the number of days they offered preparation services and

TABLE 2:

Practitioner Priority Service (PPS) Snapshot

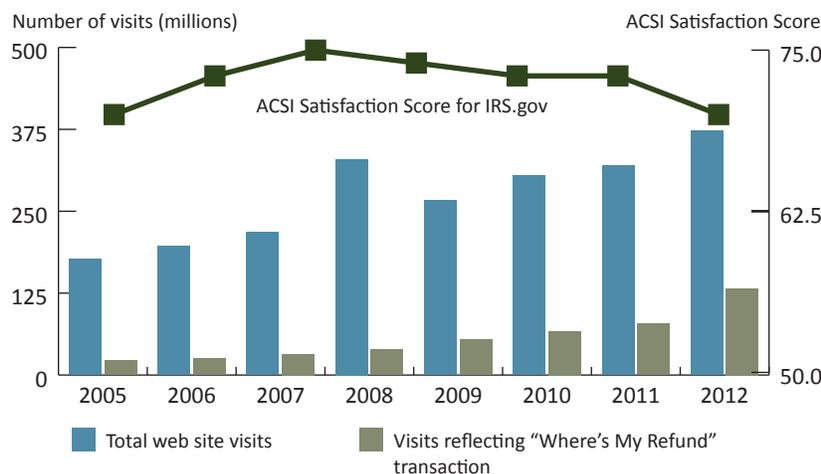
MEASURES	FY2010 Actual	FY2011 Actual	FY2012 Goal	FY2012 Actual
PPS Level of Service	79.8%	78.3%	72.0%	73.4%
PPS Accuracy	94.2%	93.9%	93.9%	93.7%
PPS Average Speed to Answer	10.5 minutes	13.3 minutes	26.2 minutes	22.1 minutes

SOURCE: IRS

In 2012, IRS web site usage increased, and web-based applications such as "Where's My Refund" experienced steady growth.

FIGURE 13:

IRS Web Site Usage and Customer Satisfaction Ratings, 2005 to 2012



SOURCE: IRS and www.theacsci.org

no longer offered the option of making an appointment. The IRS is now having to rely more on community organizations, such as the Volunteer Income Tax Assistance (VITA) programs that assist taxpayers who earned \$50,000 or less, and the Tax Counseling for the Elderly (TCE) programs that help individuals 60 years and older, with their tax preparation and electronic filing.

The IRS must also deal with customer expectations. Although the IRS is very effective in “pushing” information out to taxpayers through its web site and social media, the Board has heard from taxpayers, practitioners, and

IRS employees that they want the ability to communicate, resolve an issue, and conduct more IRS transactions electronically.

The Board is well aware that the IRS will have to address a number of security risks to offer an enhanced level of customer service. For example, phishing schemes try to convince an unsuspecting taxpayer to respond to an official looking e-mail to obtain confidential taxpayer information that can then be used in tax refund fraud or other criminal schemes. Every year, the IRS releases a list of the “Dirty Dozen” tax schemes and warns taxpayers that it never sends e-mails to taxpayers—only

paper letters. The IRS may need to focus on educating the public as it engages in more electronic interaction with taxpayers.

Enhanced electronic interactions between taxpayers and the IRS would be a real sea change for the IRS, but one that it cannot ignore. Certainly, future deployments of CADE 2 will help the IRS offer more web-based applications, but the IRS will still have to investigate and employ both government and industry best cyber-security practices to rise to this new level of customer service that taxpayers have come to expect.

Refund Fraud

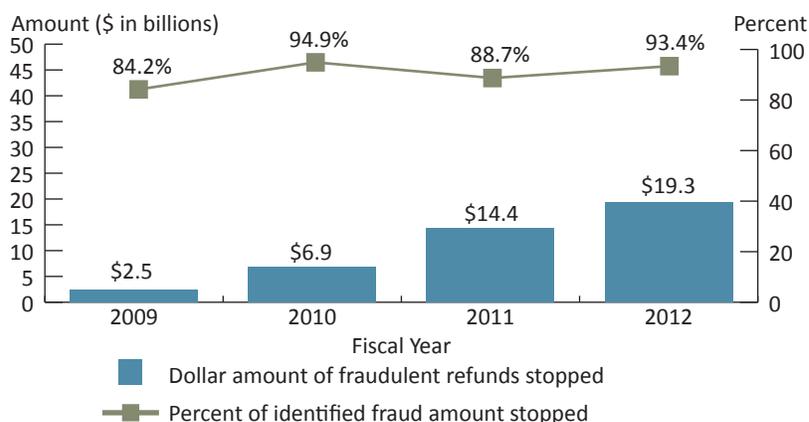
While refund fraud continues to be a major risk for the IRS, it is unclear how large this problem is. Although refund fraud can take many shapes, such as fraudulent claims of refundable tax credits on one's individual income tax return, a growing problem today involves identity theft. Identity theft is a global problem, and tax returns and refunds are susceptible to fraud. However, it should be stressed that the IRS is not the source of the stolen personal information used to commit the crime.

Progress is being made in both fraud prevention and victim assistance. Through the use of new filters and processes to detect and handle fraudulent returns, the IRS stopped \$19.3 billion in fraudulent payments from going out the door in 2012 as compared to \$14 billion the previous year. Figure 14 shows the dramatic increase in the number and dollar amount of fraudulent refunds identified and stopped by the IRS over the past four years.

New IRS filters flag a return as possible identity theft if certain suspicious changes in a taxpayer's circumstances are detected. Once a tax return is flagged, the IRS corresponds with the sender before further processing the return to make sure it has the right taxpayer.

The IRS stopped over \$19 billion in refund fraud in 2012.

FIGURE 14:
Dollar Amount and Percent of Identified Fraud Stopped



SOURCE: IRS

Tax related identity theft has grown dramatically in the past year and accounts for more than half of the total refund fraud identified by the IRS.

TABLE 3:
Tax Related Identity Theft: Incidence, Assistance, and IRS Efforts to Combat ^{1,3}

Description	2011	2012
Identity theft incidents identified by IRS	247,000	1,245,000
Number of IP PINs ² issued by the IRS to identity theft victims for use in the next filing season	252,000	600,000
Number of confirmed identity theft returns stopped	1,084,000	1,840,000
Value of fraudulent identity theft refunds prevented	\$7.58 billion	\$12.11 billion

SOURCE: IRS and GAO

¹ Some counts reflect partial year tallies.

² Identity Protection Personal Identification Numbers (IP PIN)

³ Numbers have been rounded.

Tax related identity theft has grown dramatically in the past year and accounts for more than half of the total refund fraud identified by the IRS.²

Since 2008, the IRS has identified more than 600,000 taxpayers affected by identity theft. The IRS has been criticized in congressional hearings for not doing enough to resolve their cases and restore their accounts. Victimized taxpayers had long waits on the dedicated identity theft call line and in some instances were not treated courteously.

By the end of FY2012, the IRS had approximately 3,000 employees working on identity theft cases, up 50 percent from the previous year. The IRS is providing specialized employee training to help assist victimized taxpayers.

In addition, approximately 600,000 taxpayers who were victims of identity theft have been issued special Identity Protection Personal Identification Numbers (IP PIN) by the IRS for use in the 2013 filing season. This unique identifier establishes a taxpayer as the rightful filer of future returns and should dramatically reduce the number of taxpayers caught up in delays and prevent fraudulent returns from being processed in the future. A new streamlined service allowing taxpayers to receive an IP PIN quickly was instituted in 2012.

The IRS is also working hard to shut down phishing schemes

and has a link on its web site for reporting them.

Increasingly Large Portfolio of Duties

The IRS Oversight Board has expressed concern over the IRS' growing portfolio of duties. Recently, the IRS has been called upon to implement the tax portions of major pieces of legislation, such as the *American Recovery and Reinvestment Act* and the *Affordable Care Act*. One third of the *Recovery Act*, or \$300 million, was administered through the tax system. Similarly, much of the "money flows" in the *Affordable Care Act* go through the tax system.

It is certainly a compliment to the IRS that Congress entrusts it with such important responsibilities.

The IRS Oversight Board has expressed concern over the IRS' growing portfolio of duties.

However, the Board is concerned that these additional duties strain the IRS' limited resources. Even when Congress provides additional funding for implementation of new responsibilities, the IRS still has to pull leadership and technical expertise from a dwindling pool of critical experienced staff that

are needed for other pressing tax administration duties.

The Board is closely monitoring this mission creep. With tighter budgets and a shrinking workforce, the IRS cannot lose its focus on its core competencies—taxpayer service and enforcement.

Effective Use of Data

The IRS has been implementing a number of new information reporting and matching programs designed to increase taxpayers' voluntary compliance and reduce the estimated \$450 billion annual tax gap. While increased information reporting holds the promise of more effective and targeted tax administration to address the tax gap, there are many challenges to be overcome before that promise is realized.

The new Information Reporting and Document Matching (IRDM) program is processing the reporting of cost basis for sales of certain securities and merchant credit card payments. To use this new data, the IRS is developing systems that are expected to improve IRS' existing matching of information returns to individual tax returns and business taxpayers.

In February 2012, in response to concerns raised by small business advocacy groups, the IRS determined that it would not require businesses to reconcile their gross receipts with merchant card transactions in 2012. Improvements to tax forms,

² According to the Government Accountability Office (GAO-13-132T), the IRS captures data on the amount of money it recovers from all types of fraudulent returns, but it does not fully distinguish whether the type of fraud was identity theft or some other type of fraud.

schedules, and corresponding instructions were needed to reduce mismatched amounts that would cause increased burden on both taxpayers and the IRS. While the IRS has access to this new data, it is in the early stages of developing ways to effectively use the data.

Another challenge to effective data use involves the Foreign Account Tax Compliance Act (FATCA), an important development in US efforts to improve tax compliance involving foreign financial assets. Under FATCA, US taxpayers with specified foreign financial assets that exceed certain thresholds must report those assets to the IRS.

Taxpayers must begin FATCA reporting for the 2014 filing season, delayed from the original date of January 2013. In addition, FATCA requires foreign financial institutions to report directly to the IRS information about financial accounts held by US taxpayers, or held by foreign entities in which US taxpayers hold a substantial ownership interest.

The IRS' implementation of FATCA has raised privacy concerns, and it has been reported that a number of foreign banks have closed accounts for US customers rather than comply with what they describe as "onerous" reporting regulations.

The securities cost basis reporting, merchant credit card payment reporting, plus the FATCA reporting, all place substantial information processing and reconciliation burdens on the IRS.

The challenge for the agency going forward will be how the new data can be used to effectively enforce the tax laws and reduce the tax gap.

Human Capital Issues

People are the IRS' greatest asset. The Board notes that under the leadership of Commissioner Shulman, the IRS has maintained its 3rd place ranking (83rd percentile) among the 15 largest federal agencies based on the employee engagement index score developed as one of the long term measures for the *IRS Strategic Plan 2009-2013*. While this is commendable, the IRS must continue to focus on employee engagement, especially in times of tight budgets.

However, the Board is deeply concerned by the potential for large-scale retirements at the Agency, as workload responsibilities grow while IRS budgets do not. It was estimated in 2009 that three-quarters of the IRS workforce could retire from or leave the IRS by 2018. That is a human capital risk of enormous proportions.

The Board is particularly focused on how the IRS is managing that retirement risk as it relates to executives and those with deep institutional knowledge. This in turn raises questions about the IRS' bench strength. The Board is pleased that the IRS is actively engaged in its Leadership Succession Review process, which helps identify and prepare IRS employees for future leadership positions.

Retirements and departures may also accelerate if policymakers change current Federal employee pay and benefits. The Board is also concerned about the expiration of the streamlined critical pay provision in 2013. This important provision of the *IRS Restructuring and Reform Act of 1998* has allowed the IRS to bring on board experts from the private sector in areas such as technology, with proven positive results.

The Board believes streamlined critical pay authority, which allows the agency to hire a limited number of extremely skilled employees, should be extended beyond its termination date this summer.

The Board is deeply concerned by the potential for large-scale retirements at the Agency, as workload responsibilities grow while IRS budgets do not.

IRS Oversight Board Activities 2012

In addition to its statutory responsibilities under the *IRS Restructuring and Reform Act of 1998* (RRA 98), the IRS Oversight Board conducts a number of other activities with the goal of protecting the integrity of the tax system and improving the efficiency and effectiveness of tax administration.

The Board sets an agenda and meets quarterly with the IRS Commissioner and senior executives. Its two committees also meet on a quarterly basis to review IRS progress on specific programs and strategies. In addition, the Board conducts an annual public meeting where it can hear directly from stakeholders on pressing tax administration issues of the day.

The public meeting dovetails into the Board's presence at the IRS Nationwide Tax Forums where it conducts listening sessions with practitioners and IRS employees to get an unfiltered view of what these groups perceive as the agency's major challenges and opportunities.

The Board issues a number of reports on subjects such as the IRS budget and electronic tax administration. In addition, it conducts an annual survey of taxpayer attitudes towards important issues, such as whether it is acceptable to cheat on your taxes and what IRS services taxpayers expect to use.

In addition, the Board presents its views to key congressional committees and staff through correspondence and one-on-one meetings. Its reports are frequently cited in the media, and the Board Chair also provides the Board's views for media inquiries.

Quarterly Board Meetings

The IRS Oversight Board met four times in FY2012:

- December 12, 2011
- February 29, 2012
- May 16, 2012
- September 12, 2012

The IRS briefed the Board on many of its critical program areas and accomplishments throughout the year. A list of the broad range of topics covered is below.

BOARD MEETING DISCUSSIONS FOR 2012

- *Affordable Care Act Implementation*
- *Alternative Minimum Tax Patch and Tax Extenders*
- *IRS Budgets – FY2012-2014*
- *CADE 2*
- *Collection operations, including review of the Enterprise Collection Organization*
- *Modernized e-File*
- *FY2011 Year-end Performance and Goals Achieved*
- *Filing Season preparations, progress and accomplishments*
- *Efforts to assist victims of Tax-Related Identity Theft*
- *Fraud detection and prevention efforts*
- *Human Capital Issues, including employee retention*
- *Online Services Enhancements*
- *Real Estate Optimization efforts*
- *Real Time Tax*
- *Return Preparer Regulations*
- *IRS Strategic Plan Development (2013-2016)*
- *Tax Gap*
- *Virtual Service Delivery*

Committees and Other Meetings

The IRS Oversight Board has two committees: the Operations Committee and the Operations Support Committee. Each one meets with IRS organizational leaders four times a year to review performance and discuss key issues.

OPERATIONS COMMITTEE

The Operations Committee identifies strategic issues at the start of each year and then monitors the IRS' progress on them throughout the year. It also monitors IRS progress on Lean Six Sigma projects. Focus areas in FY2012 included:

- *CADE 2 Implementation and Post-Implementation Review*
- *Collection Organization and Process Improvement*

- *Compliance and Oversight of Non-Profit Hospitals*
- *Development of Operational and Outcome Measures*
- *The International Organization*
- *Pre-Refund Case Resolution*
- *Streamlined Processing*

OPERATIONS SUPPORT COMMITTEE

The Operations Support Committee promotes business process improvement efforts and reviews the IRS' progress on a number of such projects. Focus areas in FY2012 included:

- *Implementation of the Internet Payment Platform*
- *Information Technology Service Management Maturity/Capability Maturity Model Integration*
- *Lean Six Sigma Effort Targeted to Disclosure Processes*
- *Learning Management System Process Redesign*
- *Real Estate Space Optimization*
- *Selected Analytic Initiatives: Return Preparer Program; Link Analysis for Large Businesses; and Compliance Assurance Process (CAP) Program*

Public Meeting

The IRS Oversight Board held its annual public meeting on February 28, 2012, at IRS National Headquarters to examine and discuss the following questions and challenges:

- *How Can Correspondence Audits be More Effective for the IRS and Less Burdensome for Taxpayers*
- *Customer Service Challenge: Delivering Effective Taxpayer Service in an Era of Budget Reductions*
- *Human Capital Management Challenge: Fostering Employee Mentoring, Engagement, and Development in a Limited Budget Environment*

The panelists who addressed these challenges and shared their views and insights included representatives of stakeholder organizations, such as preparer groups, representatives of low-income taxpayers, payroll organizations, electronic tax administration organizations, state administrators and other subject matter experts.

A summary of the meeting, including witnesses' testimony and recommendations can be found at <http://www.treasury.gov/irsob/meetings/2-28-12/>

Reports

In 2012, the IRS Oversight Board published four reports:

- *IRS Oversight Board Annual Report to Congress 2011*
- *IRS Oversight Board Electronic Filing 2011 Annual Report to Congress*
- *IRS Oversight Board FY2013 IRS Budget Recommendation Special Report*
- *IRS Oversight Board Taxpayer Attitude Survey*

These reports can be found on the Board's web site at <http://www.treasury.gov/irsob/board-reports.shtml>.

Training Meeting

The RRA98 gives the Oversight Board specific responsibilities, such as “review (of) the operational functions of the Internal Revenue Service, including ...plans for training and education.” The Board views strategic human resource management, including training employees, as an important and continuing necessity for the IRS to operate effectively. The development of IRS employees' skills allows the agency to improve performance as it operates in a limited-resource environment. Once every three years, the Board conducts a strategic review of IRS training programs. The purpose of the Board's oversight is to bring strategic attention to agency-wide training and work with the IRS to identify appropriate changes, including incorporating public and private-sector best practices, as it develops training programs using modernized technology.

On June 14, 2012, the Board met with IRS executives and human resource directors to discuss the agency's approach to train and educate IRS employees. IRS officials told the Board that over the last four years, IRS training has focused on creating efficiencies through technology, leveraging data analytics, and positioning the workforce to address the challenges of a global economy.

The IRS provided workforce demographics for its employees and said that while the IRS training budget has declined from over \$125 million in FY2008 to just over \$90 million for FY2012, the agency has taken advantage of technology to reduce costs while increasing training by 25 percent. The percent of training events delivered online increased from approximately 83 percent in 2008 to over 90 percent in 2011. The IRS also reported it reduced costs by developing some training courses in house, driving the average cost per training hour down from \$35 in 2008 to \$18 in 2011.

The IRS reported that it had improved training content and delivered training more efficiently using technology and pooled resources across divisions. The agency is focusing on skills that help employees learn targeted training over time interspersed with practical experience. This new approach leads to improved case work quality and enhanced

learning experiences. The IRS demonstrated its training approaches with video examples and gave the Board the opportunity to interview a newly-trained revenue agent and his supervisor to learn about his positive training experience.

One of the IRS' educational goals is to provide training that leads to employees being recognized as knowledgeable and competent professionals. The agency wants to provide career development assistance for employees, coaching and mentoring to increase employee effectiveness, and development of leadership competencies to create a service-wide pipeline of future leaders. The IRS described an evolving corporate, data-centric approach for leadership talent management, where governance boards assist in identifying and developing individual needs supplemented by data that assists in matching the best leader for the job. Coaching is integrated into leadership courses and the IRS reported that over 18,000 employees had access to certified coaching. IRS succession planning was recognized as a best practice by the Best Practice Institute, and the 2012 Bersin & Associates Award recognized the IRS, along with AT&T, Marriott International and Grant Thornton for Leadership Development Strategy Excellence.

Executive Performance Reviews

The Board met its statutory responsibility of being involved in the selection, evaluation, and compensation of senior IRS executives. The Board's Executive Committee conducted a thorough review of FY2012 performance commitments and reviewed FY2011 performance ratings, salaries, and bonuses for top IRS executives.

Board Travel Expenses

The travel expenses for the IRS Oversight Board in FY2012 totalled \$70,675.

NATIONWIDE TAX FORUMS

The Board continued its participation in the IRS Nationwide Tax Forums in 2012. The Tax Forums were held in Orlando, Atlanta, San Diego, Las Vegas, Chicago, and New York. In addition to staffing an IRS Oversight Board information table where tax practitioners had an opportunity to “tell the Board” their concerns, the Board held discussion groups with IRS employees and practitioners during each forum. Board members met with tax professionals on site at the forums and with IRS employees at IRS local offices in cities where the tax forums were held. After the employee discussion groups, Board members were given tours of the facilities which included additional opportunities to visit with IRS managers and employees in their work areas.

WHAT THE BOARD HEARD AT THE TAX FORUMS

Ten themes emerged from all of the Nationwide Tax Forums discussion groups conducted by the IRS Oversight Board. The Board shared this feedback with the IRS and will continue to monitor the IRS’ progress in addressing these issues.

- *Customer Service* – Very long wait times at Taxpayer Assistance Centers and on toll-free lines, including the Practitioner Priority Service line; lack of clerical and technical support for frontline IRS employees; practitioners frustrated with rework issues and an inability to quickly resolve client account issue.
- *Pay and Hiring Freeze Impact on Retention of IRS Employees* – Limited promotion opportunities for IRS employees; morale and training affected; employees’ development of career path plans; practitioners seeing a decline in IRS morale and the competency of IRS employees.
- *Uncompensated Overtime* – Increased workload and pressure to close cases; impact on internal customer service and taxpayer service; administrative help in short supply; practitioner belief that cases are being closed too quickly and that this delayed resolution is causing a decline in taxpayer confidence in the tax system and increased taxpayer burden.
- *Quality of Training* – Shift to on-line delivery drawbacks; no interaction with peers and work interruptions during on-line sessions; practitioner belief that phone assistants need better training to resolve account issues at first opportunity.
- *Workplace Tools* – Work delays caused by outdated IRS software; data backup is awkward and inadequate; inability to communicate with taxpayers via email; potential for electronic casework to significantly speed up the process; practitioner desire for more e-file options and electronic correspondence to resolve accounts with the IRS.
- *Tax-related Identity Theft* – More widespread; IRS needs to be more prepared to help victims; practitioner belief that tax fraud is a rapidly growing problem and delayed taxpayer refunds is a huge problem.
- *Affordable Care Act Implementation* – Very complex task; employees and practitioners concerned about the IRS having the resources to do the job and properly handle taxpayer phone calls.
- *International Tax Issues* – Practitioners confused about reporting requirements and experiencing difficulties obtaining definitive information from the IRS.
- *Return Preparer Regulations* – Practitioners concerned about enforcement, testing, and educational outreach to the public.
- *Workplace Safety* – Some employees concerned about personal security; worried about angry taxpayers due to long wait times at Taxpayer Assistance Centers.

Appendices

1. IRS 2012 Performance Measures
2. IRS Long-Term Measures and Target Values
3. Biographies of Private-Life Members

APPENDIX 1.

IRS Performance Report

The IRS Oversight Board and its committees discuss operational performance with IRS executive leadership on a quarterly basis using key data contained in the IRS' Business Performance Review reports. These discussions focus on evaluating progress toward achieving the annual operational goals identified by the IRS.

The following tables identify the 65 key performance measures (along with their definitions) and goals monitored by the Oversight Board in FY2012. The measures are organized by IRS Strategic Goal and/or Strategic Foundation. For comparison purposes, the Board identifies actual FY2011 performance, planned and actual FY2012 performance, and planned FY2013 performance.

PERFORMANCE MEASURES	FY2011 ACTUAL	FY2012 PLAN	FY2012 ACTUAL	FY2013 PLAN
GOAL 1: IMPROVE SERVICE TO MAKE VOLUNTARY COMPLIANCE EASIER				
Accounts Management Customer Satisfaction (Adjustments)	63.0%	65.0%	65.0%	65.0%
Automated Underreporter Telephone Level of Service	78.3%	78/0%	78.0%	78.0%
Correspondence Error Rate With Systemic Errors	4.5%	5.1%	4.4%	5.0%
Cost Per Taxpayer Served – Health Coverage Tax Credit	\$12.36	\$13.00	\$14.43	\$13.00
Customer Accuracy – Accounts Phones	96.0%	95.0%	95.6%	95.0%
Customer Accuracy – Tax Law Phones	93.4%	92.7%	93.2%	92.7%
Customer Contacts Resolved Per Staff Year	12,419	13,300	16,320	17,167
Customer Service Representative Level Of Service	70.1%	61.0%	67.6%	70.0%
Deposit Error Rate - Combined	0.6%	1.0%	0.3%	1.0%
Employee Plans Determination Letters Timeliness - # Days	370	318	367	490
Exempt Organizations Determination Customer Satisfaction	74.0%	74.0%	72.0%	74.0%
Exempt Organizations Determination Letters Timeliness - # Days	104	141	137	137
Percent Of Business Returns Processed Electronically	31.8%	32.0%	36.7%	34.0%
Percent Of Individual Returns Processed Electronically	76.9%	79.0%	80.5%	80.0%
Practitioner Toll-Free Customer Satisfaction	90.0%	80.0%	86.0%	80.0%
Primary Abandoned Call Rate ¹	18.3%	NA	18.7%	NA
Refund Timeliness – Individual (Paper)	99.4%	98.0%	99.7%	98.0%
Secondary Abandoned Call Rate ²	24.1%	NA	26.9%	NA
Sign-Up Time – Health Coverage Tax Credit - # Days	117.0	125.0	116.0	125.0
Taxpayer Self Assistance Rate	70.1%	72.2%	78.5%	79.6%
Timeliness Of Critical Individual Filing Season Tax Products To The Public	96.3%	95.0%	97.2%	95.0%
Timeliness Of Critical Tax Exempt/Government Entities & Business Tax Products To The Public	96.4%	93.0%	94.5	95.0%
W&I Average Wait Time On Hold (In Seconds) Average Speed To Answer	779	1,129	1,001	1,204

SOURCE: IRS

¹ IRS does not set target goals for the Primary Abandoned Call Rate measure.

² IRS does not set target goals for the Secondary Abandoned Call Rate measure.

Appendix 1: IRS 2012 Performance Measures

PERFORMANCE MEASURES	FY2011 ACTUAL	FY2012 PLAN	FY2012 ACTUAL	FY2013 PLAN
GOAL 2: ENFORCE THE LAW TO ENSURE EVERYONE MEETS THEIR OBLIGATIONS TO PAY TAXES				
Automated Collection System Accuracy	94.9%	94.5%	94.7%	94.5%
Automated Underreporter Coverage	3.3%	3.2%	3.2%	3.0%
Automated Underreporter Customer Satisfaction (SB/SE)	62.0%	62.0%	63.0%	62.0%
Automated Underreporter Customer Satisfaction (W&I)	69.0%	Baseline	71.0%	TBD
Automated Underreporter Efficiency	2,007	2,067	2,041	1,967
Collection Coverage	50.0%	47.8%	48.1%	46.8%
Collection Efficiency	1,952	2,073	1,997	2,028
Compliance Services Collection Operation Customer Satisfaction (SB/SE)	57.0%	57.0%	57.0%	57.0%
Compliance Services Collection Operation Customer Satisfaction (W&I)	69.4%	69.0%	66.6%	69.0%
Compliance Services Collection Operation Days To Close - Business	19.4%	24.0	29.3	24
Compliance Services Collection Operation Days To Close - Individual	16.0%	18.0	15.7	19.0
Conviction Efficiency Rate	\$310,029	\$325,000	\$270,511	\$325,000
Conviction Rate	92.7%	92.0%	93.0%	92.0%
Correspondence Exam Customer Satisfaction (SB/SE)	47.0%	47.0%	47.0%	48.0%
Correspondence Exam Customer Satisfaction (W&I)	57.0%	Baseline	48.0%	TBD
Criminal Investigations Completed	4,697	4,000	4,937	4,000
Exam Timeliness (Coordinated Industry And Industry Combined) - # Months	31.5	30.0	29.8	31.0
Examination Coverage - Business (Assets >\$10m)	6.1%	5.6%	6.4%	4.6%
Examination Coverage - Individual	1.1%	1.0%	1.0%	1.0%
Examination Efficiency - Individual	139	134	142	146
Examination Quality - Coordinated Industry	96.0%	97.0%	96.0%	90.0%
Examination Quality - Industry	90.0%	90.0%	90.0%	90.0%
Field Collection Customer Satisfaction	70.0%	70.0%	69.0%	70.0%
Field Collection National Quality Review Score	80.3	78.0%	80.4%	80.4%
Field Exam Customer Satisfaction	60.0%	60.0%	62.0%	60.0%
Field Examination National Quality Review Score	85.8%	85.8%	87.4%	86.9%
Number Of Convictions	2,350	2,175	2,634	2,175
Office Examination National Quality Review Score	90.4%	90.4%	91.3%	91.1%
Percent Of Offers-In-Compromise Field And Campus Cases Closed In Less Than 9 Months ³	72.4%	74.0%	84.0%	81.5%
SB/SE Correspondence Exam Cycle Time (EITC) - # Days	200	193	202	193
SB/SE Correspondence Exam Cycle Time (Non-EITC) - # Days	167	177	174	177
Tax Exempt/Government Entities Determination Case Closures	91,205	65,794	87,000	62,473
W&I Service Center Correspondence Exam Timeliness (Discretionary) - # Days	160	185	180	185
W&I Service Center Correspondence Exam Timeliness (EITC) - # Days	209	209	212	209

³Measure is new for FY2012. FY2011 plan and actual numbers are based on Field cases only.

Appendix 1: IRS 2012 Performance Measures

PERFORMANCE MEASURES	FY2011 ACTUAL	FY2012 PLAN	FY2012 ACTUAL	FY2013 PLAN
STRATEGIC FOUNDATIONS: INVEST FOR HIGH PERFORMANCE				
End-To-End Availability (New For FY2012)	NA	NA	99.2%	Baseline
Internal Customer Satisfaction (New For FY2012)	NA	NA	NA	70.0%
Occupancy Cost Per Rentable Square Foot (New For FY2012)	NA	\$29.42	\$28.28	\$29.71
Percent Of Business Systems Modernization Projects Within +/- 10% Cost Variance	71.4%	90.0%	50.0%	90.0%
Percent Of Business Systems Modernization Projects Within +/- 10% Standard Variance	100.0%	90.0%	100.0%	90.0%
Percent Of Critical Systems With Compliant IT Security Standards (New For FY2012)	NA	90.0%	90.1%	90.0%
Percent Of Managers Receiving Leadership Training Timely	92.0%	90.0%	88.0%	90.0%
Percentage Of Mission Critical Positions Hires Achieved	99.0%	100%	100%	100%

Definitions of Performance Measures by IRS Strategic Goal

Performance Measures for Strategic Goal 1: Improve Service to Make Voluntary Compliance Easier	
Performance Measure	Definition
Accounts Management Customer Satisfaction (Adjustments)	Total percentage of top ratings given by taxpayers on the Adjustment Customer Satisfaction Survey question rating overall satisfaction. The taxpayer is asked, "Regardless of whether you agree or disagree with the final outcome, how would you rate your overall satisfaction with the way your issue was handled?"
Automated Underreporter Telephone Level Of Service	The percentage of Automated Underreporter phone calls answered by a tax examiner as a percentage of the total calls attempted.
Correspondence Error Rate With Systemic Errors	The percentage of incorrect Submission Processing Masterfile notices and letters issued to taxpayers.
Cost Per Taxpayer Served – Health Coverage Tax Credit	The costs associated with serving the taxpayers including program kit correspondence, registration, and program participation.
Customer Accuracy – Accounts Phones	The percentage of correct answers given by a live assistant on Toll-free account inquiries.
Customer Accuracy – Tax Law Phones	The percentage of correct answers given by a live assistant on Toll-free tax law inquiries.
Customer Contacts Resolved Per Staff Year	The number of Customer Contacts resolved in relation to staff years expended.
Customer Service Representative Level Of Service	The number of toll free callers that either speak to a Customer Service Representative or receive informational messages divided by the total number of attempted calls.
Deposit Error Rate - Combined	The percentage of errors made by Submission Processing during remittance processing. These errors result in the inaccurate processing of data and may have a negative impact on the taxpayer.
Employee Plans Determination Letters Timeliness - # Days	Average number of days to process an application requesting qualified status from the earlier of the postmark date or the received date to the date a determination letter is issued to the requesting plan.
Exempt Organizations Determination Customer Satisfaction	The percentage of Exempt Organizations determination customers expressing top ratings on a transactional survey where respondents rate IRS performance.
Exempt Organizations Determination Letters Timeliness - # Days	Average number of days to process an application requesting tax-exempt status from the earlier of the postmark date or the received date to the date a determination letter is issued to the requesting organization.
Percent Of Business Returns Processed Electronically	The percentage of electronically filed business tax returns divided by the total business returns filed.
Percent Of Individual Returns Processed Electronically	The percentage of electronically filed individual tax returns divided by the total individual returns filed.

Appendix 1: IRS 2012 Performance Measures

Percent Individual Returns Processed Electronically	The percentage of electronically filed individual tax returns divided by the total individual returns filed.
Percent of BSM Projects within +/- 10% Cost Variance	The percentage of BSM projects that are within the +/-10% threshold for cost. The cost variance is measured from the initial cost estimate versus current cost estimate.
Practitioner Toll-Free Customer Satisfaction	Total percentage of top ratings given by taxpayers on the Customer Satisfaction Survey question rating overall satisfaction. The taxpayer is asked, "Everything considered, rate your overall satisfaction with the service you received during this call."
Primary Abandoned Call Rate	The percentage of callers who abandon in the phone network before reaching an IRS system.
Refund Timeliness - Individual (Paper)	The percentage of refunds resulting from processing Individual Master File paper returns issued within 40 days or less.
Secondary Abandoned Call Rate	The percentage of callers who abandon in the assistor queue.
Sign-Up Time – Health Coverage Tax Credit - # Days	The length of time between the first program kit mailing and first payment received.
Taxpayer Self Assistance Rate	The percentage of taxpayer assistance requests resolved using self-assisted automated services.
Timeliness Of Critical Individual Filing Season Tax Products To The Public	The percentage of critical individual filing season tax products available to the public in a timely fashion.
Timeliness Of Critical Tax Exempt/Government Entities & Business Tax Products To The Public	Percentage of critical tax-exempt/government entities and business tax products, paper and electronic, available to the public in a timely fashion.
W&I Average Wait Time On Hold (In Seconds) Average Speed to Answer	The average number of seconds customers waited in an assistor queue before receiving service.

Appendix 1: IRS 2012 Performance Measures

Performance Measures for Strategic Goal 2: Enforce the Law to Ensure Everyone Meets Their Obligations to Pay Taxes	
Performance Measure	Definition
Automated Collection System Accuracy	The percent of taxpayers who receive the correct answer to their Automated Collection System question.
Automated Underreporter Coverage	The total number of W&I and SB/SE contact closures divided by the total return filing for the prior year.
Automated Underreporter Customer Satisfaction (SB/SE)	Customers' overall satisfaction with their Automated Underreporter experience stated as percent satisfied.
Automated Underreporter Customer Satisfaction (W&I)	Total percentage of top ratings and bottom ratings given by Automated Underreporter Customer Satisfaction Survey question rating overall satisfaction. The taxpayer is asked, "Regardless of whether you agree or disagree with the final outcome, how would you rate your overall satisfaction with the way your discrepancy was handled?"
Automated Underreporter Efficiency	The total number of W&I and SB/SE contact closures divided by the total full-time equivalent, including over-time.
Collection Coverage	The volume of collection work disposed compared to the volume of collection work available.
Collection Efficiency	The volume of collection work disposed divided by total collection full-time equivalent.
Compliance Services Collection Operations Customer Satisfaction (SB/SE)	Customers' overall satisfaction with their Compliance Services Collection Operations experience stated as percent satisfied.
Compliance Services Collection Operations Customer Satisfaction (W&I)	Total percentage of top ratings given by Compliance Services Collection Operations Customer Satisfaction Survey question rating overall satisfaction. The taxpayer is asked, "Regardless of whether you agree or disagree with the final outcome, how would you rate your overall satisfaction with the way your correspondence collection issue was handled?"
Compliance Services Collection Operations Days To Close - Business	The average time to close a case based on its "Days in Department" receipt date.
Compliance Services Collection Operations Days To Close - Individual	The average time to close a case based on its "Days in Department" receipt date.
Conviction Efficiency Rate	The cost of Criminal Investigation's program divided by the number of convictions. The number of convictions is the total number of cases with the following statuses: guilty plea, nolo contendere, judge guilty, or jury guilty.
Conviction Rate	The percent of adjudicated criminal cases that result in convictions.
Correspondence Exam Customer Satisfaction (SB/SE)	Customers' overall satisfaction with their Campus Examination experience stated as percent satisfied.

Appendix 1: IRS 2012 Performance Measures

Correspondence Exam Customer Satisfaction (W&I)	Total percentage of top ratings (top boxes) and bottom ratings given by Correspondence Exam customer Satisfaction Survey question rating overall satisfaction. The taxpayer is asked, "Regardless of whether you agree or disagree with the final outcome, how would you rate your overall satisfaction with the way your audit was handled?"
Criminal Investigations Completed	The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential.
Exam Timeliness (Coordinated Industry and Industry Combined) - # Months	The average number of months from file date to completion of the examination process for all Coordinated Industry and Industry Combined returns closed during the prior twelve months.
Examination Coverage – Business (Assets >\$10M)	The number of C and S Corporations with assets over \$10 million and all partnerships examined and closed during the current fiscal year divided by the number of filings for the preceding calendar year.
Examination Coverage - Individual	The sum of all individual 1040 returns closed divided by the total individual return filings for the prior calendar year.
Examination Efficiency - Individual	The sum of all individual 1040 returns closed divided by the total full-time equivalents expended in relation to those individual returns.
Examination Quality - Coordinated Industry	Average of the scores of Coordinated Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Examination Quality - Industry	Average of the scores of Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Field Collection Customer Satisfaction	Customers' overall satisfaction with their Field Collection experience stated as percent satisfied.
Field Collection National Quality Review Score	The score awarded to a reviewed collection cases by a Quality Reviewer using selected attributes.
Field Exam Customer Satisfaction	Customers' overall satisfaction with their Field Examination experience stated as percent satisfied.
Field Exam National Quality Review Score	The score awarded to a reviewed field examination case by a Quality Reviewer using selected attributes.
Number Of Convictions	The number of criminal convictions.
Office Examination National Quality Review Score	The score awarded to a reviewed office examination case by a Quality Reviewer using selected attributes.
Percent Of Offers-in-Compromise Field And Campus Cases Closed In Less Than 9 Months	The percent of cases closed in Field and Campus in 0-9 months.

Appendix 1: IRS 2012 Performance Measures

SB/SE Correspondence Exam Cycle Time (EITC) - # Days	Average number of calendar days from the start of a SB/SE EITC examination to closure.
SB/SE Correspondence Exam Cycle Time (Non-EITC) - # Days	Average number of cycle days from the start of a Discretionary examination to closure.
Tax Exempt/Government Entities Determination Case Closures	The number of cases closed, regardless of type of case or type of closing.
W&I Service Center Correspondence Exam Timeliness (Discretionary) - # Days	Average calendar days from the initiation of an examination or correction contact to closure.
W&I Service Center Correspondence Exam Timeliness (EITC) - # Days	Average calendar days from the initiation of an examination or correction contact to closure.

Performance Measures for Strategic Foundations: Invest for High Performance	
Performance Measure	Definition
End-To-End Availability	Availability of various IT-related systems. Metrics will be developed and fine-tuned with the goal of FY 2013 as baseline year. The measure will ultimately be reflected as a percentage of availability.
Internal Customer Satisfaction	Beginning in FY 2012, IT will use Customer Focus group interviews to determine overall Customer Satisfaction.
Occupancy Cost Per Rentable Square Foot	The total occupancy cost (rent, building delegation, custodial, utilities, and labor in support of the Real Estate portfolio) per rentable square foot in the current inventory.
Percent Of Business Systems Modernization Projects Within +/- 10% Cost Variance	The percentage of Business Systems Modernization projects that are within the +/-10% threshold for cost. The cost variance is measured from the initial cost estimate versus current cost estimate.
Percent Of Business Systems Modernization Projects Within +/- 10% Schedule Variance	The percentage of Business Systems Modernization projects that are within the +/-10% threshold for schedule. The schedule variance is measured from the initial schedule estimate to the current schedule estimate.
Percent Of Critical Systems With Compliant IT Security Standards	Number of Critical Infrastructure Protection (CIP) assets 90% or > compliance threshold for policy checker divided by the total number of CIP assets.
Percentage Of Managers Receiving Leadership Training Timely	Frontline managers receiving leadership training within 9 months of effective date and Department and Senior managers within 1 year of effective date.
Percentage Of Mission Critical Positions Hires Achieved	Percentage of business unit mission critical position hiring goals met.

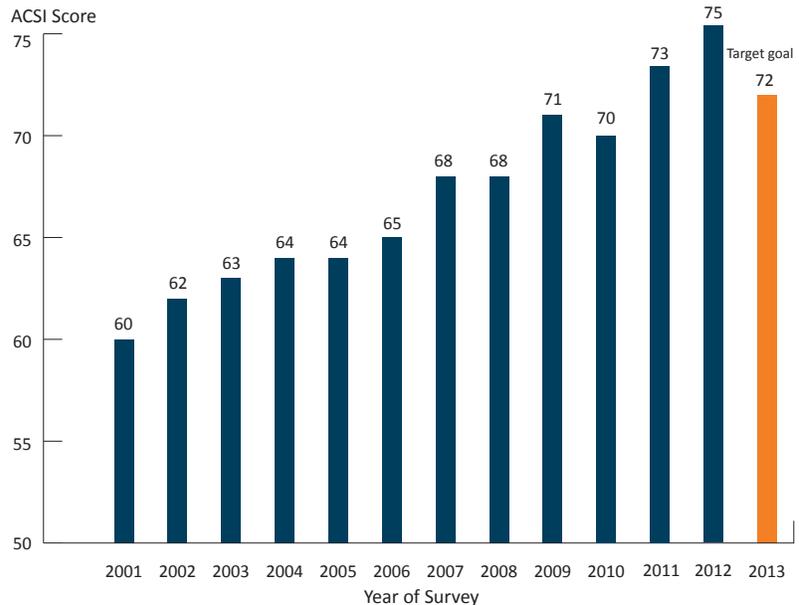
IRS Long Term Measures and Value Targets

The Oversight Board has been tracking IRS progress on its long term measures and associated goals (“target values”) and sharing that information with stakeholders via a series of graphs on the Board’s website as a way of assessing progress toward the *IRS Strategic Plan 2009-2013*. These graphs are presented on the following pages.

Overall, the Board believes good progress has been achieved toward the strategic goals articulated by the IRS. In most instances, this progress toward the specific target value is largely reflective of IRS’ solid performance. However, for a few measures, the progress involved is a result of both the efforts of the IRS and the broader professional tax community, including return preparers and tax software providers.

American Customer Satisfaction Index Score for Individual Tax Filers

The American Customer Satisfaction Index (ACSI) is a national indicator of customer satisfaction with the quality of products and services available to household consumers in the United States. Each December, the ACSI issues a report on satisfaction of recipients of services from the federal government. Agency participation is voluntary, linking customer expectations and perceptions of quality and value to satisfaction. In 1999, the federal government selected the ACSI to be a standard metric for measuring citizen satisfaction. The ACSI customer satisfaction score for individual income tax filers is measured on a 0 - 100 scale and assesses taxpayer satisfaction with the return filing processes. The target value is for the IRS ACSI score to reach 72 by the year 2013.

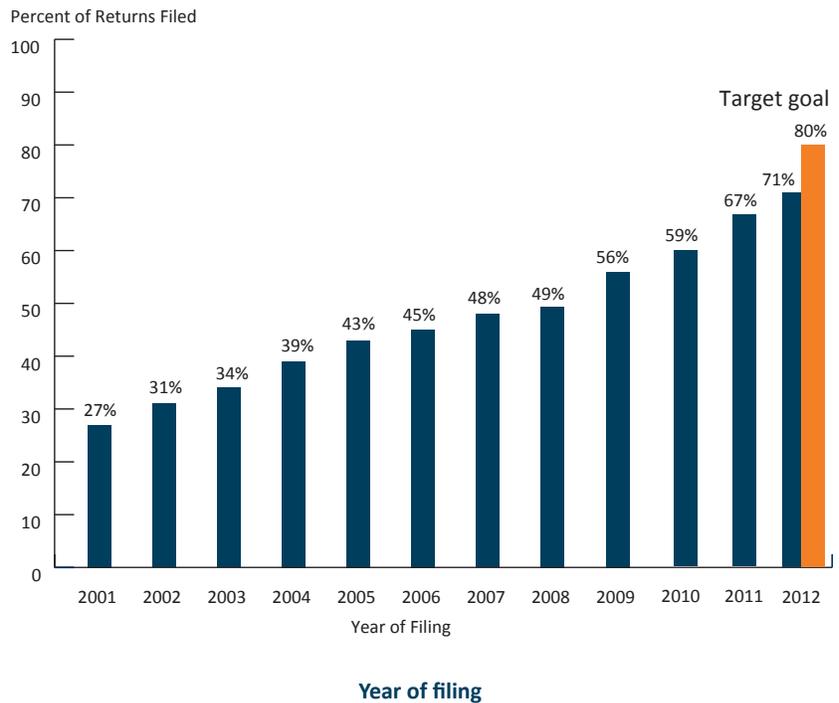


Source: www.theacsi.org

e-File Rate: All Major Tax Returns

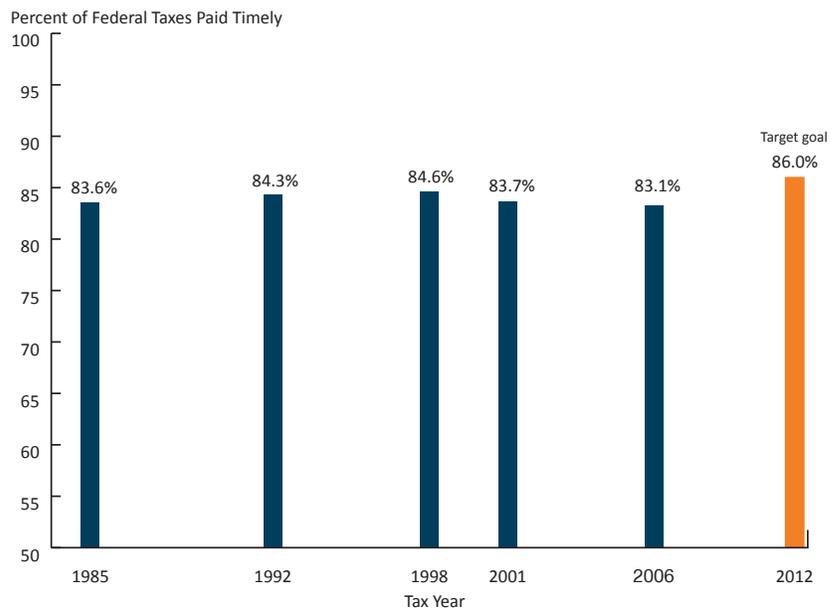
Although the IRS has tracked the rate of electronic filing for individual tax returns since its inception in 1987, this long-term measure is somewhat broader and gauges the percentage of all major tax returns filed electronically by individuals, businesses, and tax exempt entities. Major tax returns are those in which filers account for income, expenses, and/or tax liabilities. The target value is for 80 percent of all major tax returns by individuals, businesses, and tax exempt entities be filed electronically by 2012.

Note: Reported 2012 experience reflects Oversight Board estimate.



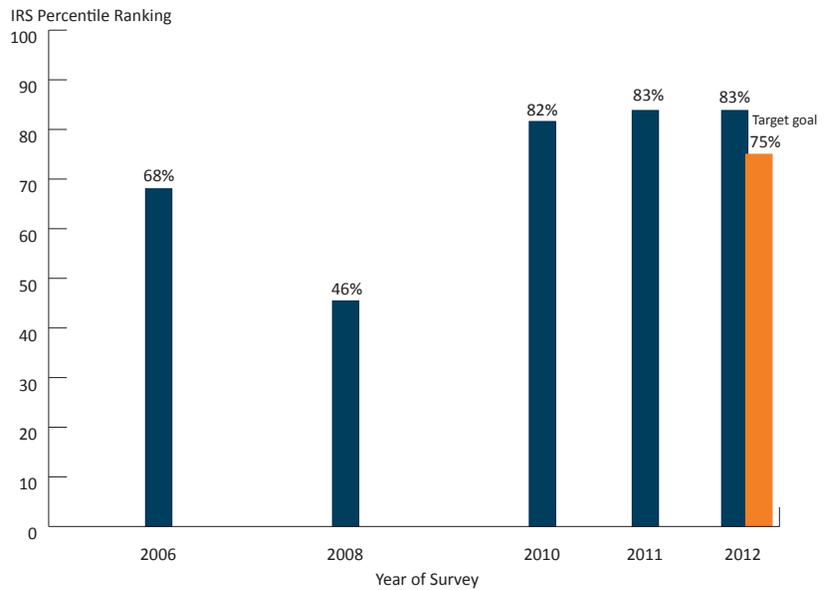
Voluntary Compliance Rate

The Voluntary Compliance Rate (VCR) is an estimate of the amount of tax for a given year that is paid voluntarily and timely. It is expressed as a percentage of the estimate of true tax liability for that year, reflecting the impact of non-filing, underreporting, and underpayment combined. The most recent VCR is based primarily on the IRS National Research Program evaluation of 2006 individual income tax returns and extrapolation of earlier estimates attributed to other taxpayer segments. The target value is to reach a VCR of 86 percent by tax year 2012.



Employee Engagement Index

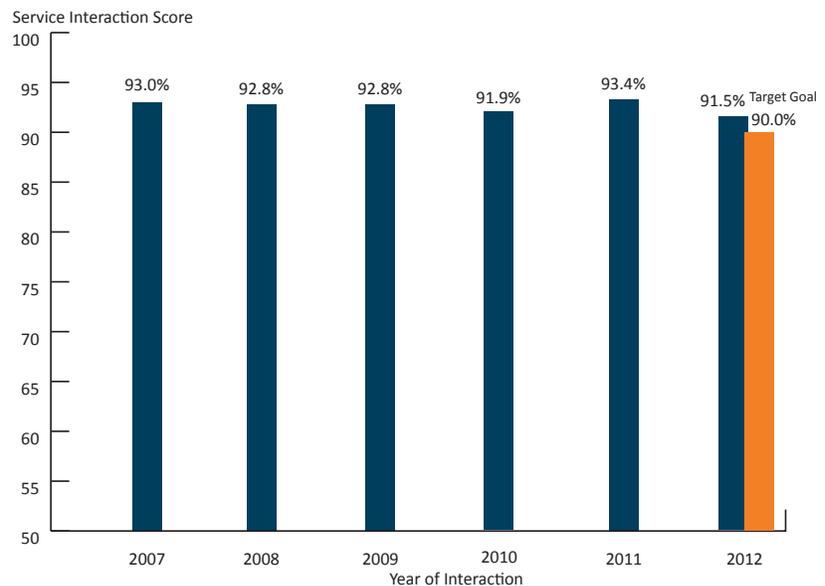
The US Office of Personnel Management conducts an annual employee survey to obtain feedback on a wide range of workplace issues. Using 11 questions from that survey, the IRS has developed an index that measures employee engagement and is using the index to compare itself to other large Federal agencies with 20,000 or more civilian employees. The target value is for the IRS to remain in the top quartile among the large federal agencies by 2012 based on that employee engagement index.



Service Interaction Score

The service interaction score attempts to measure taxpayer satisfaction with the services that they received in-person at IRS offices as well as through toll-free telephone service. It captures more than 90 percent of service program interactions with taxpayers through these channels. The IRS target value is to retain a score of at least 90 percent through 2012.

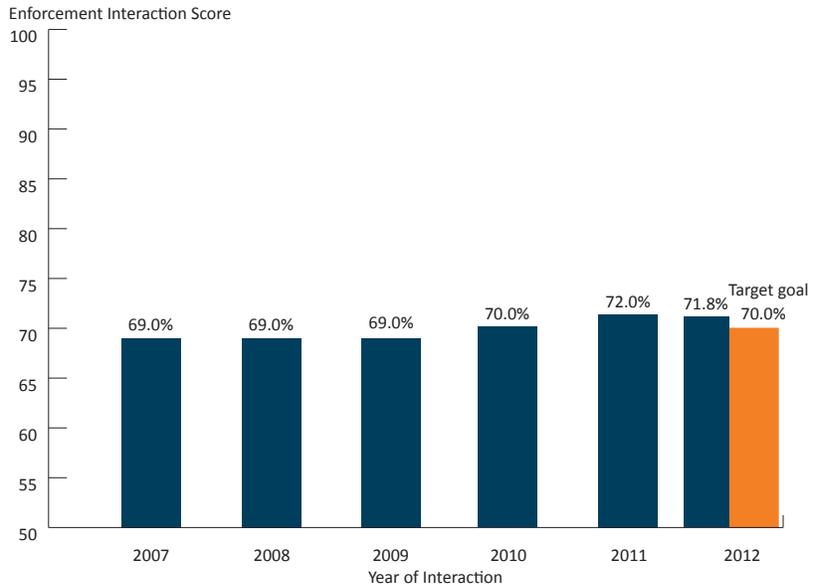
Note: Reported 2012 experience reflects Oversight Board estimate.



Enforcement Interaction Score

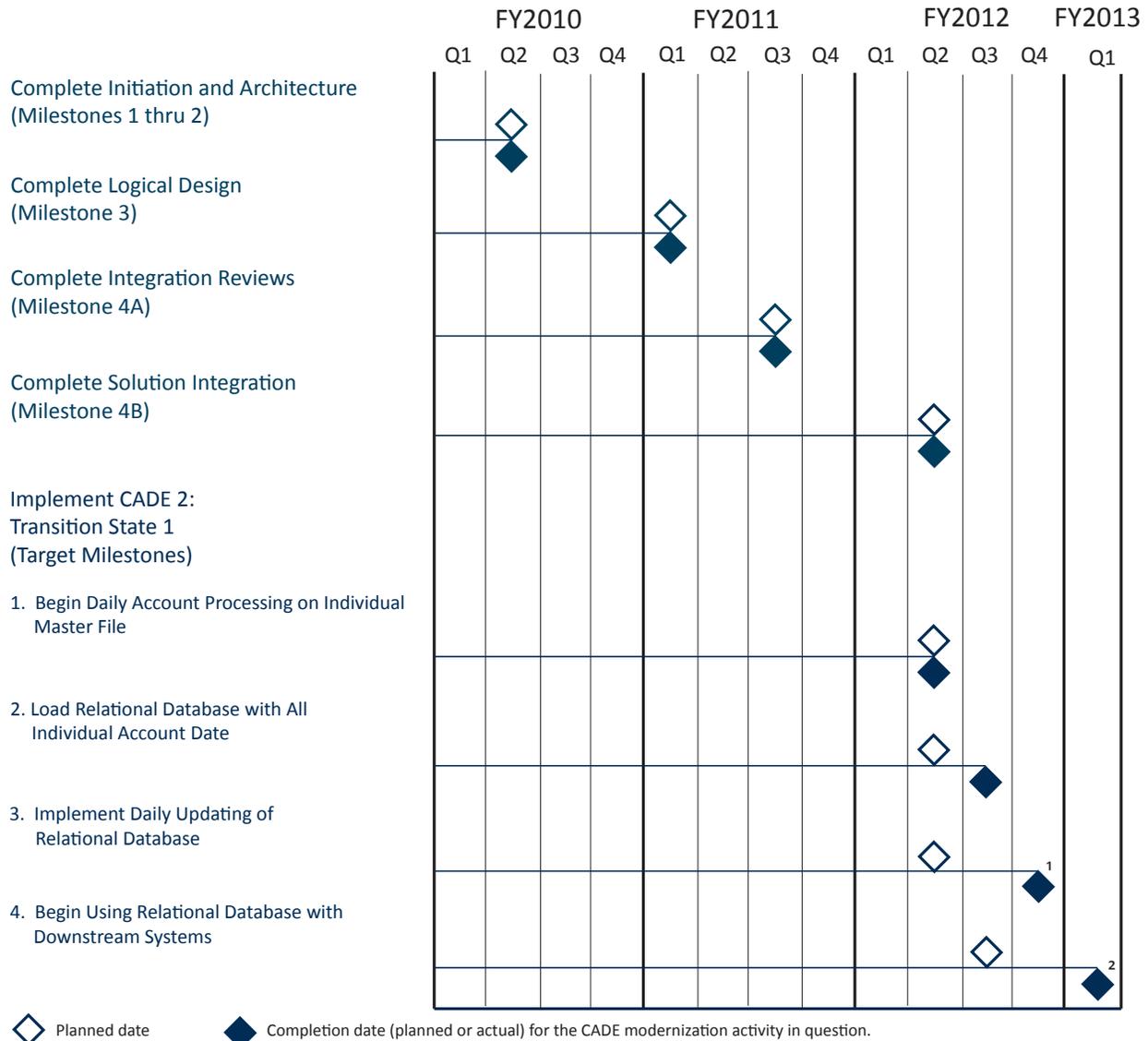
The enforcement interaction score attempts to measure the extent to which taxpayers contacted as part of the IRS compliance efforts, such as its examination and collection programs, feel that the process was satisfactory. It attempts to measure taxpayer interactions independent of the ultimate outcome of the enforcement activity, although it is likely that the final outcome of an IRS compliance contact impacts the rating some taxpayers provide under this interaction score. The score captures more than 90 percent of enforcement program interactions with taxpayers. The IRS target value is to attain a score of at least 70 percent by 2012.

Note: Reported 2012 experience reflects Oversight Board estimate.



Modernization - Delivery of Customer Account Data Engine 2

The Customer Account Data Engine (CADE) program is a key component of the IRS' information technology Business Systems Modernization (BSM) efforts and is intended to eventually replace the antiquated Individual Master File processing system, which is the central tax accounting system for all individual taxpayers. In fiscal year (FY) 2009, the IRS restructured the CADE program, designating it CADE 2, and articulated as a target milestone establishing a modern relational database for its central tax accounting system by the 2012 filing season. This relational database would be part of a greatly enhanced computing environment, described by the IRS as "Transition State 1," that would also provide daily updating of taxpayer accounts, in contrast to traditional master file processing capabilities that only accommodate weekly updating.

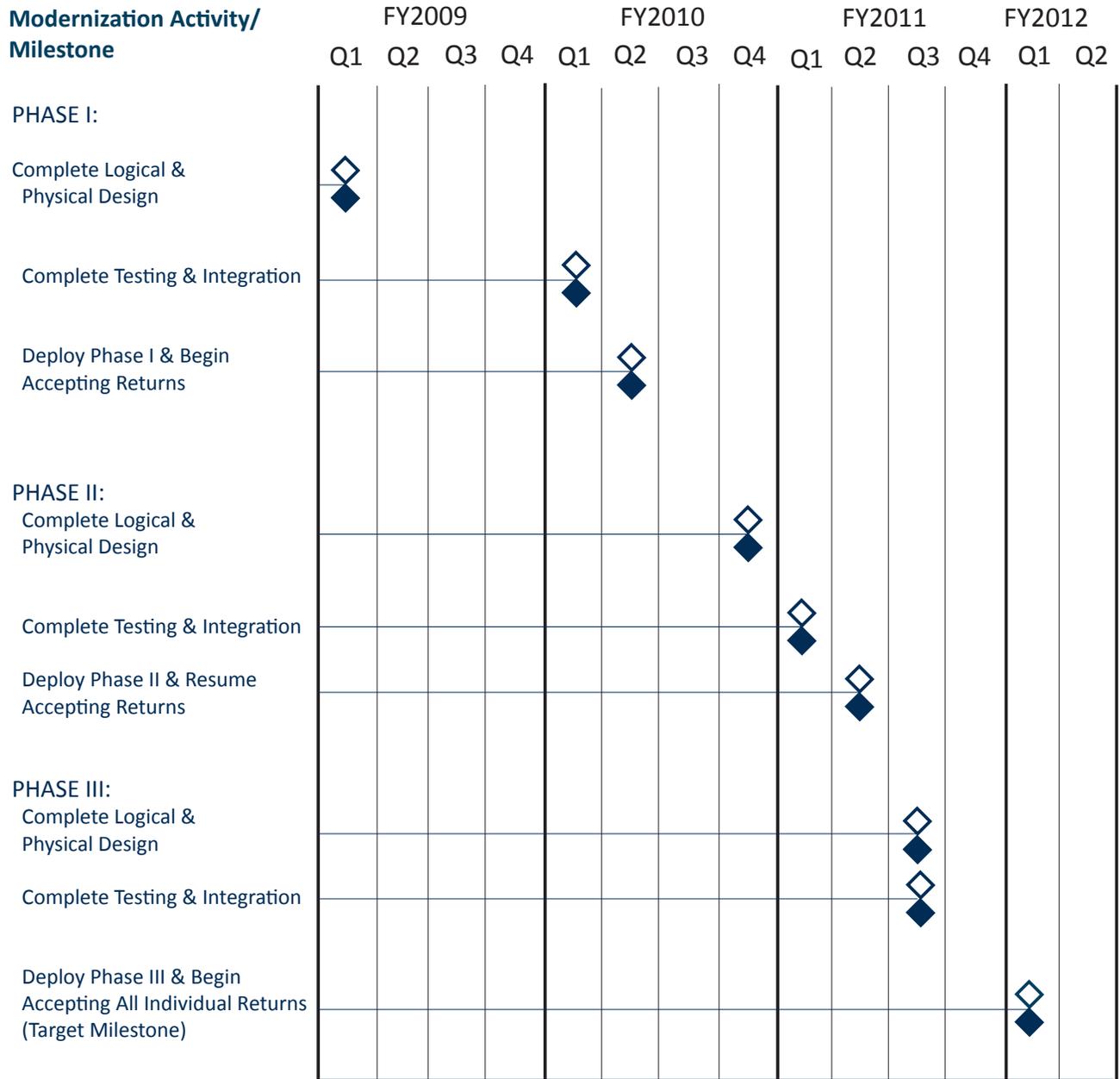


¹ During the 4th Quarter of FY2012, the CADE 2 relational database began accepting daily updates.

² During the 1st Quarter of FY2013, the IRS ran controlled production feeds from the CADE 2 relational database to three downstream IRS systems: Corporate Files on-Line, Individual Master File On-line, and Data Access Service.

Modernization: Delivery of Form 1040 MeF

The Form 1040 Modernized e-File (MeF) program is another key component of the IRS' information technology Business Systems Modernization (BSM) efforts and will eventually replace the outdated legacy electronic filing (e-file) system for individual income tax returns. The Form 1040 MeF system is an Internet-based application that greatly facilitates e-file by using flexible, industry standard technology and MeF will enable better customer service to taxpayers and tax professionals, and improved IRS efficiency. During Phase I and II of MeF implementation, the IRS will accommodate the basic Form 1040 return and approximately 20 of its more common forms and schedules. Phase III reflects the target milestone in which the Form 1040 MeF system is capable of handling all individual income tax returns.



◆ Planned date ◆ Completion date (planned or actual) for the CADE modernization activity in question.

APPENDIX 3.

Biographies of Private-Life Members



Paul Cherecwich, Jr.
Chairman
IRS Oversight Board
Retired Corporate
Tax Counsel

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
Chairman
IRS Oversight Board
Operations Support
Committee
Professor
University of Montana
School of Law

E. Edwin Eck

Professor, University of Montana School of Law

E. 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 J.D./M.B.A. 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.

Appendix 3: Biographies of Private-Life Members



Robert M. Tobias
Chairman
IRS Oversight Board
Operations Committee
Director of Public Sector
Executive Education
American University

Robert M. Tobias

Director of Public Sector Executive Education, American University

Robert M. Tobias is a professor, Director, Key Executive Leadership Programs, 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.
Vice President
Government & Public
Affairs
Enterprise Holdings, Inc.

Raymond T. Wagner, Jr.

Vice President – Government & Public Affairs, Enterprise Holdings, Inc.

Raymond T. Wagner Jr. is Vice President of Government & Public Affairs for Enterprise Holdings, Inc., headquartered in St. Louis Missouri. His prior government service includes serving as Director of Revenue for the State of Illinois. He also served an earlier term as Director of Revenue for the State of Missouri. He has been an Adjunct Professor of Law at Washington University School of Law. After graduating from University of Missouri-Kansas City School of Law, he served as Law Clerk for the Chief Justice of the Missouri Supreme Court. He received his Master of Business Administration and undergraduate degrees from St. Louis University. He also holds a Master of Laws-Taxation degree from Washington University School of Law. Previously, Mr. Wagner served a term as Chairman of the Oversight Board, and also chaired the Oversight Board's Operations Support Committee.



Deborah Wince-Smith
President
Council on
Competitiveness

Deborah L. Wince-Smith

President, Council on Competitiveness

Deborah Wince-Smith is the president & CEO of the Council on Competitiveness, a group of CEOs, university presidents and labor leaders committed to driving U.S. competitiveness. She has more than 20 years of experience as a senior U.S. government official, including as the first Assistant Secretary for Technology Policy in the Department of Commerce. She is a member of the IRS Oversight Board and a member of the Board of Directors of the NASDAQ OMX Group, Inc. Ms. Wince-Smith also serves on the Board of Governors for the Argonne National Laboratory, the Smithsonian National Board and the boards of several other public and private organizations. Ms. Wince-Smith is the president of the newly formed Global Federation of Competitiveness Councils, whose creation she led. Ms. Wince-Smith is chairman of the World Economic Forum's Global Council on Global Competitiveness and is a member of the Science & Technology in Society Forum Council. 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.

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