TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

The Development of Specific Long-Term Measures and Targets Improved the Internal Revenue Service's Strategic Plan (2005 – 2009)

August 23, 2007

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

August 23, 2007

MEMORANDUM FOR ACTING COMMISSIONER, INTERNAL REVENUE SERVICE

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Development of Specific Long-Term Measures and Targets Improved the Internal Revenue Service's Strategic Plan (2005 – 2009) (Audit # 200610017)

This report presents the results of our review of the Internal Revenue Service's (IRS) Strategic Plan (2005 – 2009). The overall objective of this review was to determine whether the Strategic Plan meets the requirements of the Government Performance and Results Act of 1993 (GPRA)[1] and Office of Management and Budget (OMB) Circular A-11 (*Preparation, Submission and Execution of the Budget*) to establish the IRS' highest priority goals and identify strategies to achieve them. This review was part of our planned audit coverage of the IRS and is included in the Treasury Inspector General for Tax Administration Fiscal Year 2006 Annual Audit Plan.

Impact on the Taxpayer

With the addition of new long-term measures and targets, the Strategic Plan (2005 – 2009) articulates the IRS' major strategies, allows taxpayers to see what it expects to accomplish over the next several years, and provides the means to better determine its progress toward those goals. A well-designed Strategic Plan provides taxpayers with transparency of IRS strategic goals and how it intends to accomplish them.

Synopsis

The Strategic Plan (2005 – 2009) complies with the major requirements of the GPRA, OMB Circular A-11, and the Department of the Treasury and represents an improvement over the prior

[1] Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

Strategic Plan (2000 – 2005). The current Plan describes the IRS' three strategic goals (Taxpayer Service, Enforcement, and Modernizing the IRS) in a manner that is clear, easy to understand, and concise. The goals are supported by detailed objectives and the methods that will be used to accomplish them. In that sense, this Strategic Plan is an improvement over the prior Strategic Plan, which was not as well organized or concise.

However, as originally issued, the Strategic Plan (2005 – 2009) contains only one measurable target associated with the Taxpayer Service goal, making it very difficult to know what progress the IRS planned to make in the 5-year period covered by the Plan. The IRS Oversight Board approved the Strategic Plan with the expectation that the IRS would develop additional measurable targets within 1 year. In response to the Oversight Board's request, the IRS submitted five long-term measures and targets to the Board for review and approval in August 2006. The Board approved them in March 2007. Although the measures and targets were not proposed within 1 year as the Board expected, they addressed the gap that had existed in the Strategic Plan. The Board also directed the IRS to develop additional targets related to improving customer service and modernizing its technology systems. We believe the new targets, when considered together with the Strategic Plan, meet the intent of the GPRA in terms of providing the road map the IRS intends to follow through 2009 and the objective criteria for measuring its progress toward achieving its goals.

Although the Oversight Board had approved the new measures and targets for inclusion in the Strategic Plan in March 2007, as of June 2007, the IRS had not updated the Plan to include them or posted them on the IRS web site with the Strategic Plan. To be of use to the greatest number of IRS stakeholders, we believe the new targets and measures (as well as the additional measures required by the Oversight Board when they are completed) should be published on the IRS web site on the same page as the current Strategic Plan. Taken together, the Strategic Plan and these measures allow readers to identify what the IRS expects to accomplish over the next several years and satisfy the major requirements of the GPRA and OMB Circular A-11.

We also determined some elements required by the Department of the Treasury are not included in the Strategic Plan. While these elements should be included in future Plans, their omission does not significantly diminish the overall quality or usefulness of this Strategic Plan.

Recommendations

We recommended the Chief Financial Officer post the approved IRS-wide strategic measures and targets on the IRS web site on the same page as the current Strategic Plan. Any additional measures developed by the IRS and approved by the Oversight Board should also be added to the web site. Future versions of the Strategic Plan should contain quantifiable long-term measures and targets for each of the strategic goals and address all Department of the Treasury requirements.

Response

The Chief Financial Officer agreed with our recommendations and proposed corrective actions to address the issues identified in the report. These actions include posting the set of approved enterprise-wide measures and targets on the IRS web site in the same section as the IRS Strategic Plan and adding additional measures once they are approved by the IRS Oversight Board. In addition, the Chief Financial Officer will review Department of the Treasury guidance and incorporate those requirements in the next Strategic Plan. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Table of Contents

Background..Page 1

Results of Review..Page 3

The Development of Specific Long-Term Measures and Targets Improved the Strategic Plan..Page 3

Recommendation 1:..Page 6

Recommendation 2:..Page 7

Some Required Information Was Missing From the Strategic Plan..Page 7

Recommendation 3:..Page 8

Appendices

Appendix I – Detailed Objective, Scope, and Methodology........................Page 9

Appendix II – Major Contributors to This Report........................Page 11

Appendix III – Report Distribution List........................Page 12

Appendix IV – Management's Response to the Draft Report........................Page 13

Abbreviations

GPRA	Government Performance and Results Act of 1993
IRS	Internal Revenue Service
OMB	Office of Management and Budget

Background

The Government Performance and Results Act of 1993 (GPRA)[1] was enacted to bring to Federal Government agencies more accountability in how they spent their budgets and how well they fulfilled their public service roles. Congress believed the American people were losing faith in the Federal Government's ability to deliver vital public programs due in part to waste and inefficiency in Federal Government programs. Congress further believed its efforts and the efforts of Federal Government managers to address these issues were often hampered by the lack of clearly defined program goals to measure program accomplishments. Without clearly defined program goals, it was difficult for the public to know whether the agencies were making real improvements or simply trying different approaches. Therefore, Congress designed the GPRA to require Federal Government agencies to develop a strategic approach for setting priorities and goals.

The GPRA requirements included three main components: strategic plans describing the overall long-term goals and objectives for the agency, annual performance plans detailing which goals and programs would be the priority for that year, and annual performance reports describing how well the agencies met their goals for the year. Congress expected the GPRA requirements would enable Federal Government agencies to improve their delivery of services and provide the public with annual reports on their progress.

When developing their strategic plans, agencies are expected to follow the GPRA and Office of Management and Budget (OMB) Circular A-11 (*Preparation, Submission and Execution of the Budget*). The strategic plans are to include the agency's mission statement, general goals and objectives, and the strategies the agency will use to achieve those goals and objectives. According to the Government Accountability Office, the strategic planning process is ". . . the starting point and foundation for defining what the agency seeks to accomplish, identifying the strategies it will use to achieve desired results and then determining how well it succeeds in reaching results-oriented goals and achieving objectives."[2]

Federal Government agencies such as the Department of the Treasury must prepare an agency-wide strategic plan that includes all of its bureaus and offices. Bureaus, such as the Internal Revenue Service (IRS), also prepare strategic plans that support and expand upon the agency strategic plan. Within the IRS, the Chief Financial Officer serves as the principal advisor to the IRS Commissioner and Deputy Commissioners on financial matters. The Chief Financial

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[1] Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).
[2] *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review* (GAO/GGD-10.1.16, dated May 1997).

Officer's Corporate Planning and Internal Control staff leads the development of the IRS' Strategic Plan and the processes for determining, collecting, analyzing, reviewing, reporting, and communicating the measures of IRS-wide performance, as well as integrating performance and cost information. The IRS issued Strategic Plans in 2001 (the 2000 – 2005 Plan) and in 2004 (the 2005 – 2009 Plan).

The IRS Restructuring and Reform Act of 1998[3] made significant structural changes in the management and oversight of the IRS and established the IRS Oversight Board. This Board was created primarily to provide continuity and a focused, long-term perspective for the IRS. In this capacity, the Oversight Board was also given the specific responsibility to review and approve Strategic Plans of the IRS.

This review was performed at the IRS National Headquarters in Washington, D.C., in the office of the Chief Financial Officer during the period November 2006 through May 2007. The audit was conducted in accordance with *Government Auditing Standards.* Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

[3] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

Results of Review

The IRS' Strategic Plan (2005 – 2009) complies with the major requirements of the GPRA, OMB Circular A-11, and the Department of the Treasury and represents an improvement over the prior Strategic Plan (2000 – 2005). The current Plan describes the IRS' three strategic goals (Taxpayer Service, Enforcement, and Modernizing the IRS) in a manner that is clear, easy to understand, and concise. The goals are supported by detailed objectives and the methods that will be used to accomplish them. In that sense, this Strategic Plan is an improvement over the prior Strategic Plan, which was not as well organized or concise.

However, as originally issued, the Strategic Plan (2005 – 2009) contains only one measurable target associated with its Taxpayer Service goal, making it very difficult to know what progress the IRS planned to make in the 5-year period covered by the Plan. The IRS Oversight Board approved the Strategic Plan with the expectation that the IRS would develop additional measurable targets within 1 year. The IRS took 2 years to develop the additional measures and targets, which the Oversight Board approved. We believe the new targets, when considered together with the Strategic Plan, meet the intent of the GPRA in terms of providing the road map the IRS intends to follow through 2009 and the objective criteria for measuring its progress toward achieving its goals. In reviewing the Strategic Plan, we determined some elements required by the Department of the Treasury are not included in the Plan. However, the omission of these items does not significantly diminish the overall quality or usefulness of the Strategic Plan (2005 – 2009).

The Development of Specific Long-Term Measures and Targets Improved the Strategic Plan

When the IRS Oversight Board approved the Strategic Plan (2005 – 2009) in May 2004, the Plan met the key provisions of the GPRA and OMB Circular A-11. For example, it describes the mission, organization, external factors that can affect implementation of the plan and strategic goals, and performance measures. For 2005 – 2009, the IRS' strategic goals are:

Goal 1 - Improve Taxpayer Service.

Goal 2 - Enhance Enforcement of the Tax Law.

Goal 3 - Modernize the IRS Through Its People, Processes, and Technology.

Each strategic goal is supported by more specific objectives, and each objective includes means, strategies, and measures that are intended to gauge the progress in achieving the overall goal.

Figure 1 shows the strategic goals, associated objectives, number of supporting means and strategies, and measures for each goal.

Figure 1: IRS Goals and Objectives

<table>
<tr><td colspan="3">The IRS Mission
Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.</td></tr>
<tr><td>Goal 1
Improve Taxpayer Service</td><td>Goal 2
Enhance Enforcement of the Tax Law</td><td>Goal 3
Modernize the IRS Through Its People, Processes, and Technology</td></tr>
<tr><td><u>Objectives</u>
• Improve Service Options for the Tax Paying Public.
• Facilitate Participation in the Tax System by All Sectors of the Public.
• Simplify the Tax Process.
❖ 9 Means and Strategies.
❖ 6 Measures.</td><td><u>Objectives</u>
• Discourage and Deter Noncompliance With Emphasis on Corrosive Activity by Corporations, High-Income Individual Taxpayers, and Other Contributors to the Tax Gap.
• Ensure Attorneys, Accountants, and Other Tax Practitioners Adhere to Professional Standards and Follow the Law.
• Detect and Deter Domestic and Offshore-Based Tax and Financial Criminal Activity.
• Deter Abuse Within Tax-Exempt and Governmental Entities and Misuse of Such Entities by Third Parties for Tax Avoidance or Other Unintended Purposes.
❖ 15 Means and Strategies.
❖ 6 Measures.</td><td><u>Objectives</u>
• Increase Organizational Capacity to Enable Full Engagement and Maximum Productivity of Employees.
• Modernize Information Systems to Improve Service and Enforcement.
• Ensure the Safety and Security of People, Facilities, and Information Systems.
• Modernize Business Processes and Align the Infrastructure Support to Maximize Resources Devoted to Front-line Operations.
❖ 12 Means and Strategies.
❖ 5 Measures.</td></tr>
</table>

Source: Strategic Plan (2005 – 2009).

The only specific target in the Strategic Plan in May 2004 is the Congressional requirement that 80 percent of all returns be filed electronically by 2007. This target is associated with Goal #1 (Improve Taxpayer Service). Because the Chief Financial Officer's staff considered such targets more tactical than strategic and believed they were more appropriately covered in annual plans, no quantifiable targets for the other two goals are included in the Strategic Plan. For example, although one of the objectives under Goal #2 (Enhance Enforcement of the Tax Law) is to ensure attorneys, accountants, and other tax practitioners follow standards and adhere to the law, the Strategic Plan does not contain any target that the IRS will work toward. Readers of the Plan are left to guess just how much improvement in this area the IRS will attempt to achieve. Similarly, the objective to modernize information systems to improve service and enforcement (associated with Goal #3) also does not have any target associated with it. Targets are essential to strategic planning because they:

- Provide direction to staff about where and how the IRS desires to improve in an area.
- Allow meaningful evaluation of progress because it is immediately clear whether the targets have been met or if little progress has been made.
- Facilitate accountability for the level of results achieved.

To be effective, these targets should be readily quantifiable and precise, much like the target to have 80 percent of all returns filed electronically by 2007.

In response to the Oversight Board's request, the IRS submitted five long-term measures and targets to the Board for review and approval in August 2006. The Board approved them in March 2007 and, although the measures and targets were not proposed within 1 year as the Board expected, they addressed the gap that had existed in the Strategic Plan. Figure 2 shows the approved long-term measures, target values, and target dates.

Figure 2: Approved Long-Term Measures and Target Values

Long-Term Measure	Target Value	Target Date
Electronic Filing Participation Rate[4]	80 percent	2012
Individual Taxpayer Satisfaction Index	69 (out of 100)	2009
Employee Engagement[5]	4.0 (out of 5.0)	2009
Voluntary Compliance Rate	86 percent	2009
Nonrevenue Enforcement Activity Index[6]	Index of 137.6	2009

Source: IRS Oversight Board.

In addition to approving the listed measures, the Board required the IRS to:

- Identify two additional measures to supplement the Individual Taxpayer Satisfaction Index: one to assess customer satisfaction with taxpayer service programs and another to assess taxpayer satisfaction with IRS enforcement operations.
- Recalibrate the target score for the Employee Engagement measure because a new survey instrument will be used beginning this year and it needs to be compatible with the prior scoring system.

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[4] This is the same measure as that contained in the Strategic Plan (2005 – 2009) for Goal #1; however, the date was extended from 2007 to 2012.
[5] This is the degree of employees' motivation, commitment, and involvement in the mission of the organization.
[6] This is a measure of enforcement activities that do not have a direct impact on tax revenue, such as Criminal Investigation Division and Tax Exempt and Government Entities Division activities.

- Develop a specific measure to assess its progress in modernizing its technology systems.

These additional measures will further enhance the IRS' ability to evaluate its progress in achieving its strategic goals. For example, the IRS acknowledges that it depends on its information technology systems to deliver its mission and that past and current limitations ". . . have restrained the IRS' ability to make its business processes more responsive to its mission needs, to Congressional and Executive expectations, and to the desire of taxpayers for better service." The IRS modernization efforts are important, and the IRS has devoted significant resources to modernization. In Fiscal Years 2005, 2006, and 2007, the IRS received appropriations for its business systems modernization in the amounts of $285 million, $204 million, and $248 million, respectively. We believe the proposed new measures and targets are important to both the IRS and its stakeholders in determining whether it is making real progress in accomplishing key goals.

Although the Oversight Board had approved the new measures and targets for inclusion in the Strategic Plan in March 2007, as of June 2007, the IRS had not updated the Plan to include them or posted them on its web site with the Strategic Plan. The Chief Financial Officer wanted to wait until the three new measures and targets required by the Oversight Board were developed and approved before posting all of them to the web site. However, it is unclear when these new measures and goals will be designed and approved. To be of use to the greatest number of IRS stakeholders, we believe the new targets and measures (as well as the additional measures required by the Oversight Board when they are completed) should be published on the IRS web site on the same page as the current Strategic Plan. Taken together, the Strategic Plan and these measures allow readers to identify what the IRS expects to accomplish over the next several years.

Recommendations

Recommendation 1: The Chief Financial Officer should post the approved IRS-wide strategic measures and targets on the IRS web site on the same page as the current Strategic Plan. The additional taxpayer service, recalibrated employee engagement, and expected modernization measures should also be added to the web site once they are approved by the Oversight Board.

> ***Management's Response:*** The IRS agreed with this recommendation. The Chief Financial Officer will post the set of approved enterprise-wide measures and targets on the IRS web site in the same section as the current Strategic Plan and will add additional measures within a reasonable period of time once they are approved by the Oversight Board.

Recommendation 2: The Chief Financial Officer should ensure future Strategic Plans include quantifiable long-term measures and targets for each of the IRS' strategic goals.

> ***Management's Response:*** The IRS agreed with this recommendation. The Chief Financial Officer will ensure consistency with Department of the Treasury guidance in developing the next Strategic Plan.

Some Required Information Was Missing From the Strategic Plan

While it complies with the major requirements of the GPRA and OMB Circular A-11, the Strategic Plan does not comply with all Department of the Treasury requirements. Because the Plan was approved by the Department of the Treasury without some of the required elements, the IRS Chief Financial Officer staff did not believe it was necessary for the Plan to include:

- Information on how or where to send comments or questions.
- A specific list of major management challenges and high-risk areas.
- A description of consultations conducted with Congress while developing the Strategic Plan.
- The timetable/schedule for future program evaluations.

Although the omission of these items does not significantly diminish the overall quality or usefulness of the Strategic Plan, the items are required and the IRS should include them in the next version of the Plan. The contact information facilitates better communication between the IRS and the public about the specifics of the Plan. An appendix that lists the major management challenges and high-risk areas and also provides cross-references to the pages in the Strategic Plan where the issues are discussed would make the Plan more useful to those not readily familiar with the issues facing the IRS. Furthermore, the Department of the Treasury Strategic Management Manual requires a description of the progress in addressing the management challenges and high-risk areas, along with any relevant performance measures.

While the current Strategic Plan describes the stakeholder groups the IRS consulted with during the development of the Plan, it does not include a description of IRS consultations with Congress as listed in the Strategic Management Manual. This information would allow readers to understand that the IRS established its goals and priorities in consideration of Congressional interests. Finally, the Strategic Plan lists the types of evaluations the IRS is subject to, but it does not contain a schedule of future evaluations as specified by the Strategic Management Manual. Such a schedule allows readers of the Strategic Plan to know which areas will be reviewed and when and provides some commitment that programs will be appropriately reviewed.

Recommendation

Recommendation 3: The Chief Financial Officer should ensure future Strategic Plans address all Department of the Treasury requirements.

> ***Management's Response:*** The IRS agreed with this recommendation. The Chief Financial Officer will ensure consistency with Department of the Treasury guidance in developing the next Strategic Plan.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of the audit was to determine whether the IRS' Strategic Plan (2005 – 2009) (dated June 2004) meets the requirements of the GPRA[1] and OMB Circular A-11 (*Preparation, Submission and Execution of the Budget*) to establish the IRS' highest priority goals and identify strategies to achieve them. Specifically, we compared the current Strategic Plan to the prior Strategic Plan (2000 – 2005) to determine how they differ, whether improvements were made, and whether any of our prior recommendations were acted on and are reflected in the current Strategic Plan. To accomplish our overall objective, we:

I. Reviewed the current Strategic Plan and related annual plans to determine whether the requirements of the GPRA and OMB Circular A-11 were addressed and whether the Strategic Plan contained:

  A. A comprehensive mission statement covering the major functions and operations of the agency.

  B. General goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the agency.

  C. A description of how the goals and objectives are to be achieved.

  D. A description of how the annual performance goals included in the annual plan relate to the general goals and objectives in the Plan.

  E. An identification of those key factors external to the agency and beyond its control that could significantly affect the achievement of the general goals and objectives.

  F. A description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations.

II. Determined what guidance the IRS followed while developing the Strategic Plan.

  A. Interviewed the Chief Financial Officer's staff to determine the guidance used to prepare the Plan.

  B. Interviewed Department of the Treasury staff to determine whether they provided any strategic planning guidance to Department of the Treasury bureaus and whether the IRS solicited and considered their views.

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[1] Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

III. Determined whether the IRS considered the views of interested and potentially affected parties.

A. Determined whether the IRS solicited and considered the views of the appropriate Congressional staff and other stakeholders when developing its Strategic Plan.

B. Determined whether the Plan addresses the five initiatives listed on the President's Management Agenda.

C. Interviewed members of the IRS Oversight Board and determined their involvement in the creation and assessment of the Strategic Plan. We determined whether the Plan addresses the 3 critical issues relating to its long-term performance as documented in the Oversight Board's 5-year plan.

D. Determined whether the Strategic Plan addresses the 10 Major Management Challenges identified by the Treasury Inspector General for Tax Administration and 2 high-risk areas identified by the Government Accountability Office and whether the IRS developed quantifiable performance measures for these 12 items.

E. Identified the IRS programs that have been reviewed by the OMB (using the Program Assessment Rating Tool)[2] prior to June 2004.

IV. Compared the Strategic Plan (2005 – 2009) to the Strategic Plan (2000 – 2005) to determine whether the major functions of the IRS were covered and whether performance goals had been established.

A. Determined whether the major functions of the IRS are included in the Plan and appropriately covered.

B. Reviewed IRS funding to determine whether there are any programs or major activities not covered.

C. Determined which performance goals had been changed and why.

D. Evaluated any new performance goals to determine whether they adequately address the mission and goals of the IRS.

E. Determined whether the key factors that could affect achievement of the IRS' strategic goals were presented differently in the new Strategic Plan and, if so, determined whether the changes were an improvement.

F. Determined whether the required description and list of program evaluations were presented differently in the new Plan.

[2] The Program Assessment Rating Tool was developed by the OMB and is meant to provide a consistent approach to evaluating Federal Government programs during budget formulation.

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
Carl L. Aley, Director
Kevin P. Riley, Audit Manager
Gene A. Luevano, Lead Auditor
Ken E. Henderson, Senior Auditor
Yasmin B. Ryan, Senior Auditor

Appendix III

Report Distribution List

Office of the Commissioner – Attn: Acting Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Chief Financial Officer OS:CFO
Associate Chief Financial Officer for Corporate Planning and Internal Controls OS:CFO:CPIC
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief Financial Officer OS:CFO

Appendix IV

Management's Response to the Draft Report

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

CHIEF FINANCIAL OFFICER

RECEIVED
JUL 30 2007

July 26, 2007

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Janice Lambert Janice Lambert
Chief Financial Officer

SUBJECT: Draft Audit Report – The Development of Specific Long-Term Measures and Targets Improved the Internal Revenue Service's Strategic Plan (2005 – 2009)

We appreciate the opportunity to comment on your Draft Audit Report, "The Development of Specific Long-Term Measures and Targets Improved the Internal Revenue Service's Strategic Plan (2005 – 2009)" (Audit # 200610017). I am pleased the report acknowledged the improvements made in the organization of the IRS Strategic Plan, the clear linkage of the objectives back to the goals, and the overall readability of the plan. We also have developed a preliminary set of enterprise-wide long-term goals that, coupled with the budget-level measures, provide us with meaningful indicators of progress toward achievement of the IRS strategic goals.

I agree with the report findings and with the recommendation to post our long-term measures and targets on our public website. I also agree that IRS will follow Treasury guidance in including long-term measures and targets and elements such as program evaluations and management challenges in the next plan update.

Attached is a detailed response outlining the corrective actions we will take to address your recommendations.

If you have any questions, please contact Mary E. Davis, Associate CFO for Corporate Planning and Internal Control, at (202) 622-2955.

Attachment

2

RECOMMENDATION 1:

The Chief Financial Officer should post the approved IRS-wide strategic measures and targets on the IRS web site on the same page as the current Strategic Plan. The additional taxpayer service, the recalibrated employee engagement, and expected modernization measures should also be added to the web site once they are approved by the Oversight Board.

CORRECTIVE ACTION:

Post the set of approved enterprise-wide measures and targets on irs.gov in the same section where the IRS Strategic Plan is displayed. Add additional measures within a reasonable period of time once approved by the IRS Oversight Board.

PROPOSED IMPLEMENTATION DATE: January 31, 2008

RESPONSIBLE OFFICIAL: Associate Chief Financial Officer, Corporate Planning and Internal Control.

CORRECTIVE ACTION MONITORING PLAN: Validate action taken through review of the irs.gov web site on January 31, 2008. Within 120 days of additional targets being approved by the IRS Oversight Board, conduct additional reviews to ensure the new measures and targets have been added.

RECOMMENDATION 2:

The Chief Financial Officer should ensure future Strategic Plans include quantifiable long-term measures and targets for each of the IRS' strategic goals.

CORRECTIVE ACTION:

Ensure consistency with Treasury guidance in developing the next Strategic Plan. As part of the plan development phase, review Treasury guidance and incorporate requirements into the approach.

PROPOSED IMPLEMENTATION DATE: March 31, 2008 for completion of a schedule to update the IRS Strategic Plan.

RESPONSIBLE OFFICIAL: Associate Chief Financial Officer, Corporate Planning and Internal Control.

CORRECTIVE ACTION MONITORING PLAN: Include specific steps for consultation with Treasury and analysis of Treasury guidance in the schedule for the next update.

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RECOMMENDATION 3:

The Chief Financial Officer should ensure that future strategic plans address all of the Department of Treasury requirements.

CORRECTIVE ACTION:

Ensure consistency with Treasury guidance in developing the next Strategic Plan. As part of the plan development phase, review Treasury guidance and incorporate requirements into the approach.

PROPOSED IMPLEMENTATION DATE: March 31, 2008 for completion of a schedule to update the IRS Strategic Plan.

RESPONSIBLE OFFICIAL: Associate Chief Financial Officer, Corporate Planning and Internal Control.

CORRECTIVE ACTION MONITORING PLAN: Include specific steps for consultation with Treasury and analysis of Treasury guidance in the schedule for the next update.