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IRS Oversight Board

Annual Report to Congress 2013

MARCH 2014

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IRS Strategic Plan

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

- **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 are both solicited and welcomed. This report satisfies the statutory requirement in RRA 98 for the Board to report annually to the President and Congress.

Message from the IRS Oversight Board

This past year was marked by controversy, change, and challenges for the Internal Revenue Service (IRS) perhaps unseen since 1997 when the Senate Finance Committee held a series of hearings alleging taxpayer abuse at the hands of the IRS. The hearings eventually led to the creation of the National Commission on Restructuring the IRS and subsequent enactment of the *IRS Restructuring and Reform Act of 1998* (RRA 98).

The beginning of the 2013 filing season was one of accomplishment for the IRS. In spite of the passage of last minute, retroactive tax law changes on January 2, 2013, the IRS proved agile and responsive. Due to the dedication and determination of its employees and stakeholders, the IRS successfully reprogrammed its computers to reflect the new tax law changes, and the filing season was delayed by only a few weeks. In spite of shrinking budgets and the budget sequestration, the IRS delivered another successful filing season. This was truly a time of pride at the IRS as it had surmounted formidable hurdles and succeeded.

However, in May 2013, the Treasury Inspector General for Tax Administration (TIGTA) released an audit report that found the IRS used inappropriate criteria to

review certain organizations applying for Internal Revenue Code Section 501(c)(4) tax-exempt status. The TIGTA report set off a political storm with serious short and long term consequences for the IRS. Several senior IRS officials, including the

The Board believes under-funding the IRS only punishes America's taxpayers and endangers the fiscal health of our nation and critical programs upon which Americans depend.

Acting Commissioner, were forced to resign or retire. There were numerous hearings that seized not only on the 501(c)(4) report, but other TIGTA findings that found inappropriate use of taxpayer dollars at IRS training meetings and conferences.

In response, the Administration appointed the Office of Management and Budget's Daniel Werfel to be Acting IRS Commissioner. The President charged Mr. Werfel with delivering a report within 30 days that would outline what actions the IRS would take to deal

with the nine recommendations contained in the TIGTA report on the 501(c)(4) matters.

Mr. Werfel's 30-day report contained more than 60 action items. As the Acting Commissioner would later state, "[All] of our activities have a common thread of strengthening management controls and ensuring that the most efficient and effective management practices are in place throughout the IRS." The Oversight Board reviewed and contributed to the 30-day report.

The issues ultimately resulted in what the Board views as an inadequate funding level for the IRS in FY2014. While the Board understands the concerns over IRS funds spent inappropriately, it encourages policymakers to consider the broad scope of IRS duties, of which only a small portion involve the controversies that arose in 2013. The Board believes under-funding the IRS only punishes America's taxpayers and endangers the fiscal health of our nation and critical programs upon which Americans depend.

It is important to remember the United States is one of the few nations that depend on a system of voluntary compliance and

self-assessment. As demonstrated by the Board's annual *Taxpayer Attitude Survey*, the overwhelming majority of taxpayers believe it is wrong to cheat on your taxes—no matter the amount. They cite personal integrity as the major factor, but are also influenced by “fear of an audit” and third-party information reporting. If budget cuts reduce audit coverage, more taxpayers may be willing to take the risk and cheat on their taxes, especially if they see their neighbors and business competitors doing it.

The Board believes it is time to invest in the IRS and our country's future. With taxpayer service suffering, and the appropriate risk management tools in place, it makes little sense to underfund the IRS. This is the time to restore funding so the IRS can improve service, increase enforcement, and continue to modernize its systems and processes.

The Board is not alone in this view. In written testimony before the Senate Appropriations Subcommittee on Financial Services and General Government in May 2013, the National Taxpayer Advocate stated, “The IRS must be funded at a level that enables it to provide necessary taxpayer assistance and to enforce the tax laws, both to raise the revenue the government requires and to provide compliant taxpayers with assurance that others are paying their fair share.”

The National Treasury Employees Union (NTEU) also favored funding the IRS at higher levels. In a press statement, the NTEU

President said, “...NTEU believes that only by restoring critical funding for effective enforcement and taxpayer service programs can the IRS provide America's taxpayers with quality service while maximizing revenue collection that is critical to reducing the federal deficit.”

In addition, tax professional groups have weighed in, making the case for adequate resources for the IRS. For example, in a letter dated September 4, 2013, addressed to the leadership of the House and Senate Appropriations Committees, the American Institute of Certified Public Accountants (AICPA) stated, “The IRS needs sufficient operating funds to properly administer and enforce our complex tax laws, as well as provide assistance to taxpayers and their advisors ... a reduction in taxpayer service resources would negatively impact both taxpayers and our members alike.”

As the IRS emerges and recovers from recent controversies, it faces many challenges, the foremost of which is restoring the public's trust. This is a major priority for the new Commissioner. The Board agrees with the assessment made by Treasury Secretary Jacob J. Lew upon Mr. Koskinen's nomination by the President: “John is the right person to take on this critical position at this important time.”

The IRS is also faced with rebuilding its workforce morale that has plummeted due to a combination of factors. Few employees had anything to do with the issues TIGTA surfaced,

but nonetheless they found themselves painted with the same brush. At the 2013 IRS Nationwide Tax Forums, the Board heard from front-line employees and managers that they were the subject of increased criticism and harassment by some angry and frustrated taxpayers. Employees are also frustrated by deep cuts in training and an increased workload due to a lack of hiring related to budget cuts.

In addition, over 40 executives have retired over the last year, and a significant number are eligible to retire. The Board fears more executives may choose to leave if the current environment does not change. This loss of leadership has resulted in an enormous gap of institutional knowledge which creates a challenging succession planning effort the IRS must meet head on.

The IRS Oversight Board stands ready to assist and guide the IRS in any way it can. However, the Board faces its own challenges. The Board currently has only two private life members, far short of the seven spelled out in RRA 98. Under RRA 98, the private life members were to bring a diversity of professional experience and expertise in areas such as customer service, information technology, and management of large service organizations. With only two private life members, the Board has lost a significant portion of diversity and richness of experience. The Board encourages the Administration to move forward with its efforts to fill vacancies on the Board.

Tax Administration Accomplishments

Given the many challenges the Internal Revenue Service (IRS) faced in FY2013, including late-enacted legislation, stopgap spending bills, sequestration, and allegations of politically-motivated targeting, it performed at an overall solid level, carrying out its balanced mission of customer service and enforcement. The Board would like to acknowledge a number of significant IRS accomplishments in FY2013.

Successful 2013 Filing Season

The IRS was put to the test in early January when Congress passed, and the President signed into law, retroactive tax law changes contained in the *American Taxpayer Relief Act of 2012*. These changes affected over 600 tax products and required the IRS to update its forms and reprogram and test its major processing systems. Some observers thought this could delay the filing season well into February or even early March. However, through foresight, planning, and the dedication of IRS employees and its stakeholders, the start of the filing season was delayed by only one week for most individuals. It opened on January 30, 2013, allowing the vast majority of taxpayers to file their returns; all

taxpayers could file their returns by March 4th. This is a great tribute to the IRS organization.

There were some adverse impacts of the late legislation and delayed opening of the filing season. Millions of taxpayers experienced a delay in the receipt of their tax refunds. While the filing season was delayed, there was no corresponding delay in the individual return filing deadline of April 15th. This meant most tax professionals had to condense their tax return preparation services into fewer weeks.

Despite last minute tax law changes, the start of the FY2013 filing season was delayed by only one week for most individuals, thanks to the dedication of IRS employees and its stakeholders.

In mid-March, the IRS identified errors in the processing of certain tax credits for some taxpayers. Once identified, the IRS suspended processing of these returns and corresponded with taxpayers to correct the issue. The

IRS originally estimated it could take up to eight weeks to correct all the affected returns, but later announced it would take only two to four weeks to correct the returns.

The budget sequestration could have also put the filing season in peril as key employees, such as telephone customer service representatives, would have been furloughed. However, IRS leaders made the decision to delay furloughs until after the filing season in order to minimize the burden on taxpayers and their representatives. The Board applauded the IRS for this wise course of action.

During 2013, the Form 1040 Modernized e-File (MeF) system received and processed 100 percent of the individual e-file tax returns, enabling the IRS to retire the legacy e-file system. The Board views this as a major milestone for the IRS. In a single day, MeF processed over 8.3 million individual returns, a new IRS record for same day processing. Additionally, the IRS issued over 109 million refunds totaling almost \$300 billion.

Electronic filing continued to increase to over 140 million returns, and paper filing continued

to decline. As shown in Figure 1, the IRS and its tax partners in industry continued to make steady progress in moving paper tax return filings to electronic filings in 2013.

Taxpayers continued to use the IRS website in record numbers in 2013. The IRS reported that taxpayers viewed IRS.gov more than 456 million times to get forms and publications, secure answers to their tax law questions, and check the status of their refunds. This represents a nearly 23 percent increase over 2012. Taxpayers used the *Where's My Refund?* tracking tool more than 200 million times. The IRS also launched a new telephone and web-based application, *Where's My Amended Return?*, which handled nearly twice as many requests

as originally anticipated—5.8 million requests were processed, far exceeding the projected 3.1 million requests.

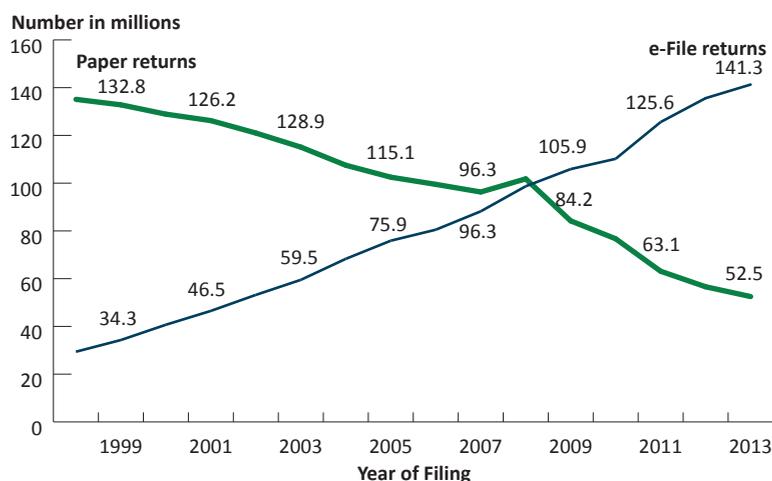
The IRS also continued its use of social media to communicate with taxpayers who do not get their information from traditional media, such as newspapers and television. YouTube and Twitter figure largely in the agency's social media portfolio. The IRS had previously developed a smartphone application, *IRS2Go*, which allows taxpayers to check the status of their refunds and receive tax news and important service and compliance messages. *IRS2Go* was made available in Spanish for the 2013 filing season, allowing the IRS to reach an important and growing taxpayer segment.

Removal of Business Systems Modernization from the Government's High-Risk List

The Government Accountability Office (GAO) compiles a list of major government operations it considers "high-risk" due to various reasons, including vulnerabilities to mismanagement. In 1995, the GAO placed the IRS information technology (IT) Business Systems Modernization (BSM) program on this list due to serious management and technical weaknesses that jeopardized the successful completion of the program. In 2013, it removed the IRS BSM program from the list, noting the progress made in addressing significant weaknesses in IT and financial management capabilities. Key examples cited by the GAO included delivery of the initial phase of the Customer Account Data Engine (CADE) 2 program involving the daily processing of individual taxpayer accounts and plans for the second phase of CADE 2, which were intended to address financial material weaknesses involving unpaid tax assessments.¹

The IRS and its tax partners continued to move from paper to electronic filings.

FIGURE 1.
Number of Major Tax Returns: e-File and Paper



SOURCE: IRS with IRS Oversight Board 2013 estimates

In 2013, the GAO removed the IRS BSM program from the High-Risk list, noting the progress made in addressing significant IT weaknesses and financial management capabilities.

¹ United States Government Accountability Office, *High-Risk Series: An Update*, GAO-13-283, February 2013.

Timely Implementation of Legislative Mandates

In recent years, the IRS has seen its duties expand, including some that go beyond its traditional service and enforcement mission. Congress has increasingly called upon the IRS to implement the tax-related portions of new major legislation. Two of the most important are the *Foreign Account Tax Compliance Act* (FATCA) and the *Affordable Care Act* (ACA).

The United States has signed FATCA tax information exchange agreements with over twenty countries and is in conversations with more than 80 other countries. In August 2013, the IRS announced the opening of a new secure online registration system for financial institutions that need to register with the IRS under FATCA. This law requires foreign banks, investment funds, and insurance companies to report on the offshore accounts held by Americans worth more than \$50,000. The law also requires firms to register by April 25, 2014, to avoid certain penalties. The IRS plans to begin collecting customer account information in 2015.

The FATCA registration system allows businesses to create an account and provide the required information from anywhere in the world. According to IRS officials, as of late November 2013, the portal logged entries from 6,700 institutions.

The IRS also successfully delivered on legislative tax provisions required by the ACA,

particularly with regard to the Health Insurance Marketplace. The IRS is charged with administering the new Premium Tax Credit which helps defer the cost of health insurance policies purchased through a Marketplace. The IRS is now responsible for providing critical information to the Marketplace to facilitate a determination of a taxpayer's eligibility for this financial assistance. In 2013, the IRS refined and tested the new systems it built to ensure it was prepared for the opening of the

In recent years, the IRS has seen its duties expand as Congress has called upon the agency to implement the tax-related portions of new major legislation.

Marketplace. The IRS developed a systemic means to review prior year tax return filings and provide a quick response that verifies income levels, filing status, and whether a taxpayer is claimed as a dependent by another person.

Through early December 2013, the IRS responded to more than five million information requests from the Marketplace to verify income and family size. It also provided a computation service to more than 1.8 million requests to determine eligibility for the Advanced Premium Tax Credit (APTC). In addition, the IRS

has implemented other tax credits and revenue raising tax changes coming out of the ACA.

Retooled Corporate Audit Approach

The IRS Large Business and International (LB&I) division continued making progress in retooling its corporate audit approach, particularly as it relates to international issues, to make more efficient and effective use of resources. The Board applauds this innovative effort.

The premise is to look at these taxpayers through their business objectives and tax strategies, rather than through the narrow lens of individual tax code sections. In the end, LB&I wants to select issues for audits that have the broadest impact, regardless of entity and size. This should help ensure the time and resources of the IRS and taxpayers are not spent on issues that do not pose a significant compliance risk.

Other revised approaches include the use of international joint audits. The international joint audit initiative provides an opportunity for two or more jurisdictions to form a single audit team to conduct simultaneous examinations that involve the United States and one or more of its tax treaty partners. In FY2013, the IRS led and coordinated four joint audits. The IRS also continued to seek opportunities to expand this joint audit approach to additional taxpayers as well as additional tax treaty partners.

Increased Taxpayer Burden Reduction Efforts

The IRS is making progress in reducing unnecessary taxpayer burden. Several burden reduction initiatives were introduced or expanded in 2013.

The IRS simplified the often complex and burdensome home office deduction by providing eligible taxpayers with an easier path to claiming the deduction. By offering a simple deduction capped at \$1,500 per year, the IRS reduced the potential paperwork and recordkeeping that was a burden on some small businesses.

The IRS also began offering streamlined installment agreements through its Fresh Start program to help eligible taxpayers catch up on back taxes. Under the revised rules, the amount owed to the IRS must be \$50,000 or less and the taxpayer must agree to pay off the balance of the tax obligation in 72 months or less. The main benefits are that a federal tax lien is not required and the taxpayer will not be required to complete a financial statement. The IRS also combined two forms into one form that requires less information.

The Offer-in-Compromise (OIC) program enables the IRS and taxpayers to negotiate settlements of the taxpayers' tax debts for less than the full amount. The IRS introduced a new OIC pre-qualifier tool on IRS.gov that allows taxpayers to anonymously assess whether they are good candidates for the OIC program without the financial burden of contacting a tax professional or preparing unnecessary paperwork. The IRS reported the OIC tool recorded approximately 600,000 hits during FY2013. Approximately 74,200 OIC requests were received in 2013, an increase of over 16 percent from FY2012. The IRS attributed this increase in part to the introduction of the pre-qualifier tool.

In order to increase compliance surrounding worker classification and to provide a more streamlined means for employers to become compliant, the IRS continued to expand its Voluntary Classification Settlement Program (VCSP). In 2013, the IRS provided the ability for employers under an IRS audit (other than an employment tax audit) to enter into the VCSP. Employers entering the program generally pay an amount equaling

just over one percent of the wages paid to the reclassified workers for the past year. No interest or penalties are applied, and the employers are not audited on payroll issues related to these reclassified workers for prior years. Approximately 1,350 employers with over 24,500 employees have entered into the program.

The IRS also announced it will continue to test the expansion of its Volunteer Income Tax Assistance (VITA) program to individual taxpayers who file a Schedule C with business expenses less than \$25,000. The expansion helps some self-employed taxpayers who may not fully understand the tax-related requirements of running a small business.

Probably one of the most annoying problems encountered when calling a customer service line is being asked to repeat the same identifying information when transferred to another representative. The IRS began offering in 2013 an inexpensive solution. Taxpayers can now choose to use a temporary Personal Identification Number (PIN) when they call the IRS toll-free lines, eliminating the problem entirely.

Notable Accomplishments

- Secured its 14th consecutive unqualified audit opinion from the GAO on the IRS' financial statements.
- Surpassed the 80 percent goal for individual e-filing mandated in RRA 98 for a second year.
- Transitioned to a new, secure Internet portal for use by tax professionals and taxpayers.
- Initiated pilot projects for an online system to accept applications for tax exempt status under Internal Revenue Code Section 501(c)(3).
- Initiated the *Direct Pay* project, which provides taxpayers a secure means to pay their tax bills or make estimated tax payments directly from their checking or savings account at no cost.
- Facilitated, through the VITA and Tax Counseling for the Elderly programs, the preparation of over 3.4 million federal tax returns and over 2.5 million state returns.
- Expanded the *Fast Track Settlement Program* to small business taxpayers, allowing them to settle issues with an Appeals Officer during an audit instead of after the audit concludes.

COST SAVINGS AND EFFICIENCIES

- **Reduced costs on contracts** by \$200 million.
- **Achieved rent savings of approximately \$15.7 million by reducing office space;** an estimated \$40 million in rent savings should occur once the office space reduction project is completed in FY2014.
- **Eliminated the printing and mailing** of selected tax packages and employee leave and earnings statements, producing savings of approximately \$60 million.
- **Combined multiple services** such as voice, video, and data onto a common Internet-based network, allowing employees to communicate more efficiently and seamlessly. This increases workplace productivity, and will save the IRS up to \$25 million annually by September 30, 2015.
- **Redesigned employee public transportation subsidy program,** producing approximately \$7 million in savings.

John Koskinen Becomes Nation's 48th Commissioner of Internal Revenue

In August 2013, President Obama nominated John Koskinen to be the Commissioner of Internal Revenue. Mr. Koskinen, who has served for decades in both the private and public sectors, in the words of the President is, "an expert in turning around institutions in need of reform ... John knows how to lead in difficult times."

At the request of then Deputy Secretary of the Treasury Neal Wolin, IRS Oversight Board Chairman Paul Cherecwich, Jr. interviewed Mr. Koskinen. He found him exceptionally qualified for the position and the right individual to lead the IRS through difficult times and to help rebuild the public's trust.



On December 20, 2013, the United States Senate confirmed Mr. Koskinen as the new Commissioner of Internal Revenue. He was sworn into office on December 23rd. In his initial public comments, Mr. Koskinen stated his top priorities include restoring public trust, finding adequate funding for the IRS, and fighting tax fraud. He stated he wants to improve service at the walk-in Taxpayer Assistance Centers, on the IRS telephone lines, and through IRS.gov. Mr. Koskinen hopes to rebuild employee morale as well.

The IRS Oversight Board welcomes Mr. Koskinen as a valuable member and looks forward to working with him and his senior leadership team.

AWARDS AND OTHER RECOGNITION

The IRS received several prestigious awards and other forms of recognition in FY2013.

- **IRS Chief Technology Officer Terry Milholland was recognized by the Association for Federal Information Resources Management (AFFIRM) with a Leadership Award for Service to the Citizen.** The Service to the Citizen award recognizes excellence in management of information technology for improved services to citizens. Mr. Milholland was also a 2013 finalist for the Samuel J. Heyman Service to America Medals from the Partnership for Public Service.
- **IRS Director of Research, Analysis and Statistics Rosemary Marcuss received the Davie-Davis Award for Public Service from the National Tax Association.** This award is presented to recipients who serve the public by providing expert analyses and objective advice on issues on taxation and government finance to elected officials, other policymakers, and the general public.
- **The American Council for Technology and the Industry Advisory Council recognized the CADE 2 program for Excellence in Enterprise Efficiencies.** The award honors exceptional government programs and projects that use information technology in an innovative way to enhance government operations, provide a more open and transparent government, and deliver impactful citizen services.
- **The IRS was recognized as Best of the Best for diversity and inclusion by the *Black EOE Journal* and as a Top Employer by *Hispanic Network Magazine*.**

Challenges and Risks

The IRS faces a number of challenges and risks. They include budget constraints, customer service, enforcement, refund fraud, and institutional challenges such as an aging workforce retiring in increasing numbers. All of these and others are cause for concern, and the Board will work closely with the IRS to help mitigate the risks associated with these challenges.

Funding Shortfalls

The new IRS Commissioner has justifiably called funding the most intractable issue the IRS faces. The federal budget sequestration and related funding cuts reduced the IRS budget in FY2013 by approximately \$600 million or 5.2 percent from the FY2012 funding level. In fact, the FY2013 post-sequestration funding level was the lowest since FY2009.

The recently enacted *Consolidated Appropriations Act of 2014* only further compounds the funding issue. The IRS was one of only a few agencies not to have its funding returned to pre-sequestration levels. For FY2014, the IRS received approximately \$11.3 billion. This amount is approximately \$1.6 billion less than the President's

budget request and \$1.8 billion less than the Oversight Board's recommendation. Figure 2 shows the IRS funding levels since FY2002.

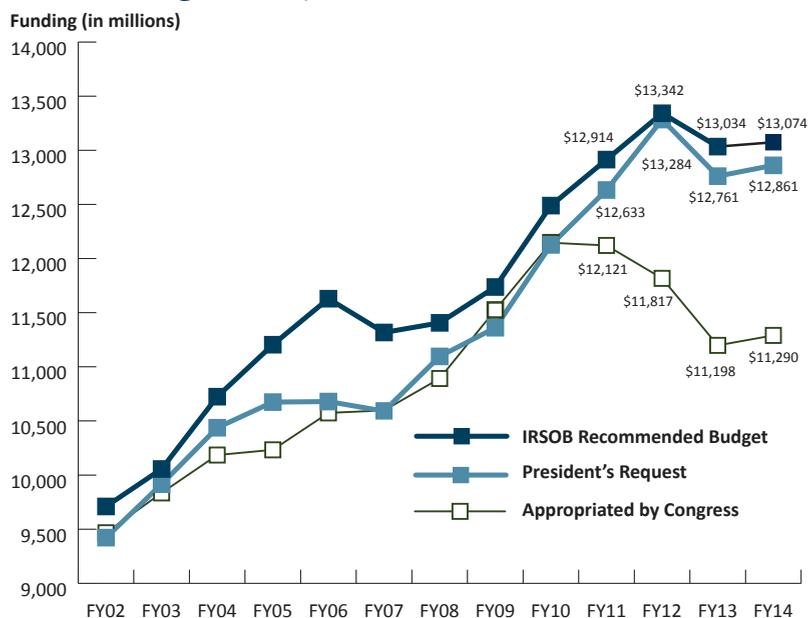
The new IRS Commissioner has justifiably called funding the most intractable issue the IRS faces.

To its credit, the IRS continued to identify and implement cost-cutting efforts needed to meet the lower funding level, although this required placing its entire workforce on furlough for three days in FY2013. The magnitude of the impact of these furloughs is significant.

Although the IRS is commended for pursuing cost and efficiency savings, the Board believes this path is unsustainable. It seems

The IRS FY2013 funding level was the lowest since FY2009.

FIGURE 2.
IRS Funding History FY2002-FY2014



SOURCE: IRS Oversight Board

To understand the impact of furloughing IRS employees, it is important to realize that on average, every business day, the IRS:

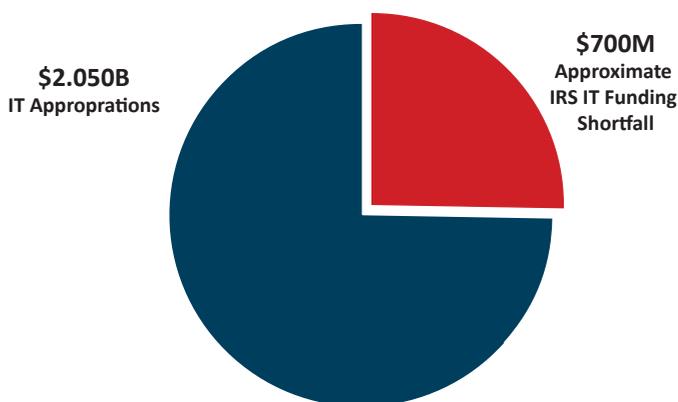
- Collects over \$190 million in enforcement revenue;
- Issues over 470,000 refunds to taxpayers totaling \$1.4 billion;
- Answers over 110,000 taxpayer calls on its toll-free telephone lines; and
- Serves over 25,000 taxpayers at its walk-in assistance centers.

SOURCE: IRS and IRS Oversight Board analysis.

illogical to the Board to cut the budget of the agency that typically delivers more than a \$4-to-\$1 return on investment. With the current budget, important service and enforcement programs will have to be cut further to the detriment of taxpayers and the fiscal health of our nation.

Another area being drastically affected by funding shortfalls is information technology (IT). IRS officials identified more than 20 current IT projects they deemed “essential” to effective tax administration. The essential projects include filing season readiness, identity-theft prevention and victim assistance, implementation of additional ACA and FATCA provisions, and CADE 2 development. The IRS further stated that the FY2014 funding level would provide roughly \$700 million less than what is needed to fund all essential

FIGURE 3.
IRS Appropriations for Information Technology and Approximate Funding Shortfall in FY2014*



SOURCE: IRS Congressional Budget Submissions, IRS Chief Financial Officer, and Board analysis

* The \$2.050 billion figure reflects the combination of the approximate amounts appropriated for Business Systems Modernization plus the funding for IT within the IRS budget account for Operations Support.

IRS critical IT needs will be underfunded by approximately 25 percent in FY2014.

IT projects. Figure 3 identifies the IT funding gap.

The IT funding shortfall also affects another area the Board views as critical to the success of IRS IT projects: testing. Rigorous systems testing provides organizations the ability to identify design and performance issues before new systems are implemented. The Board believes it is critical the IRS continue to fund systems testing for all of its IT projects.

The Board wishes to emphasize that cutting funding from the IRS simply punishes taxpayers in the form of less service for those needing IRS assistance and less fairness for honest taxpayers as more noncompliance, including fraud, is allowed to go unchecked. The Board believes policymakers should provide the IRS the necessary funds to carry out the

tax administration responsibilities assigned to it. At the same time, the Board expects the IRS to practice good stewardship over the funds it receives. IRS leaders must ensure funds provided to the IRS are used in the most efficient and effective manner possible to meet legal requirements and further voluntary compliance.

Customer Service

The IRS has a diverse customer base, requiring a number of different service options and products. It must provide effective customer service across its telephone operations and in-person contacts, through correspondence, and to the tax professional community.

One of the biggest challenges the IRS faces is how to provide a balanced portfolio of customer service options with a smaller

The IRS funding level for taxpayer assistance, education, and outreach decreased by nearly 34 percent from FY2012 to FY2013.

budget and workforce. While attempting to balance these needs, the IRS funding level for taxpayer assistance, education, and outreach decreased by nearly 34 percent from FY2012 to FY2013.

To effectively assess IRS customer service performance across multiple service channels, both the Board and the IRS use various performance measures. One overall score measures the satisfaction with the individual return filing process. This measure has enjoyed relatively high marks in recent years on the American Customer Satisfaction Index (ACSI), with a score of 72 in 2013 compared to 60 in 2001 (see Appendix 2, p. 42). The 2013 score matches the IRS long term goal identified in its Strategic Plan, but reflects a noticeable drop compared to the 2012 score of 75.

During FY2013, level-of-service (LOS) declined on the toll-free and Practitioner Priority Service (PPS) telephone lines. The IRS simply did not have enough employees to answer the phones, resulting in longer wait times, more hang-ups, and continued erosion in customer service performance.

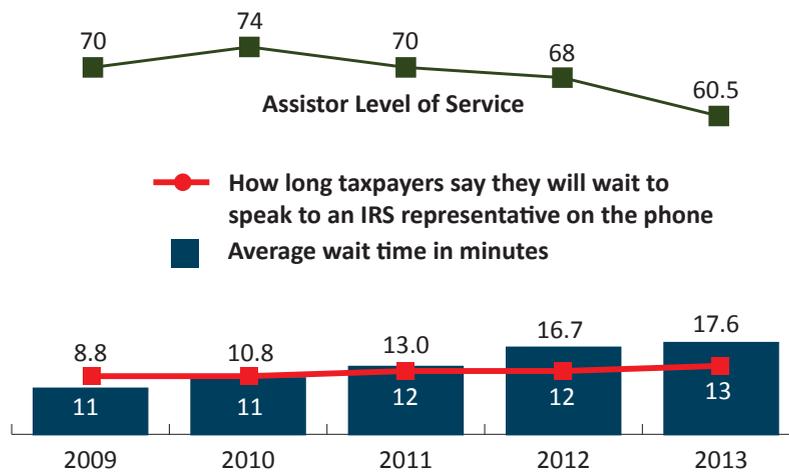
Since 2010, there has been a steady decline in toll-free

telephone service as shown in Figure 4. Taxpayers waited to speak with an IRS representative for an average of 17.6 minutes in FY2013, up from 15.7 minutes in FY2012. The 17.6 minute average wait time is well above the 13 minutes the public is willing to wait, as identified in the Board's 2013 Taxpayer Attitude

Survey. The overall LOS score for FY2013 dropped to 60.5 percent from 68 percent in FY2012. The Board continues to believe that 80 percent is the minimum toll-free telephone LOS that taxpayers deserve to help them meet their tax responsibilities. In addition to the low LOS, the IRS estimates that approximately 20 million

Telephone Level of Service (LOS) continued to decline in FY2013, and average wait times grew.

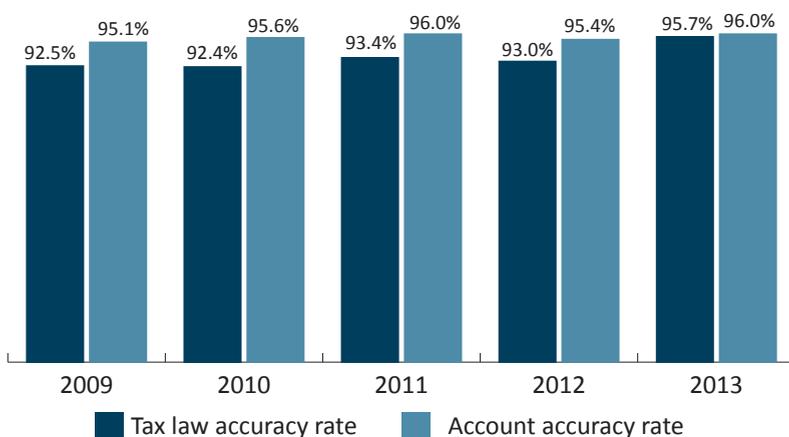
FIGURE 4. Telephone Wait Times and Level of Service 2009-2013



SOURCE: IRS and IRS Oversight Board 2013 Taxpayer Attitude Survey

Both tax law and account accuracy rates improved in FY2013.

FIGURE 5. Tax Law and Account Accuracy Rates 2009-2013



SOURCE: IRS

On average, only 3-out-of-10 taxpayers could get through on the IRS toll-free phone line from July through September 2013.

telephone calls went unanswered during FY2013. To the IRS assistors' credit, however, as shown in Figure 5, both tax law and account question accuracy rates remained well above 90 percent in FY2013, and actually increased from FY2012. These results suggest IRS employees provide excellent assistance to taxpayers; however, more assistors are needed to keep up with the demand from the public.

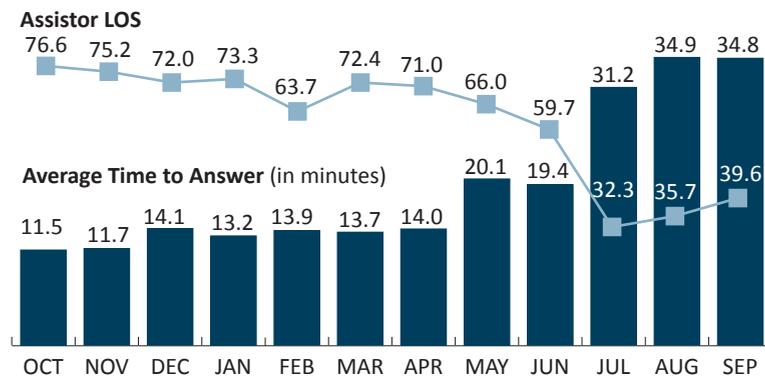
Further analysis reveals the negative impact of the difficult decisions the IRS was forced to make in FY2013 due to budget cuts. Monthly performance statistics reflect the decision to maintain approximately the same performance during the 2013 filing season as the 2012 filing season. As shown in Figure 6, the steep decline in LOS and the dramatic increase in average wait times began to appear in July.

As shown in Figure 7, PPS LOS improved slightly to 75 percent in FY2013 from 73.4 percent in FY2012. The average wait time decreased from 22.1 minutes in FY2012 to 19.7 minutes in FY2013. Similar to the toll-free telephone line, the average wait time began to increase again during the last quarter of FY2013 as shown in Figure 8.

As the average wait time increased throughout the year, the overall telephone LOS decreased.

FIGURE 6.

Telephone Wait Times and Level of Service by Month in FY2013

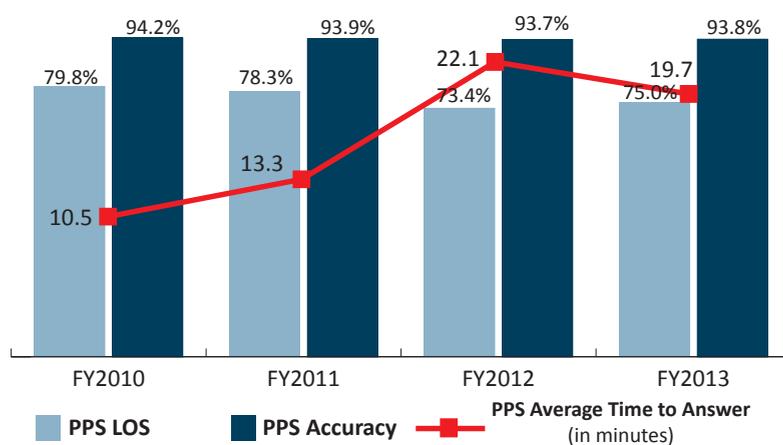


SOURCE: IRS

While PPS service and accuracy improved slightly in FY2013, they were still lower than in prior years.

FIGURE 7.

Performance Trends for IRS Practitioner Priority Service Line



SOURCE: IRS

Practitioners waited more than 30 minutes on average to get through on the PPS line from July through September 2013.

Adding to the declining trends in toll-free service, operating hours at IRS walk-in TACs were reduced in FY2013 due to funding constraints. This change resulted in increased wait times for taxpayers who visited TAC offices, and in some cases fewer taxpayers being served. While the IRS has told the Board that taxpayers are sometimes turned away by TAC offices due to limited staffing to handle the demand, it does not count the number of these taxpayers. All told, the IRS assisted over 6.5 million taxpayers in its TACs in FY2013, down from over 6.8 million in FY2012. TAC customer satisfaction and accuracy, however, remained high at 88 percent and 87 percent, respectively.

The IRS also faced increased backlogs in its written taxpayer correspondence inventory in FY2013. This is another crucial part of customer service since the IRS conducts about 75 percent of all individual examinations by mail, and sends out millions of additional notices each year to taxpayers. Most of the actions needed to resolve these cases are handled through the mail.

Monthly PPS service levels followed the same pattern as those for the toll-free telephone line, dropping dramatically in the fourth quarter.

FIGURE 8.

Practitioner Priority Service Wait Times and Level of Service by Month in FY2013

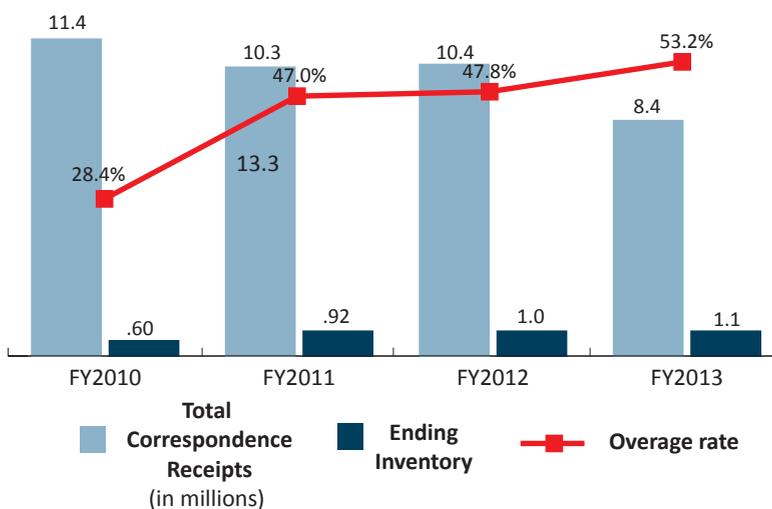


SOURCE: IRS

While correspondence receipts decreased by over 25 percent since FY2010, overage inventory has almost doubled.

FIGURE 9

Correspondence Receipts, Ending Inventory, and Overage Percentages FY2010-FY2013



SOURCE: IRS

At the end of FY2013, over half of the correspondence inventory was “overage,” or over 45 days old. As shown in Figure 9, while

total correspondence receipts have decreased since FY2010, the percentage of overage cases has nearly doubled.

While the number of visits to IRS.gov continued to increase, customer satisfaction with the website continued to decline.

While the number of visits to IRS.gov continued to increase during FY2013 to more than 456 million web page visits, customer satisfaction with IRS.gov, as shown in Figure 10, continued to decline. According to ASCI data, the score for IRS.gov has steadily declined from 73 in 2011 to 69 in 2013. Additionally, as shown in Figure 11, IRS.gov received lower scores than those of other federal websites overall and those of Internet-based retail and brokerage companies; another downward trend suggesting the IRS is not keeping pace with online advances of the federal government and the private sector.

FIGURE 10.

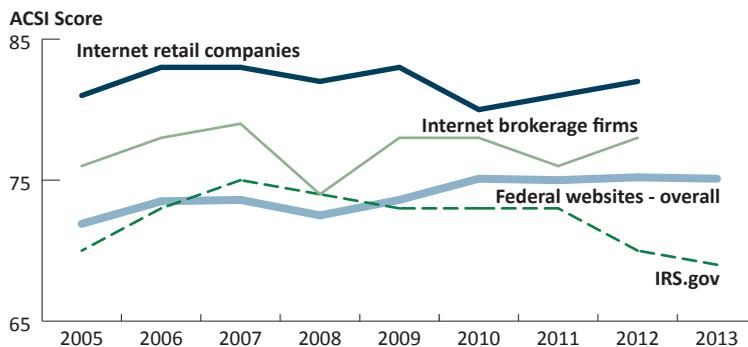
IRS Website Usage and Customer Satisfaction Ratings: 2005-2013



SOURCE: IRS

FIGURE 11.

Comparison of Selected e-Government and e-Commerce American Customer Satisfaction Index Scores

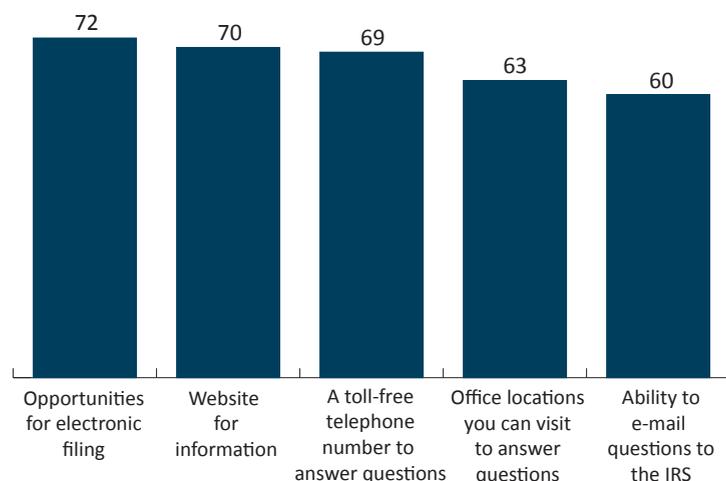


SOURCE: www.theacsi.org

The public believes it is very important the IRS provide multiple service options.

FIGURE 12.

Percentage of Public Who Say It Is Very Important that IRS Provide Certain Service Options



SOURCE: IRS Oversight Board 2013 Taxpayer Attitude Survey

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

Given its current funding level, the IRS must leverage the tax professional community, IRS.gov, and other electronic

services to provide assistance to taxpayers. The Board believes that consistently meeting taxpayer expectations and successfully expanding its online services portfolio will help to improve customer satisfaction. The Board also believes the IRS must ensure strong security controls are built into any online application it implements. The public's trust and confidence in the security of IRS computer systems is vital to voluntary compliance. The Board is pleased to note the IRS is developing an IRS-wide identity

proofing and authentication process to serve as the underlying security mechanism for additional web-based applications and services. The Board believes it is crucial the IRS implement an effective, robust online authentication process to mitigate the increased risk of identity theft and prevent the unauthorized disclosure of tax information.

While the IRS must expand its electronic services options, the need for a multi-channel approach to service delivery, as shown in Figure 12, is also supported by the Board's 2013 *Taxpayer Attitude Survey*. The Board believes taxpayers will benefit from a comprehensive IRS customer service strategy that ensures innovative advances in electronic and self-service options. Only then will the IRS be positioned to meet the demands of a 21st century tax administration system.

Enforcement

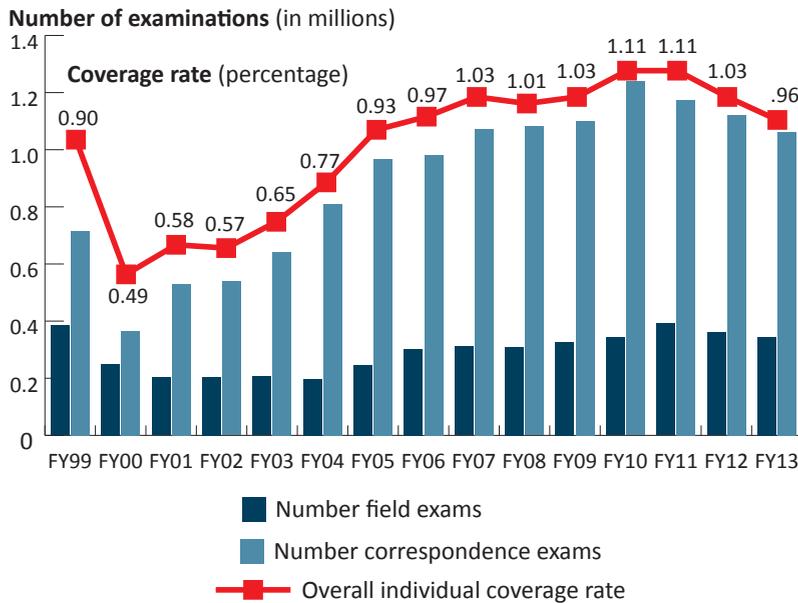
The IRS must run a balanced program of customer service and enforcement. Similar to its customer service results in FY2013, IRS enforcement results were mixed and reflect the cumulative effect of several years of decreasing funding levels.

While audits of individuals surpassed one million for the seventh year in a row, as shown in Figure 13, the overall coverage rate for individuals fell below one percent for the first time since FY2006. Audits of individuals in the upper-income brackets remained substantially higher than other categories, but the coverage rate for the highest income bracket individuals declined in FY2013, as shown in Figure 14.

The overall individual examination coverage rate fell below one percent for the first time since FY2006.

FIGURE 13.

IRS Examination Trends for Individual Returns: Numbers and Coverage Rates

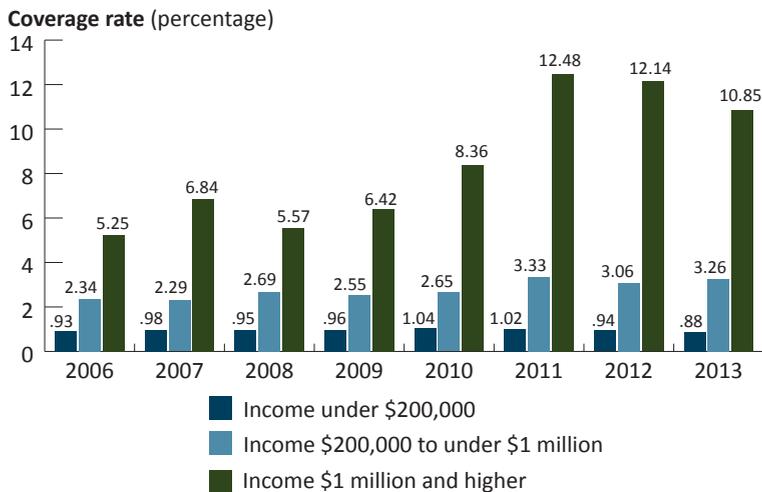


SOURCE: IRS

The examination coverage rate for high-income individuals remains the highest at 10.85 percent, despite declining slightly from FY2012.

FIGURE 14.

Examination Coverage Rates for Individual Filers by Income Range



SOURCE: IRS

The IRS decreased the overall number of examinations across all business returns in FY2013. Figure 15 shows the examination coverage rates for taxable corporation returns by asset size. The examination coverage for taxable corporations with assets of \$250 million or higher increased in FY2013 to 33.9 percent and remained the highest rate overall.

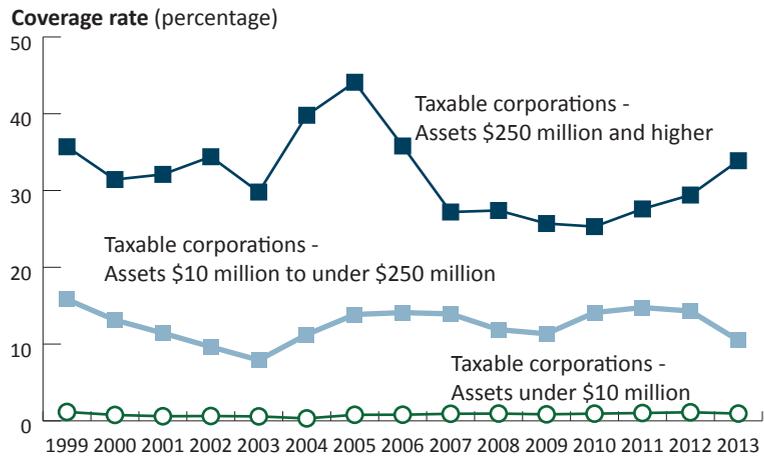
The number of IRS revenue officers and revenue agents continued to decline in FY2013, as shown in Figure 16. IRS had 19,531 key enforcement employees, down 14 percent from the 2010 peak. At the end of 2013, the number of revenue officers was the lowest in at least 10 years; the number of revenue agents was the lowest in nine years.

While the examination rates and the number of key enforcement personnel declined in FY2013, the total enforcement revenue collected increased in 2013 by 6.3 percent to \$53.35 billion. The IRS attributes the \$3.2 billion increase in enforcement revenue collected over FY2012 largely to the closure of a small number of on-going cases from previous years.

The examination coverage rate for corporations with assets of \$250 million or higher increased in FY2013 to 33.9 percent.

FIGURE 15.

Examination Coverage Rates for Taxable Corporation Returns by Asset Size

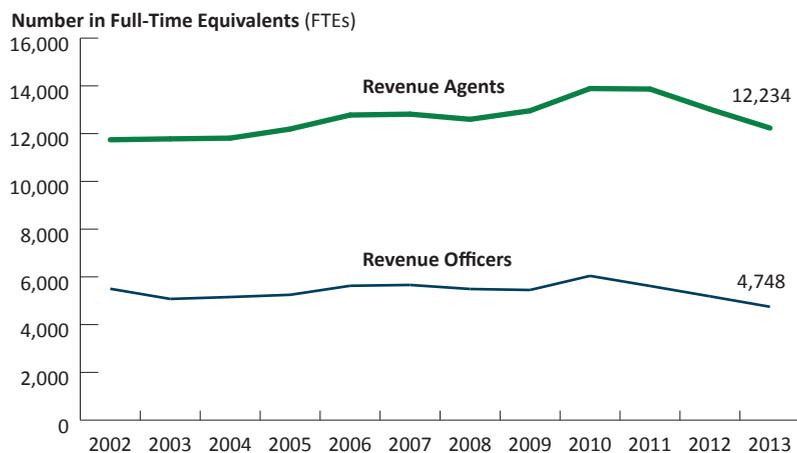


SOURCE: IRS

The number of revenue officers and revenue agents is at its lowest in 10 years and nine years, respectively.

FIGURE 16.

Staffing for Key Enforcement Occupations and Total Enforcement Revenue



SOURCE: IRS

The IRS reported revenue from the Collection function also increased by nearly \$1 billion in FY2013.

By contrast, revenue generated from audits declined almost \$400 million to \$9.83 billion, less than \$10 billion for the first time since at least 2003. Other IRS enforcement actions declined significantly in FY2013 as well. Figure 17 shows that approximately 1.866 million levies were processed, down about 37 percent from FY2012. Liens filed were down about 15 percent, with just over 600,000 being filed. Lastly, the number of seizures dropped about 25 percent to 547.

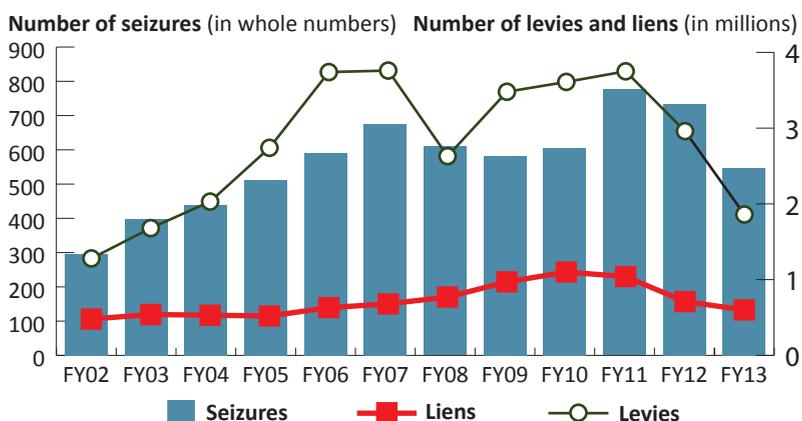
On the positive side, Criminal Investigation (CI) activities, including prosecutions recommended and convictions, increased in FY2013. CI achieved a conviction rate of 93.1 percent and a Department of Justice acceptance rate of 95.5 percent with a U.S. Attorney acceptance rate of 93.4 percent.

The IRS whistleblower program also experienced its second highest year of associated tax collections and award payouts in FY2013. Total tax collections on cases arising from whistleblower leads exceeded \$250 million in 2013, with a share of over \$50 million awarded to the whistleblowers.

The IRS use of levies, liens, and seizures has decreased significantly since 2011.

FIGURE 17.

Number of IRS Levies, Liens, and Seizures 2002-2013



SOURCE: IRS

Identity Theft Related Tax Refund Fraud

Tax refund fraud, particularly as it relates to identity (ID) theft, has been a major challenge for the IRS and honest taxpayers who have been victimized. The IRS has been criticized for not doing enough to resolve ID theft cases,

for the length of time required to resolve cases, and for the treatment of some ID theft victims.

Identity theft cases, as well as IRS efforts to combat ID theft related fraud, have increased over the past several years. From FY2011 through November 2013, the

TABLE 1.

Incidence, Assistance, and IRS Efforts to Combat Tax Related Identity Theft

Descriptions	2011	2012	2013
Identity theft incidents identified by IRS	247,000	1,245,000	3,528,896
Number of IP PINs issued by the IRS to identity theft victims for use in the next filing season	252,000	600,000	1,207,581
Number of confirmed identity theft returns stopped*	1,084,000	1,840,000	1,844,479
Value of fraudulent identity theft refunds prevented*	\$7.58 billion	\$12.11 billion	\$10.7 billion

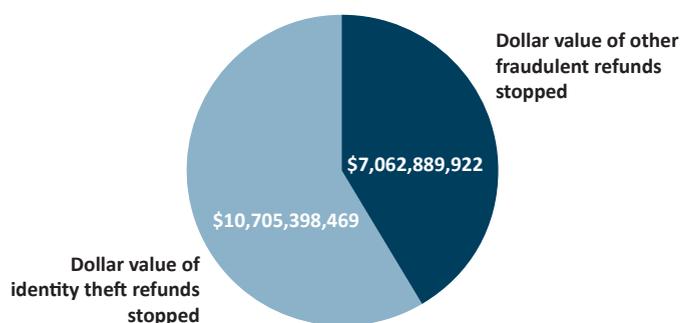
SOURCE: IRS

*Data on the number of confirmed identity theft returns stopped and the dollar value of refunds prevented are not entirely comparable from year-to-year due to the impact of issuing IP PINs. The issuance of IP PINs prevents fraudulent returns from being accepted by the IRS in subsequent filing years. This is not accounted for in the reported data on fraudulent returns stopped and refund amounts prevented.

The IRS stopped approximately \$17.8 billion in fraudulent refunds in 2013, which is about 59 percent more than its 2012 funding level.

FIGURE 18.

Dollar Value of Fraudulent Refunds Stopped FY2013



SOURCE: IRS

IRS stopped approximately 14.6 million suspicious returns and protected over \$50 billion in fraudulent refunds. As shown in Table 1, in FY2013 the IRS identified more than 3.5 million ID theft incidents and stopped over 1.8 million ID theft tax returns from being processed. In addition, approximately 1.2 million taxpayers who were victims of ID theft were issued special Identity Protection (IP) PINs by the IRS for use in the 2014 filing season. This unique identifier establishes a taxpayer as the rightful filer of future returns and is, among other things, intended to reduce the number of taxpayers caught up in delays and prevent fraudulent returns from being processed.

While more work needs to be done to address ID theft-related refund fraud, the IRS has made progress. New filters and processes to detect ID theft cases were implemented. In November 2013, then Acting Commissioner Werfel reported that more than 3,000

IRS employees were working full-time on ID theft. He also noted that the IRS has trained 37,000 employees to recognize ID theft and then help the victims, who are often traumatized and frustrated. At the time the announcement was made, the IRS had resolved 800,000 ID theft tax refund fraud cases—a threefold increase over the same period last year. In FY2013, the IRS resolved ID theft cases in approximately 120 days, compared to previous years in which cases could take up to 300 days to resolve.

In January 2013, the IRS conducted a coordinated and highly successful ID theft enforcement sweep with several state and local law enforcement agencies. The effort against ID theft suspects led to over 730 enforcement actions, including indictments and arrests. The IRS also initiated approximately 1,500 identity theft criminal investigations in FY2013, a 66 percent increase from FY2012.

Tax Year 2011 Results Suggest a Positive Impact on Voluntary Compliance from New Information Reporting Requirements

In an effort to improve voluntary compliance, the *Housing Assistance Tax Act of 2008* required banks and other processors of merchant payment card transactions to report annual gross payment card receipts to the IRS and to the merchant. This new reporting requirement first applied to the information returns filed in 2012 for tax year 2011. Available data for the initial year of reporting suggest a positive impact on compliance.

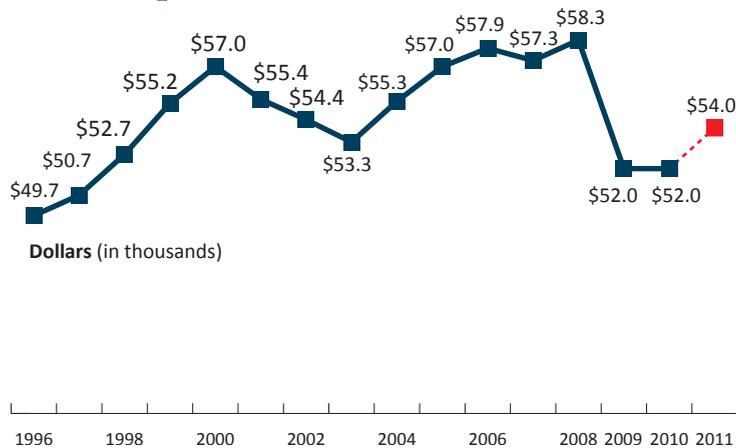
In tax year 2011, there was a noticeable increase in the amount of self-reported business receipts on Schedule C returns. This increase in reported business receipts occurred despite the fact that the U.S. economy grew more slowly in 2011 than in 2010 (see Figure 19).

The IRS is also focusing on business-related ID theft, an evolving area that involves the use of employer identification numbers to commit various forms of fraud. In FY2013, the IRS formed a team to determine what actions to take when an employer discovers its employer identification number was stolen or fraudulently used.

Initial return data suggest expanded merchant card information reporting requirements have had a positive impact on voluntary compliance.

FIGURE 19.

Average Self-Reported Business Receipts per Schedule C (Sole Proprietor) Return*



SOURCE: IRS Statistics of Income data, Board analysis

*Data reflect the average dollar amount (in thousands) of business receipts on a Form 1040 Sole Proprietor Schedule C business return.

Organizational Challenges

The IRS experienced an extremely challenging year in 2013. Continued funding cuts and the government-wide sequestration, revelations of unnecessary and excessive spending on training and conferences, and allegations of politically-motivated targeting contributed to the agency-wide challenges faced by the IRS. These issues have influenced employee morale and engagement levels, turnover of key personnel, and possibly the public’s views of the IRS.

The IRS is a labor-intensive agency. Its people are its greatest asset. Due to funding limitations, the IRS implemented exception-only hiring freezes and employee

buyouts. These efforts, as well as normal attrition, have reduced the IRS workforce by approximately 7,500 full-time equivalent positions, or nine percent, since 2011. Employee training was reduced by approximately \$150 million since FY2010, an eighty-seven percent decrease. In the Board’s view, inadequately-trained IRS employees provide a disservice to the taxpayers of this country. Due to the complexities of the tax code, ill-trained employees may provide inaccurate answers to tax questions or potentially add to taxpayer burden during examinations and collection actions. On top of the limitations placed on them due to the budget constraints, IRS employees must sometimes interact with angry or aggressive taxpayers when carrying out their duties. In FY2013,

TIGTA initiated almost 1,200 investigations of threats made against IRS employees.

The current environment and the actions taken by the IRS may have played a major role in the results from the 2013 *Best Places to Work in the Federal Government* survey. The 2013 report shows the IRS dropping nearly eight points in overall employee satisfaction from 66 in 2012 to 58.3 in 2013. For comparison, the government-wide decline was only three points.

The Board is also deeply concerned over the large-scale turnover of senior executives. Forty-three key executives retired or resigned in 2013. The Board is also concerned by the potential for further large-scale retirements at the IRS, as workload responsibilities grow while budgets do not. It is estimated that nearly 75 percent of the IRS workforce could retire from or leave the IRS by 2018; this is an enormous human capital risk.

The Board is particularly focused on how the IRS manages this retirement risk as it relates to executives and those with deep, specialized institutional knowledge. IRS officials have shared their views that five to six years, on average, are needed to bring a newly-hired employee to full productive status. This also raises the question of bench strength. The Board is pleased the IRS is actively engaged in a Leadership Succession Review process, which helps identify top employees for future leadership positions. The Board is also pleased that the IRS is proceeding

with its executive candidate development program, albeit a significantly pared down program, to help prepare future executives for the critical roles they will assume.

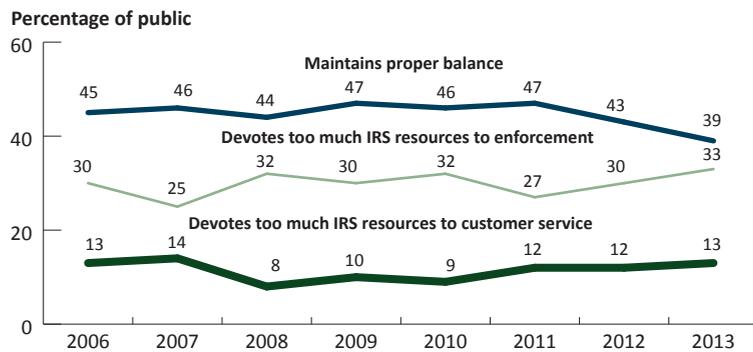
The IRS must also work to restore the public's trust in the agency. The results from the Board's 2013 *Taxpayer Attitude Survey* suggest the cumulative effect of low customer service scores and allegations of politically-motivated targeting of certain groups, have changed the public's perception of and support for the IRS. As shown in Figure 20, the percentage of the public that believes the IRS maintains a proper balance between enforcement and customer service decreased by six points from 2012 to 2013, and is now at the lowest level recorded in the Board's annual *Taxpayer Attitude Survey*. The results of the 2013 survey also show steep declines in the percentage of the public that believe the IRS should receive extra funds to provide better customer service and to better enforce the tax laws, although majorities of the public still support both propositions as shown in Figure 21. These results are troubling, and in the Board's view, could indicate negative impacts on voluntary compliance in the future if these trends continue.

Overall, the Board is deeply concerned over current trends, particularly regarding human capital and taxpayers' interaction with the agency. The Board is pleased in the confirmation of IRS Commissioner John Koskinen,

The percentage of the public that believes the IRS maintains a proper balance between enforcement and customer service is at its lowest point since the Board started its survey.

FIGURE 20.

Public View on Whether the IRS Maintains a Proper Balance Between Enforcement and Service

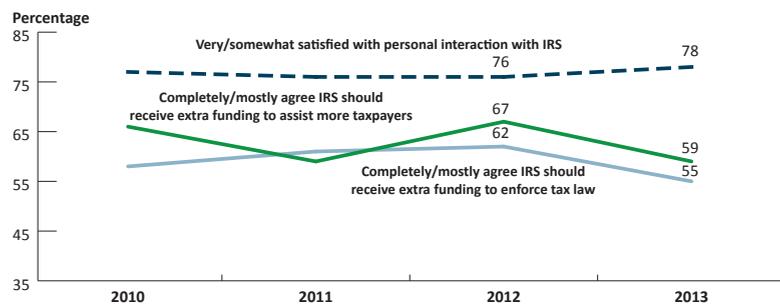


SOURCE: IRS Oversight Board 2013 Taxpayer Attitude Survey

The majority of the public believes the IRS should receive additional funding for both enforcement and customer service.

FIGURE 21.

Percentage of Public Satisfied with Personal Interaction with IRS and Selected Views on IRS Funding and Program Balance



SOURCE: IRS Oversight Board 2013 Taxpayer Attitude Survey

who appears to be the right person for the job. However, it will take time to rebuild employee morale and restore public trust. The Board is hopeful that changes made now

and in the coming years will result in positive changes for taxpayers and IRS employees.

IRS Oversight Board Activities 2013

In addition to its statutory responsibilities under the *Internal Revenue Service (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 Operations and Operations Support Committees 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. Additionally, 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.

The Board also presents its views to key congressional committees and staff. Its reports are frequently cited in the media, and the Board Chair also provides the Board's views for media inquiries.

Board Meetings

The IRS briefed the Board on many of its critical program areas and accomplishments during quarterly Board meetings. A list of topics covered includes:

- *Affordable Care Act Implementation*
- *Customer Account Data Engine (CADE) 2*
- *Cybersecurity*
- *Data Analytics*
- *Filing Season Preparations, Progress, and Accomplishments*
- *Fraud Detection and Prevention Efforts*
- *End-of-Year Performance Results and Goals*
- *Human Capital Issues*
- *IRS Budget*
- *IRS Strategic Plan Development*
- *Online Services Enhancements*
- *Refund Fraud*
- *Return Preparer Regulation*
- *Risk Management*

Committee Meetings

The IRS Oversight Board has three committees: Operations, Operations Support, and Executive. The Board conducts the majority of its reviews of IRS programs through its Operations and Operations Support Committees. These committees meet with IRS leaders four times a year to review performance and discuss key issues. In FY2013, the Operations Committee held a fifth meeting focused on customer satisfaction.

OPERATIONS COMMITTEE

The Operations Committee identifies strategic issues at the start of each year and then monitors IRS progress on these issues throughout the year. Strategic focus issues in FY2013 included:

- *Appeals Judicial Approach and Culture Project Implementation*
- *CADE 2 Implementation and Development of Transition State 2 Efforts*
- *Collection Organization and Process Improvement*
- *International Practice Networks*
- *Preparer Compliance Strategy Development*
- *Taxpayer Advocate Service Integrated System Implementation*

OPERATIONS SUPPORT COMMITTEE

The Operations Support Committee promotes business process improvement efforts and reviews IRS progress on a number of such projects. Focus areas in FY2013 included:

- *Document Imaging Initiatives*
- *Human Capital Office Optimization*
- *Information Technology End-to-End Processing*
- *Workforce Development Privacy Organization*
- *Real Estate and Facilities Management Space Reduction Efforts*

EXECUTIVE COMMITTEE

The Board met its statutory responsibility of reviewing the selection, evaluation, and compensation of senior IRS executives. The Board’s Executive Committee conducted a thorough review of FY2013 performance commitments and performance ratings for top IRS executives.

Public Meeting

The IRS Oversight Board held its annual public meeting on May 1, 2013, at the IRS National Headquarters to examine and discuss the following questions and challenges:

- *The Future of Tax Administration over the Next Five Years*
- *How the IRS and Its Partners Can Work Together to Prevent Fraud*
- *Emerging Trends in the International Taxation Arena*

The panelists who addressed these challenges and shared their views and insights included representatives from stakeholder organizations such as preparer groups, payroll organizations, state tax administrators, and other subject matter experts.



A summary of the meeting, including panelists’ written statements and recommendations can be found at <http://www.treasury.gov/irsob/meetings/05-01-13/index.shtml>.

Other Meetings

The Board is committed to increasing the efficiency and effectiveness of our nation’s tax administration system. As such, the Board meets periodically with various stakeholders to discuss issues, challenges, and opportunities surrounding tax administration.

- *October 2012: Met with South Florida Volunteer Income Tax Assistance (VITA) Coalition and IRS employees in Plantation, Florida*
- *February 2013: Met with American Bar Association to discuss the “Adopt-a-Base” program*
- *February and September 2013: Held joint meetings with representatives from the Government Accountability Office (GAO) and the Treasury Inspector General for Tax Administration (TIGTA)*
- *March 2013: Met with the Maryland VITA Coalition in Largo, Maryland*

- *May 2013: Met with National Treasury Employees Union President*
- *July 2013: Met with Heart of Florida United Way VITA Partners in Orlando, Florida*
- *September 2013: Briefed the IRS Candidate Development Class*

In addition to these meetings, the IRS Oversight Board routinely provides its *Taxpayer Attitude Survey* data to students and researchers upon request. In 2013, the Oversight Board shared its survey data with the University of Connecticut's Roper Center for Public Opinion Research.

Reports

In 2013, the IRS Oversight Board published four reports:

- *Annual Report to Congress 2012*
- *Electronic Filing 2012 Annual Report to Congress*
- *2012 Taxpayer Attitude Survey*
- *FY2014 IRS Budget Recommendation Special Report*

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

Congressional Testimony

On May 8, 2013, the Board provided a written statement on the Internal Revenue Service's FY2014 Budget Request to the Senate Committee on Appropriations Subcommittee on Financial Services and General Government. This statement can be found the Board's website at <http://www.treasury.gov/irsob/board-testimony.shtml>.

Board Travel Expenses

The travel expenses for the IRS Oversight Board in FY2013 totaled \$60,264.00.

Nationwide Tax Forums

The Board participated in all six 2013 IRS Nationwide Tax Forums. In addition to staffing an information table, the Board held discussions with practitioners and IRS employees. While the feedback the Board collected is anecdotal in nature, the recurring themes that emerged are indicative of the concerns tax practitioners and IRS employees raised about the current state of the IRS. The Board shared the feedback with the IRS Commissioner.

WHAT THE BOARD HEARD AT THE TAX FORUMS

Practitioner Feedback

Tax practitioners raised concerns in two primary areas – service and communications. Practitioners said they want one-stop customer service from the IRS. They also voiced support for the Return Preparer Program. While some practitioners complained about the IRS handling of Tea Party groups’ applications for tax exempt status, many expressed sympathy and support for IRS employees. Several practitioners provided positive feedback about IRS employees, specifically complimenting their professionalism and the quality of assistance they provided. Below is a summary of the key issues that surfaced.

- ***Desire to partner with the IRS*** - Practitioners expressed general concerns that the cooperative spirit between industry and the IRS forged with the enactment of RRA 98 no longer exists.
- ***Disappointment at IRS decision to retire Disclosure Authorization and Electronic Account Resolution (e-Services) applications*** - Practitioners expressed frustration with the IRS decision to retire these services. The proposed interim solution, which involves faxing submissions, is burdensome and takes days rather than minutes to complete.
- ***Concerns over declines in customer service*** - Practitioners said the IRS Practitioner Priority Service (PPS) Line is not meeting their needs. There were widespread complaints about long wait times, dropped calls, and being transferred endlessly to other units, referred to as the “IRS phone carousel.” Practitioners also complained of significant delays in resolving client issues on matters such as Automated Substitute for Return cases.
- ***Challenges with resolving older ID theft cases*** - Practitioners voiced displeasure over delays, procedures, and poor communications with the IRS as they try to help victims resolve tax account issues. Delays can run 18 months or longer. Practitioners also complained that the IRS does not assign a specific employee to help them resolve an ID theft case, and as a result, it is difficult trying to locate an IRS employee or phone number to call for help. It was suggested the IRS could enhance communications with practitioners on this subject.
- ***Frustration over Earned Income Tax Credit (EITC) Due Diligence notices*** - Practitioners expressed concern over receiving notices about errors made on returns they had prepared, but then not being able to reach an IRS employee who could provide a detailed explanation. Practitioners suggested the IRS could do a better job of informing the practitioner community of what can be expected during the EITC due diligence review process.
- ***Delays in refunds*** - Practitioners said they were unable to get clear answers from the IRS regarding what caused delays in their client refunds during the 2013 filing season. The IRS refund tracker was not helpful in pinpointing the reasons for delays.
- ***Lost documents*** - Practitioners cited instances where letters or paper tax returns were mailed to IRS offices but were subsequently lost by the IRS.
- ***Rejected Individual Taxpayer Identification Number (ITIN) applications*** - Certified Acceptance Agents (CAAs) reported the IRS has inconsistent review processes, which they believed contributed to a high percentage of ITIN applications being rejected. This is not only burdensome but also frustrating to CAAs, as it limits their ability to service more clients.

IRS Employee Feedback

IRS employee concerns fell into four categories—leadership, culture, budget, and training. On a positive note, IRS employees expressed a “can do” attitude regarding their jobs. They also said they want an environment that supports taking calculated risks and innovation. While acknowledging the significant impact of recent controversies, employees said their work was interesting and challenging. They also believe the IRS is a good place to work. Below is a summary of the key issues raised.

- ***Anger over the behavior of former IRS leaders in the 501(c)(4) and conference spending matters*** - Employees voiced a lack of support from top IRS leaders as last spring’s events unfolded. Employees were offended by the reference to “rogue” IRS agents and the blame that was placed on lower level employees. Employees said that top IRS leaders did not hold themselves accountable for their actions, nor properly defend the agency. Employees were also sad over how the media mischaracterized them.
- ***Low employee morale*** - There was consensus that morale is at an all-time low. Growing workload challenges, limited career advancement, reductions in training, coupled with the hiring freeze, sequestration, furloughs, and delayed awards caused morale to plummet. Employees said they felt insecure and that engagement is lacking in remote workgroups. Travel restrictions have limited or eliminated face-to-face engagement between managers and employees.
- ***Impact of budget constraints on the workforce*** - In addition to the decline in morale, managers reported agent inventories have increased significantly. Employees said “doing more with less is not sustainable” and that the growing problems of tax-related ID Theft and fraud are draining IRS resources. Employees expressed concern about jobs not being filled as employees leave the IRS, and said they believe the IRS is losing its “legacy knowledge base.” They feared a potential gap in skilled agents if veteran employees retire and there are not enough trained new agents to replace them. Employees were also concerned that travel restrictions have impaired the IRS’ ability to conduct critical outreach with its stakeholders.
- ***Cultural challenges*** - Employees used the metaphor “frozen” to describe their current condition and said they feared retaliation. Employees did not feel heard by upper management and said they are afraid to speak up about problems due to a sense of hopelessness and perceived apathy from management. They expressed a desire for a sense of community but did not feel they have one with the current organizational structure and budget constraints which limit and even prohibit travel.
- ***Inadequate training*** - Managers and employees reported the new approach to online training is not working well for most people. Many employees felt rushed to complete their online training in light of the increased workloads. Some employees said they had not received the training they needed to do their job. Employees also expressed concerns about the quality of training. They said new hires need face-to-face training; classroom training is critical. Employees also said there are not enough skilled agents to serve as on-the-job coaches following training. Employees said they have limited opportunities to learn from one another and that virtual training did not allow for peer networking.
- ***Workload concerns*** - Employees are concerned about staffing levels at the Taxpayer Assistance Centers; they said wait times are long and taxpayers are often turned away. Employees also expressed concerns over the declining toll-free customer service. They said tax-related ID theft and refund fraud is overwhelming and very difficult to handle. Moreover, employees worry that combatting ID theft was draining resources to deal with other issues, such as basic enforcement activities.
- ***Personal safety*** - Pointing to Oklahoma City, Austin, and 9/11, employees said physical security cannot be taken lightly. Field agents noted receiving a significant increase in “pushback” from taxpayers.

Looking Back: 15 Years of Progress Since the Passage of RRA 98

This year marks the 15th anniversary of the passage of RRA 98. During FY2013, the Board reflected upon its role in tax administration under RRA 98 and identified the following significant contributions made by the IRS Oversight Board over the past 15 years.

Guided the IRS in modernizing its business systems.

- Worked with TIGTA and GAO to carefully review and monitor IRS progress in planning and implementing CADE 2, which included the IRS migration from weekly to daily tax account processing for individual taxpayers, and the establishment and use of the new CADE 2 relational database. Encouraged the discussion between the IRS and the GAO that eventually led to the removal of IRS Business Systems Modernization program from the GAO High-Risk List.
- Supported IRS budgets that allowed for major infrastructure and technical advances in the tax administration system.

Fostered the growth of electronic tax filing.

- Fostered the growth of e-filing by calling for an 80 percent e-file rate for all major tax returns. Reported to Congress annually on IRS' accomplishments, challenges, and e-File progress.
- Provided continuity in the IRS' long term direction, regardless of changes in leadership or Administration.
- Insisted the IRS develop long term strategic plans with clear, balanced goals. Worked with the IRS in developing long term measures in customer satisfaction, voluntary compliance, employee engagement, and enforcement, which became part of IRS Strategic Plans.
- Insisted the IRS create succession plans, especially at the executive level.
- Monitored filing season planning and implementation.
- Identified needs of the IRS by applying a non-partisan approach to ensuring the Board met its statutory responsibilities.

Insisted on continual customer service improvement.

- Pushed for customer service improvements, including an 80 percent level of service for toll-free telephone assistance, and greater accuracy in service provided to taxpayers.
- Supported IRS budgets that allowed for modern information technology and communications systems.
- Informed Congress of increased taxpayer burden due to late legislative tax law changes and delayed alternative minimum tax adjustments.
- Ensured balance between enforcement and customer service.
- Required and supported budget submissions that allowed the IRS to meet its strategic goals of service and enforcement.

Called for best private-sector practices in tax administration.

- Required major IRS operating divisions and functional units to implement specific business improvement process initiatives, many based on Lean Six Sigma concepts, to reduce waste, and boost efficiency.
- Expanded Board meetings to include regular discussions about IRS enterprise risk management. Pushed for the development of a disaster recovery strategy and capabilities as part of an enterprise risk management effort.
- Reviewed the selection and performance of top IRS officials to ensure accountability.
- Raised awareness of return on investment for key enforcement initiatives and priorities.

Focused on IRS employee issues.

- Emphasized employee engagement to improve performance and productivity.
- Reviewed IRS training programs and helped guide agency leaders in making improvements and measuring the effectiveness of their efforts.
- Met with IRS employees around the country to discuss concerns.

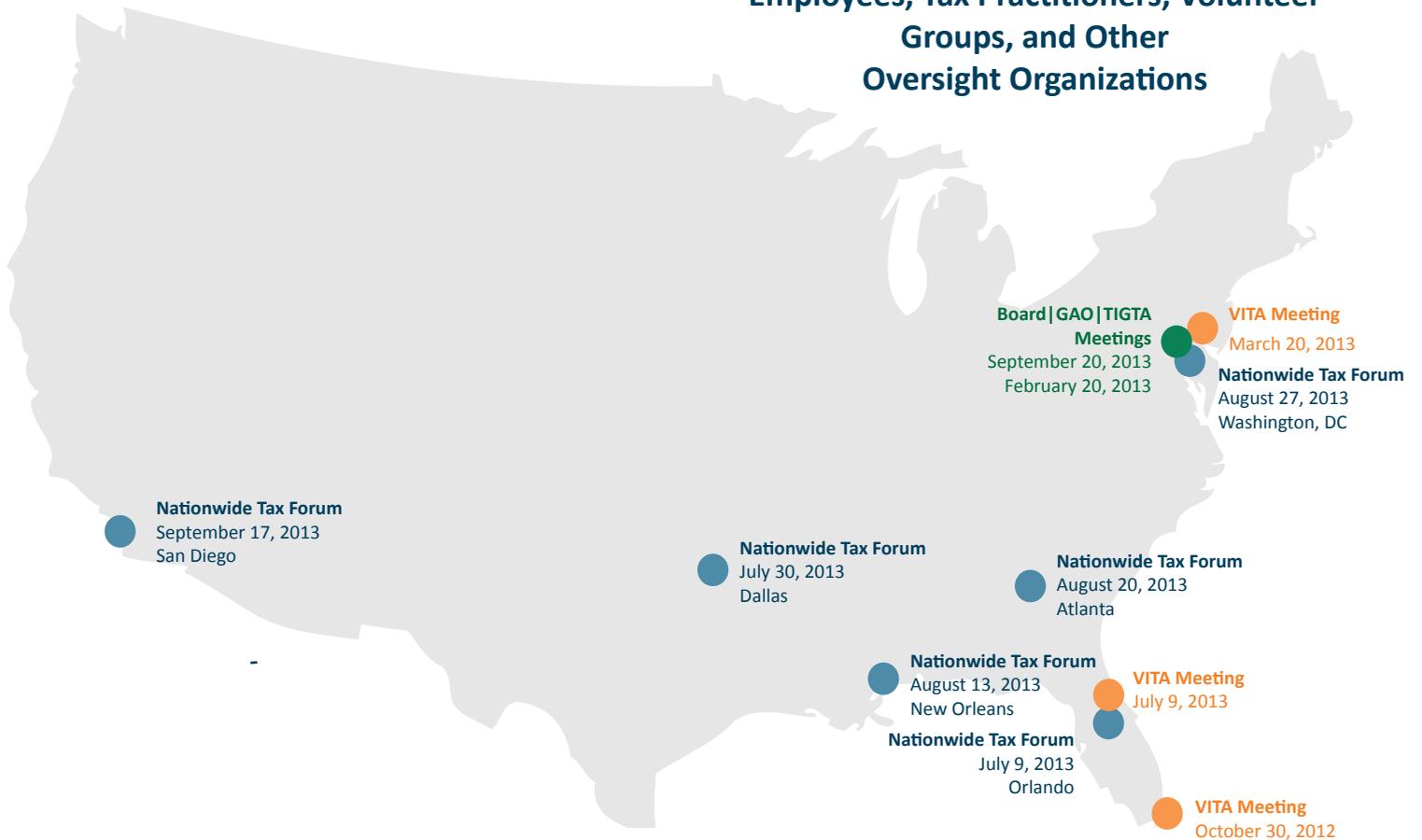
Raised awareness in critical tax administration issues.

- Sponsored and publicized annual taxpayer attitude surveys, which provide a steady gauge of taxpayer views on a wide range of important tax administration issues.
- Created greater awareness and understanding of the tax gap and the need to reduce it.
- Suggested audit topics to TIGTA, many of which were subsequently included in its Annual Audit Plans.
- Conducted discussion groups with tax professionals at the IRS Nationwide Tax Forums.
- Held annual public meetings to solicit feedback from stakeholders on topics of importance to the tax administration community.

IRS Oversight Board FY2013 Activities at a Glance

Board Meeting December 18, 2012 <ul style="list-style-type: none"> • Employee engagement • IRS performance • Last minute tax law changes 	Board Meeting February 19, 2012 <ul style="list-style-type: none"> • Filing season • Budget • ID theft and tax fraud • Return preparer 	Board Meeting May 2, 2013 <ul style="list-style-type: none"> • Budget • Human capital • Filing season performance 	Board Meeting September 19, 2013 <ul style="list-style-type: none"> • Risk management • Budget • Human capital • IRS leadership
E-File Report January 4, 2013	Annual Report February 7, 2013	Taxpayer Attitude Survey February 27, 2013	IRS Budget Report May 24, 2013
Operations Committee Meetings September 10, 2012 December 5, 2012 March 12, 2013 June 25, 2013 July 18, 2013	Operations Support Committee Meetings September 24, 2012 December 13, 2012 March 7, 2013 June 4, 2013	Public Meeting May 1, 2013 <ul style="list-style-type: none"> • Future of tax administration • International taxation • Fraud prevention 	

2013 One-on-One Interactions with IRS Employees, Tax Practitioners, Volunteer Groups, and Other Oversight Organizations



Appendices

1. IRS 2013 Performance Measures
2. IRS Long Term Measures and Target Values
3. Biographies of Private Life Members

Appendix 1: IRS 2013 Performance Measures

APPENDIX 1.

IRS 2013 Performance Measures

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 key 64 performance measures (along with their definitions) and goals monitored by the Oversight Board in FY2013. For comparison purposes, the Board identifies actual FY2012 performance, and planned and actual FY2013 performance. The measures are organized by IRS Strategic Goal and/or Strategic Foundation.

PERFORMANCE MEASURES	FY2012 ACTUAL	FY2013 PLAN	FY2013 ACTUAL	FY2014 PLAN
GOAL 1: IMPROVE SERVICE TO MAKE VOLUNTARY COMPLIANCE EASIER				
Accounts Management Customer Satisfaction (Adjustments)	65.0%	65.0%	65.0%	55.0%
Automated Underreporter Telephone Level of Service	78.4%	78.0%	77.5%	76.0%
Correspondence Error Rate With Systemic Errors	4.4%	5.0%	4.1%	5.0%
Cost Per Taxpayer Served – Health Coverage Tax Credit ¹	\$14.43	\$15.00	4.1%	NA
Customer Accuracy – Accounts Phones	95.0%	95.0%	96.0%	95.0%
Customer Accuracy – Tax Law Phones	93.2%	93.0%	95.7%	93.0%
Customer Contacts Resolved Per Staff Year	16,320	16,754	20,767	22,750
Customer Service Representative Level Of Service	67.6%	70.0%	60.5%	61.0%
Deposit Error Rate - Combined	0.3%	1.0%	0.4%	1.0%
Employee Plans Determination Letters Timeliness - # Days	367	622	626	733
Exempt Organizations Determination Customer Satisfaction	72.0%	74.0%	58.0%	58.0%
Exempt Organizations Determination Letters Timeliness - # Days	137	140	222	237
Percent Of Business Returns Processed Electronically	36.7%	38.0%	40.2%	44.7%
Percent Of Individual Returns Processed Electronically	80.5%	80.0%	82.5%	84.1%
Practitioner Toll-Free Customer Satisfaction	86.0%	84.0%	93.0%	80.0%
Primary Abandon Call Rate ²	18.7	NA	16.9%	NA
Refund Timeliness – Individual (Paper)	99.7%	98.0%	99.0%	97.0%
Secondary Abandon Call Rate ³	26.9	NA	27.2%	NA
Sign-Up Time – Health Coverage Tax Credit - # Days ¹	116.0	125.0	125.2	NA
Taxpayer Self Assistance Rate	78.5%	80.0%	83.3%	85.0%
Timeliness Of Critical Individual Filing Season Tax Products To The Public	97.2%	95.0%	58.9%	95.0%
Timeliness Of Critical Tax Exempt/Government Entities & Business Tax Products To The Public	94.5%	95.0%	83.6%	95.0%
W&I Average Wait Time On Hold (In Seconds) Average Speed To Answer	1,001	899	1,058	1,320

SOURCE: IRS

NA: Not applicable

¹ The Health Coverage Tax Credit expired on January 1, 2014.

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

³ IRS does not set target goals for the Secondary Abandoned Call Rate measure.

Appendix 1: IRS 2013 Performance Measures

PERFORMANCE MEASURES	FY2012 ACTUAL	FY2013 PLAN	FY2013 ACTUAL	FY2014 PLAN
GOAL 2: ENFORCE THE LAW TO ENSURE EVERYONE MEETS THEIR OBLIGATIONS TO PAY TAXES				
Automated Collection System Accuracy	94.7%	94.5%	94.4%	94.0%
Automated Underreporter Coverage	3.2%	2.9%	2.8%	2.5%
Automated Underreporter Customer Satisfaction (SB/SE)	63.0%	63.0%	64.0%	TBD
Automated Underreporter Customer Satisfaction (W&I)	71.0%	71.0%	59.0%	59.0%
Automated Underreporter Efficiency	2,041	2,035	2,025	1,931
Collection Coverage	48.1%	46.0%	47.0%	42.7%
Collection Efficiency	1,997	2,049	2,057	2,007
Compliance Services Collection Operation Customer Satisfaction (SB/SE)	57.0%	57.0%	58.0%	TBD
Compliance Services Collection Operation Customer Satisfaction (W&I)	66.6%	67.0%	59.0%	56.0%
Compliance Services Collection Operation Days To Close - Business	29.3	24	28.5	28
Compliance Services Collection Operation Days To Close - Individual	15.7	18	19.9	40
Conviction Efficiency Rate	\$270,511	\$285,000	\$211,048	\$280,000
Conviction Rate	93.0%	92.0%	93.1%	92.0%
Correspondence Exam Customer Satisfaction (SB/SE)	47.0%	48.0%	48.0%	TBD
Correspondence Exam Customer Satisfaction (W&I)	48.0%	50.0%	54.0%	49.0%
Criminal Investigations Completed	4,937	4,350	5,557	4,440
Exam Timeliness Business (Assets>\$10M) - # Months	29.8	31	33.3	33
Examination Coverage - Business (Assets >\$10m)	6.4%	4.6%	5.6%	4.2%
Examination Coverage - Individual	1.0%	1.0%	1.0%	0.8%
Examination Efficiency - Individual	142	145	142	133
Examination Quality - Large Business (Assets>\$10m)(New for 2013)	NA	Baseline	92.0%	90.0%
Field Collection Customer Satisfaction	69.0%	70.0%	70.0%	TBD
Field Collection National Quality Review Score	80.4%	80.4%	81.4%	81.0%
Field Exam Customer Satisfaction	62.0%	61.0%	63.0%	TBD
Field Examination National Quality Review Score	87.4%	86.9%	89.2%	89.6%
Number Of Convictions	2,634	2,400	3,311	2,450
Office Examination National Quality Review Score	91.3%	91.1%	90.3%	90.2%
Percent Of Offers-In-Compromise Field And Campus Cases Closed In Less Than 9 Months	84.0%	84.0%	87.7%	85.3%
SB/SE Correspondence Exam Cycle Time (EITC) - # Days	202	200	198	210
SB/SE Correspondence Exam Cycle Time (Non-EITC) - # Days	174	177	174	186
Tax Exempt/Government Entities Determination Case Closures	87,000	62,473	65,877	71,219
W&I Service Center Correspondence Exam Timeliness (Discretionary) - # Days	180	185	192	228
W&I Service Center Correspondence Exam Timeliness (EITC) - # Days	212	211	210	235

TBD: To be determined

Appendix 1: IRS 2013 Performance Measures

PERFORMANCE MEASURES	FY2012 ACTUAL	FY2013 PLAN	FY2013 ACTUAL	FY2014 PLAN
STRATEGIC FOUNDATIONS: INVEST FOR HIGH PERFORMANCE				
End-To-End Availability	99.2%	99.0%	99.7%	99.0%
Internal Customer Satisfaction	NA	73.0%	72.0%	75.0%
Occupancy Cost Per Rentable Square Foot	\$28.28	\$28.50	\$27.68	\$28.00
Percent Of Business Systems Modernization Projects Within +/- 10% Cost Variance	50.0%	90.0%	0%	90.0%
Percent Of Business Systems Modernization Projects Within +/- 10% Standard Variance	100.0%	90.0%	83.3%	90.0%
Percent Of Critical Systems With Compliant IT Security Standards	90.1%	90.0%	100.0%	90.0%
Percent Of Managers Receiving Leadership Training Timely	88.0%	90.0%	88.0%	90.0%
Percentage Of Mission Critical Positions Hires Achieved	100%	100%	NA*	100%

*Due to budget constraints, the IRS did not hire new employees, including those for mission critical positions. Therefore, the FY2013 actual measure was Not Applicable.

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 Master File 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 2013 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.

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 2013 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 Business (Assets>\$10M) - # 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 - Large Business	Average of the scores of business with assets over \$10 million. 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.
SB/SE Correspondence Exam Cycle Time (EITC) - # Days	Average number of calendar days from the start of a SB/SE EITC examination to closure.

Appendix 1: IRS 2013 Performance Measures

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.

APPENDIX 2.

IRS Long Term Measures and Target Values

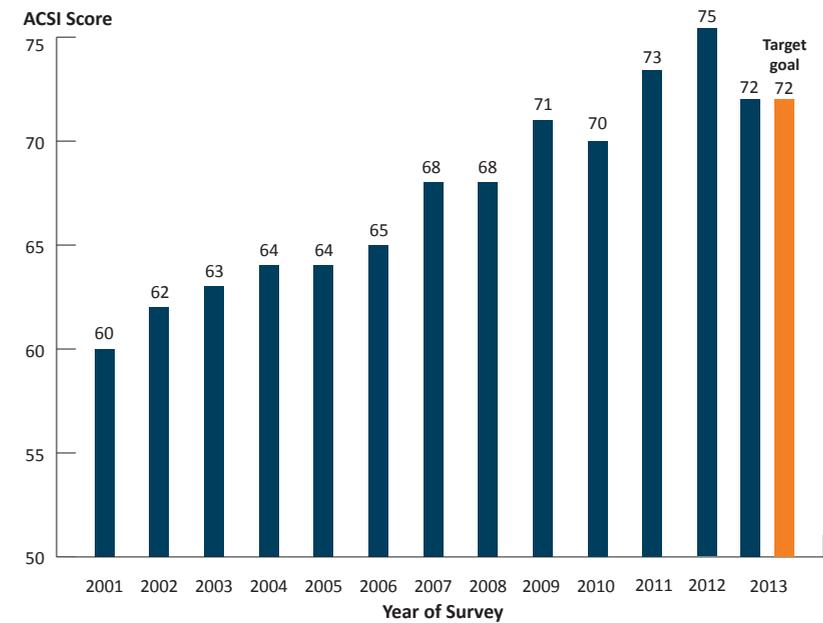
The Oversight Board tracks IRS progress on its long term measures and associated goals (also known as target values) and shares that information through a series of graphs on the Board's website as a way of assessing progress toward the *IRS Strategic Plan 2009-2013*.

Overall, the Board believes good progress has been achieved toward the strategic goals identified by the IRS. In most instances, this progress toward the specific goal is largely reflective of IRS' solid performance. Progress in a few areas is the result of the efforts of the IRS and the tax professional community, including return preparers and tax software providers.

The IRS is currently developing a new strategic plan covering the years 2014 through 2017. The Board is actively engaged with the IRS in identifying appropriate long term measures and goals to be included in the new strategic plan. The charts in this Appendix have been updated to include FY2013 performance data where available.

American Customer Satisfaction Index Score for Individual Tax Filers

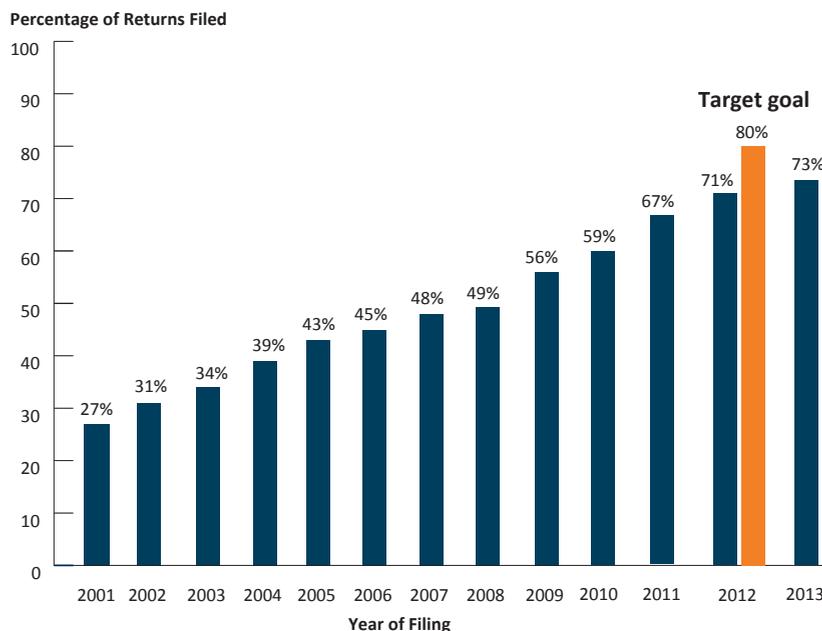
The American Customer Satisfaction Index (ACSI) is a national indicator of customer satisfaction with the quality of products and services available to household consumers in the United States. Each December, the ACSI issues a report on satisfaction of recipients of services from the federal government. 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

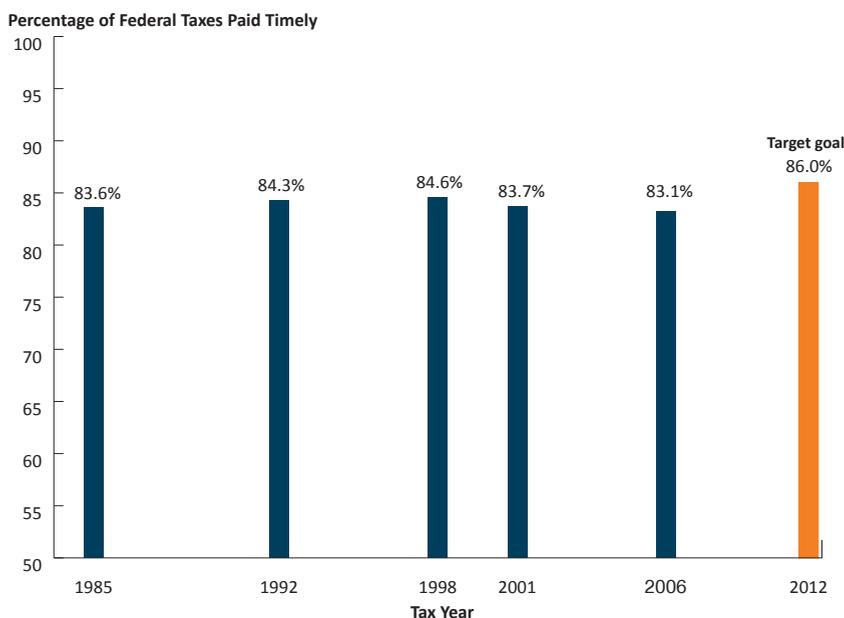
e-File Rate: All Major Tax Returns

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.



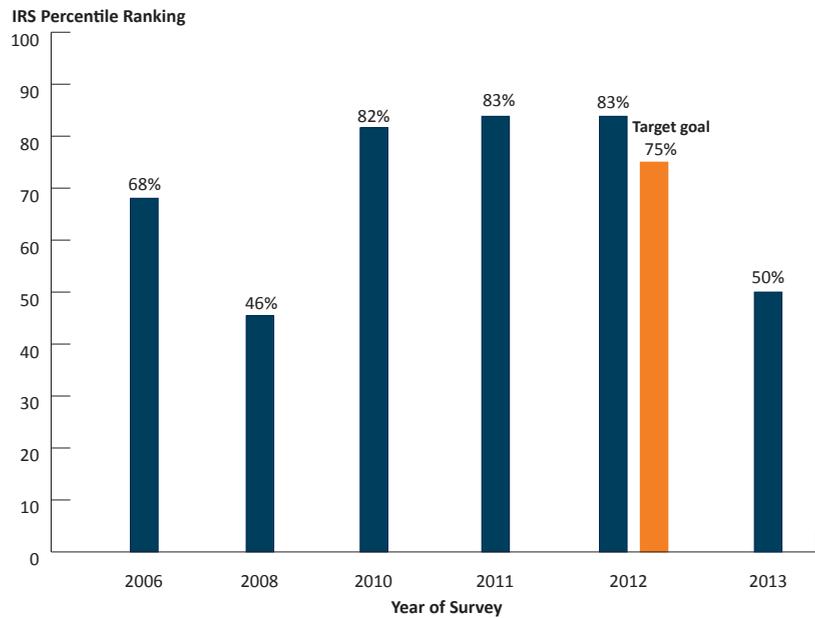
Voluntary Compliance Rate

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

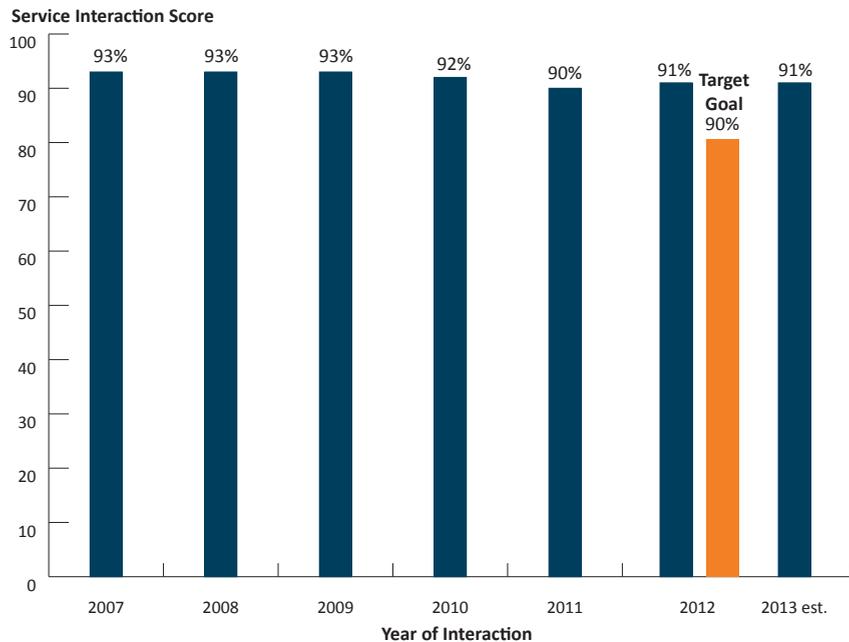
The US Office of Personnel Management conducts an annual employee survey to obtain feedback on a wide range of workplace issues. Using 11 questions from that survey, the IRS has developed an index that measures employee engagement and is using the index to compare itself to other large Federal agencies 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.

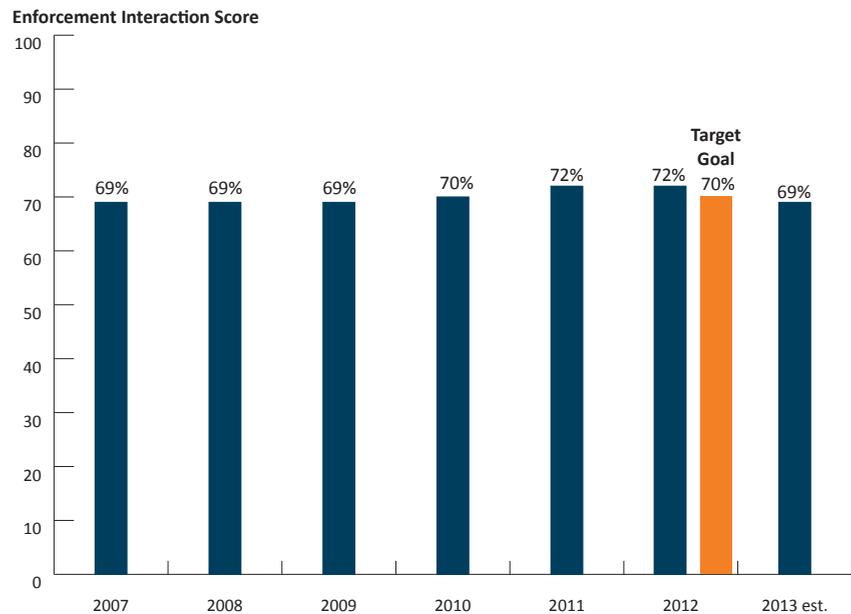
Note: Reported 2012 experience reflects Oversight Board estimate.



Enforcement Interaction Score

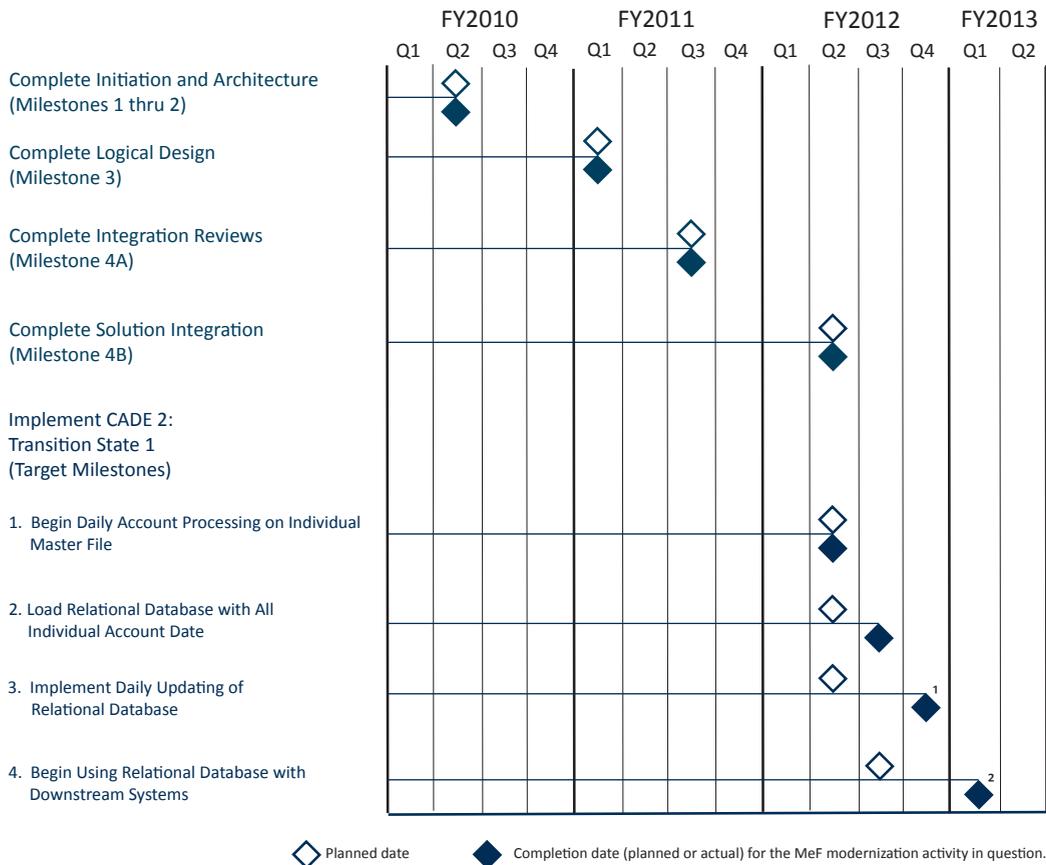
The enforcement interaction score attempts to measure the extent to which taxpayers contacted as part of the IRS compliance efforts, such as its examination and collection programs, feel that the process was satisfactory. It attempts to measure taxpayer interactions independent of the ultimate outcome 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. The IRS set a target milestone establishing a 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 accommodate weekly updating.



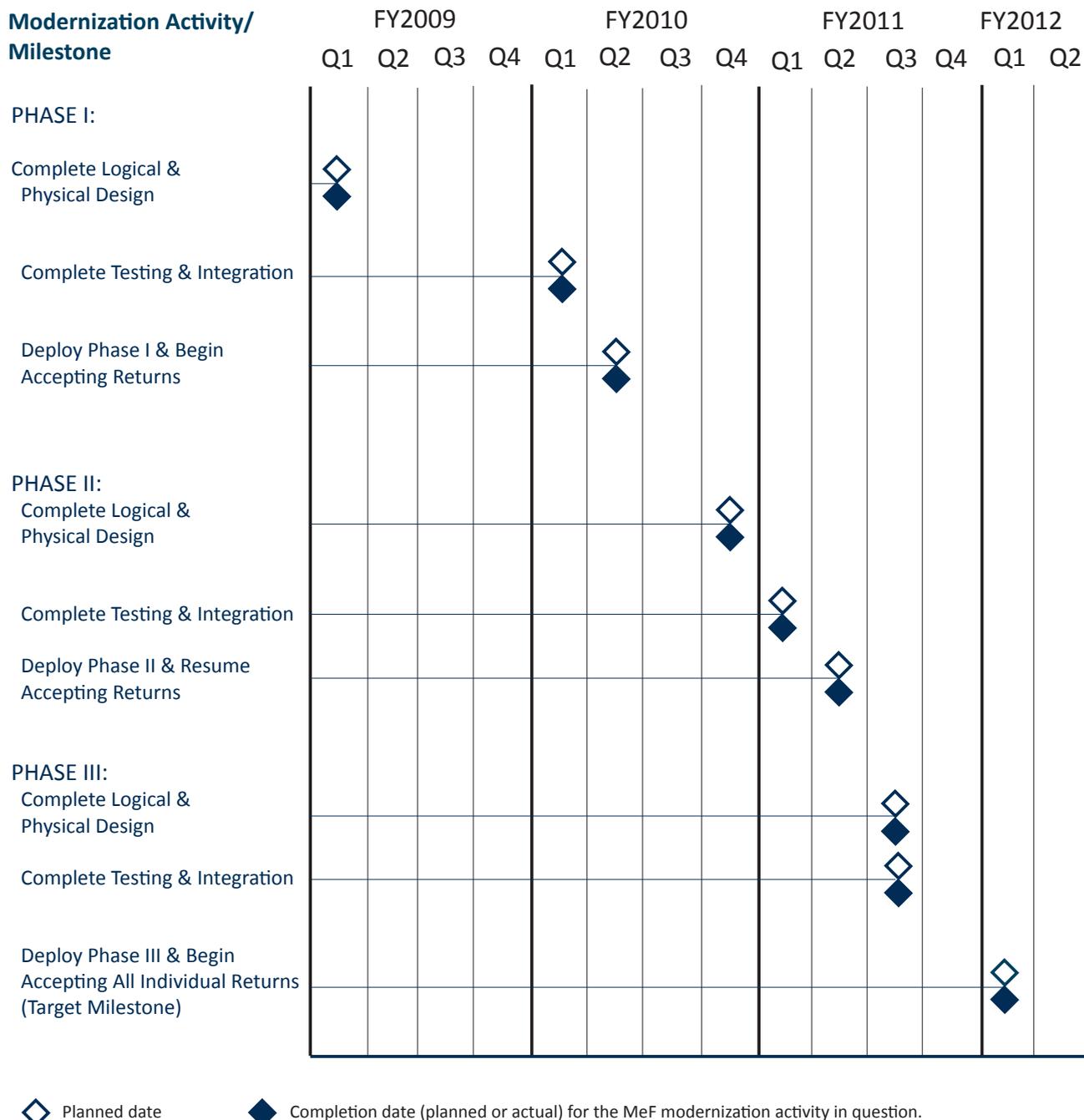
An "x" indicates the completion date (planned or actual) for the CADE modernization activity in question.

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

² For a few weeks during the first quarter of FY2013, the IRS ran controlled production feeds from the CADE 2 relational database to three downstream IRS systems (a) Corporate Files on-Line (b) Individual Master File On-line, and (c) 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.



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. He chairs the Oversight Board’s Operations Support and Executive Committees.



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.

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