



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

October 15, 2002

MEMORANDUM FOR SECRETARY O'NEILL

Handwritten signature of Pamela J. Gardiner in cursive.

FROM: Pamela J. Gardiner  
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing  
the Internal Revenue Service

**SUMMARY**

The Reports Consolidation Act of 2000<sup>1</sup> requires that we summarize for you, for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2002*, our perspective on the most serious management and performance challenges currently facing the Internal Revenue Service (IRS).

The Treasury Inspector General for Tax Administration's (TIGTA) assessment of the major IRS management challenge areas for Fiscal Year (FY) 2003 has not changed substantially from the prior year. While the IRS has acted to address each challenge area, the TIGTA was unable to remove any challenge area at this time.

The TIGTA believes the major management challenges, in order of priority, facing the IRS in FY 2003 are:

- Systems Modernization of the Internal Revenue Service
- Tax Compliance Initiatives
- Security of the Internal Revenue Service
  - Employees and Facilities
  - Information Systems
- Integrating Performance and Financial Management
  - Performance Management
  - Financial Management
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

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<sup>1</sup> Pub. L. No. 106-531.

- Complexity of the Tax Law
- Providing Quality Customer Service Operations
- Erroneous Payments
- Taxpayer Protection and Rights
- Human Capital

## **DISCUSSION**

Discussion of the major IRS management challenge areas, including examples of relevant TIGTA audit work, follows.

### **Systems Modernization of the Internal Revenue Service**

The IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>2</sup> mandated that the IRS place a greater emphasis on serving taxpayers and meeting their needs in its new structure organized around four major groups of taxpayers – wage and investment taxpayers, the self-employed and small businesses, middle and large corporations, and exempt organizations. To achieve this mission, high-quality, efficient, and responsive information services are required. Thus, dramatic improvements in service to taxpayers are heavily dependent on modernizing IRS' core computer business systems.

Modernizing technology has been an ongoing challenge for the IRS, and will continue for years to come. The current Business Systems Modernization (BSM) effort began in 1999 and, through FY 2002, the IRS will have spent nearly \$1 billion. The IRS has requested another \$436 million in funding for FY 2003. Progress has been slow, but some projects, including improved telephone capacity, intelligent call routing, and refund information on the Internet, were deployed in FY 2002. These projects were, however, substantially over cost, were delayed an average of 12 months, and delivered less functionality than originally planned. TIGTA audits showed that BSM is still struggling with contracting processes, and BSM project teams do not consistently follow the defined key development processes.

However, other TIGTA audits reported that progress has been made in establishing the fundamental management disciplines necessary to guide the modernization effort. For example, the Enterprise Architecture has been updated; an Integrated Master Schedule to help sequence projects and identify dependencies between projects has been developed; an annual funding process has been stabilized; most key development processes in the Enterprise Life Cycle have been defined; private industry experts have been hired to manage BSM; and the role of the PRIME<sup>3</sup> contractor has been clarified. Despite these successes, BSM remains at risk. Continued delays, failure to provide

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<sup>2</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 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.).

<sup>3</sup> The Prime Systems Integration Services Contractor (PRIME) is the contract under which Computer Sciences Corporation is responsible for designing new systems to meet IRS business needs, developing these systems, integrating them into the IRS, and ultimately transferring operation of these systems to the IRS.

anticipated benefits, and cost overruns could cause the Congress to withhold funds, and too many ongoing projects and the increasing complexity of BSM could exceed the Business Systems Modernization Office's capacity for oversight.

### **Tax Compliance Initiatives**

The IRS' goal of providing world-class service to taxpayers hinges on the theory that, if the IRS provides the right mix of education, support, and up-front problem solving to taxpayers, the overall rate of voluntary compliance with the tax laws will increase. The challenge to the IRS management is to establish a tax compliance program (examining tax returns and collecting tax liabilities) that identifies those citizens who do not meet their tax obligations, either by not paying the correct amount of tax or not filing proper tax returns, and that effectively brings them into compliance. As part of the reorganization, the IRS embarked on a mission to revamp its business processes to stabilize the traditional compliance activities.

The Examination function examines tax returns to ascertain whether taxpayers have correctly determined their tax liability. The overall percentage of tax returns examined<sup>4</sup> increased slightly in FY 2001, due to increases in the number of correspondence examinations of individual income tax returns, primarily for verification of the Earned Income Tax Credit. However, the number and percent of examinations of corporate and other business returns continued to decrease, as did the field examinations of all types of individual and miscellaneous tax returns, such as estate and gift, fiduciary, excise, and employment tax returns. Because of the concerns around declining program results, the Small Business/Self-Employed (SB/SE) Division initiated an in-depth effort to reengineer its examination processes, products, and services. Expected project deliverables include streamlining the examination process, increasing the effectiveness and timeliness in examining tax returns, and decreasing and redirecting expenditures within the SB/SE Division. Assisting in the reengineering of the examination processes is a consulting contractor and a contractor with auditing and accounting expertise.

A TIGTA audit of the Examination reengineering project determined that many of the proposed recommendations might improve the control environment. However, the TIGTA identified some recommendations where a more careful consideration of the impact on taxpayer relations and taxpayer rights is needed. In addition, the procurement of automated examination workpaper software needs management's oversight. The TIGTA also believes management will have difficulty measuring the effectiveness of the recommendations on examination productivity.

The Collection function is responsible for promptly collecting the proper amount of federal tax due from taxpayers, including securing tax returns that are not filed in order to determine the tax due. The level of compliance activities and the results obtained in most Collection areas in FY 2001 showed a slight reversal of the downward trend of the

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<sup>4</sup> Percent of Examination coverage is calculated by dividing the number of returns examined in the current fiscal year by the number of returns filed in the preceding calendar year.

preceding years. Although they have not returned to pre-1998 levels, enforcement actions and case closures were higher in FY 2001 than in FY 2000. While enforcement revenue collected increased slightly in FY 2000 and remained the same in FY 2001, the inventory of delinquent accounts and the total amount of uncollected liabilities has continued to grow. The use of Collection enforcement tools including liens, levies, and seizures all increased from FY 2000 to FY 2001.

In an effort to improve operations, the Commissioner, SB/SE Division, established teams staffed with employees of the IRS and an outside consulting agency to review Collection function operations and suggest methods for improvement. One of the Collection Reengineering teams is the Collection Process Improvement Team. The objective of the Collection Process Improvement Team was to stabilize and improve the Collection function's operational performance by identifying and implementing high-impact, near-term improvements to case assignment, processing, and resolution processes.

A TIGTA audit determined that the Team has been proactive in identifying risks and working to reduce them, has involved other appropriate IRS functions on an ongoing basis, and has considered communication and training needs to be addressed for successful implementation of the recommendations. There are, however, risks, including the feasibility of getting managers more involved in case guidance, the difficulty in measuring the impact that changes will have on collection effectiveness, and potential security risks when using Microsoft Outlook Calendar to schedule meetings.

### **Security of the Internal Revenue Service**

As stated in last year's report, the terrorist attacks on September 11, 2001, and the subsequent anthrax scare highlighted vulnerabilities in many businesses and government agencies. Like other organizations, the IRS should remain vigilant to all opportunities to enhance the safety of its employees and the security of its information systems and taxpayer data. For this reason, security of IRS employees, facilities, and information systems continues to be a significant challenge facing IRS management for FY 2003.

### **Security of the Internal Revenue Service – The Employees and the Facilities**

During FY 2002, the IRS issued, both via memo and voice mail, numerous safety and security updates and revised procedures. For instance, special instructions for opening mail and accepting deliveries and packages were implemented. In addition, the IRS issued guidance to employees in dealing with heightened security at the IRS workplace as well as safety concerns while working away from the office or at taxpayer facilities.

TIGTA's Office of Investigations played an important role in the investigation surrounding the terrorist events in late 2001. That work continued throughout FY 2002. The special agents were also alert to "copy cat" threats throughout the

year and worked several cases involving anthrax and bomb threats and other fear tactics that threatened to interrupt business or destroy property.

### **Security of the Internal Revenue Service – The Information Systems**

The security of the IRS' information systems has been reported as a material weakness for many years, and the IRS continues to face challenges in this area. Considering the amount and sensitivity of the data the IRS is charged with protecting and the amount of revenue it collects, the IRS is a highly visible target for hackers, unhappy taxpayers, disgruntled employees, and other types of dissatisfied people. Access to the Internet and the linking of internal computer systems have greatly increased the risk of loss or theft. In addition, business continuity, disaster recovery, asset management, and stored data became key concerns after the events of September 11, 2001. Loss of tax processing systems for extended periods would have a major economic impact and would result in lost productivity for many IRS functions that are totally dependent on these systems.

The TIGTA's assessment of the security of IRS systems during FYs 2001 and 2002 revealed that overall security was not adequate primarily because of a lack of responsibility and awareness. In addition, employees with key security responsibilities had not been adequately trained and many systems had not been properly certified. Internet gateways were vulnerable to persistent hackers. Additionally, password controls were inadequate and activity logs, configuration changes, and audit trails were not maintained. Recent TIGTA reviews, however, have noted some improvements. For example, virus protection has improved, management expertise has increased, and an Intrusion Detection System is being installed.

The Disaster Recovery Plans define the resources, actions, tasks, and data required to manage the business recovery process in the event of a business interruption and are generally geared toward restoring the required computer systems. The IRS has now identified some of the most critical business processes plus administrative resumption processes, and plans to have a complete business resumption plan by early FY 2003.

### **Integrating Performance and Financial Management**

Improving Government performance is an overall goal of the current Administration. Both the President and the Secretary of Treasury have expressed concern about the financial management of Government agencies and believe that a clean financial audit is a basic prescription for any well-managed organization. Without accurate and timely financial information, it is not possible to accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

### **Performance Management**

The Government Performance and Results Act of 1993<sup>5</sup> (GPRA) is intended to increase agency accountability and improve the quality and delivery of Government services. The GPRA holds Federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement. Federal agencies are required to prepare multi-year strategic plans, annual performance plans, and annual program performance reports. The President's Management Reform Agenda addresses integrating performance review with budget decisions. This is designed to produce performance-based budgets and, over time, agencies will be expected to identify high quality outcome measures, accurately monitor the performance of programs, and begin integrating this presentation with associated cost.

In conducting its FY 2002 audits, the TIGTA found that the IRS' critical performance measures do not address all of the strategies listed in the IRS Strategic Plan and do not support a significant portion of the IRS' budget request. For example, TIGTA found that Criminal Investigations (CI) Division measures do not address mission accomplishment. CI Division developed outcome-neutral measures because of its concern about Regulation 26 CFR 801,<sup>6</sup> which prohibits the use of enforcement statistics. As a result, CI Division's business results measures and its sole GPRA measure of cases initiated are not outcome oriented and do little to quantify the results of CI Division's activities. In order to meet the President's agenda, TIGTA recommended that the IRS develop new performance measures, or include existing performance measures in its list of critical performance measures, to ensure that it addresses each of the major strategies and budgeted areas of the IRS.

### **Financial Management**

The IRS' financial management systems remain a challenge to the IRS management, despite producing, for the second consecutive year, combined financial statements covering the IRS' tax custodial and administrative activities, and achieving an unqualified or "clean" audit opinion from the General Accounting Office (GAO) on all financial statements for FY 2001. According to the FY 2001 GAO audit report, the IRS continues to face most of the pervasive systems and internal control weaknesses that have been reported each year since GAO began auditing the IRS' financial statements in FY 1992.

Furthermore, the IRS' approach to obtain this unqualified opinion relied heavily on costly, time-consuming processes; statistical projections; external contractors; substantial adjustments; and monumental human efforts that extended well after the fiscal year end. These costly efforts would not have been necessary if the IRS' systems and controls operated effectively. In addition, the absence of effective systems and controls means that the IRS lacks, on an ongoing basis, the timely,

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<sup>5</sup> 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.).

<sup>6</sup> Code of Federal Regulations.

accurate, and useful information needed to make informed management decisions.<sup>7</sup>

### **Processing Returns and Implementing Tax Law Changes During the Tax Filing Season**

The tax return filing season impacts every American taxpayer and is, therefore, always a highly critical program for the IRS. In addition to providing customer service to the American taxpayers, the IRS must coordinate tax law changes, programs, activities, and resources to effectively plan and manage each filing season.

Overall, the 2002 filing season was a great success, and, in spite of a short time frame for making changes, the IRS had successfully revised the 39 tax products the TIGTA selected in a review of the Economic Growth and Tax Relief Reconciliation Act of 2001<sup>8</sup> changes to the rate reduction and child tax credits. The IRS also took immediate action to correct an error the TIGTA identified during the review.

Furthermore, the IRS worked quickly, following the terrorist attacks of September 11, 2001, to assist the approximately 785,000 business taxpayers located within the Presidentially-declared disaster areas by providing as much administrative tax relief as possible and minimizing the burden of tax issues during the aftermath. The IRS created multiple ways for business taxpayers affected by the terrorist attacks to easily get tax-related answers and assistance. The IRS also worked diligently to ensure that business taxpayers were aware of special tax considerations available to help them, e.g., extensions of filing deadlines, relief from certain penalties, and early refunds of estimated tax payments. In addition, the IRS provided special handling for the accounts of the victims of the terrorist attacks. Killed in Terrorist Action Coordinators were available nationwide to expedite the processing of any returns, claims, or correspondence and to answer questions related to any tax issues surrounding these accounts.

The TIGTA, however, did identify some problems in processing tax returns. For example, the IRS miscalculated the Rate Reduction Credit (RRC) for some 535,000 taxpayers. Another 132,000 taxpayers may not have been given some \$26 million in Additional Child Tax Credit (ACTC) after the IRS adjusted their RRC during the tax return processing. TIGTA reviews also identified over 479,000 taxpayers, entitled to approximately \$212 million in ACTC, who did not claim the credit on their returns. The IRS had planned an outreach program to notify these taxpayers of their eligibility but subsequently cancelled those plans. As the result of another TIGTA review, the IRS identified some 34,000 undelivered refund checks even though the IRS had addresses for the taxpayers that were more current.

The TIGTA also found that the processing of small business corporate returns needs to be simplified to better enable small businesses to successfully file their U.S. Income Tax

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<sup>7</sup> *United States General Accounting Office Report to the Secretary of the Treasury – IRS's Fiscal Years 2001 and 2000 Financial Statements*, February 2002.

<sup>8</sup> Pub. L. No. 107-16, 115 Stat. 38 (2001).

Return for an S Corporation (Forms 1120S). Each year an estimated 46,000 small businesses are not successful in filing Forms 1120S because the IRS does not have valid elections on file to allow their returns to be processed. Consequently, these taxpayers spend an estimated 3.2 million hours each year preparing returns that cannot be successfully processed.

In addition, each year an estimated 9,000 returns for small business corporations are processed as regular corporate returns even after the taxpayers verify that their election requests were granted. This causes a potential erroneous assessment of taxes on \$41.0 million of profits and the inability of taxpayers to claim \$100.3 million in losses. Furthermore, because of unclear IRS procedures, approximately 3,700 taxpayers who file unprocessable Forms 1120S may have their rights violated when the IRS assesses taxes on an estimated \$6.7 million in profits without sending a statutory notice of deficiency.<sup>9</sup>

### **Complexity of the Tax Law**

Tax law complexity is the highest-ranking problem individual and business taxpayers had with the IRS, according to the *FY 2000 Taxpayer Advocate's Annual Report to the Congress*. The National Taxpayer Advocate also identified tax law complexity as the root cause of many of the other problems on the Top 20 list. In its *FY 2001 Annual Report to Congress*, the National Taxpayer Advocate takes tax law simplification a step further, focusing on key legislative proposals that create a more burdensome and confusing voluntary tax system for even the most compliant taxpayers. The report outlines proposals to simplify or clarify six areas of tax law – family status issues, joint and several liability, alternative minimum tax for individuals, penalty and interest issues, home-based service workers, and IRS collection procedures.

Small businesses, particularly, are affected by the complexity of tax law because they typically lack the resources to employ accountants to work their problems. The Taxpayer Advocate Service established the Office of Business Advocacy to focus on specific issues relating to small business and self-employed taxpayers. These problems might be related to IRS processes, communications, policies, training, or the underlying tax law. The Office of Business Advocacy will work with the Small Business Administration and other outside stakeholders to identify small business concerns with the IRS, partner in various operation task forces that address process improvements, and make recommendations on changes to taxpayer correspondence.

In a recent audit, the TIGTA determined that the IRS has recognized the importance and sensitivity of tax law complexity, has elevated the concerns to the highest levels within the IRS, and has invested significant resources throughout the organization to address the problems. The TIGTA also concluded that the IRS' Legislative Implementation Tracking System will be an effective control to monitor the

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<sup>9</sup> A statutory notice of deficiency allows the taxpayer to respond to the proposed assessment before taxes are actually assessed.

implementation of new tax legislation. The system is designed to provide timely, useful information to management and quickly elevate any delays in implementing new tax laws to a level of management high enough to address the problem.

### **Providing Quality Customer Service Operations**

Providing top quality service to every taxpayer in every transaction is integral to the IRS' modernization plans. There are many ways in which the IRS provides customer service. The most direct include walk-in service, toll-free telephone service, electronic customer service, written communications to taxpayers, and accurate and timely tax refunds. Each of these services affects a taxpayer's ability and desire to voluntarily comply with the tax laws. Providing these services in a high-quality manner can also be a challenge to the IRS.

Quality service at IRS Taxpayer Assistance Centers (TAC) continues to be a major concern. During FY 2002, the TIGTA initiated several reviews of the quality of walk-in service to taxpayers in the IRS TACs. These reviews were conducted as a result of an amendment to the Treasury spending bill<sup>10</sup> for FY 2002, proposed by Senator Byron Dorgan, Chairman of the Subcommittee on Treasury and General Government. The amendment requires the TIGTA to conduct visits to all TACs and report to the Congress on whether taxpayers are provided correct and prompt answers to their questions. These reviews continue to show that the accuracy rates on tax law questions could be improved. Additionally, the reviews conclude that some taxpayers were not satisfactorily assisted because they were referred to publications rather than having their questions answered. The TIGTA also identified issues with taxpayer privacy at some sites because office configurations allowed conversations between the assistor and taxpayers to be overheard. IRS employees, however, were generally professional and courteous, and wait time for assistance was usually only about 30 minutes.

### **Erroneous Payments**

Stewardship responsibility over public funds is a major challenge facing IRS management. Both the President and the Congress have expressed concerns with the large amount of erroneous payments made by Federal agencies. Improper payments include inadvertent errors; payments for unsupported or inadequately supported claims; payments for services not rendered; payments to ineligible beneficiaries; and payments resulting from outright fraud and abuse by program participants and/or federal employees.

The Earned Income Credit (EIC) Program continues to be a highly visible area of potential fraud. The IRS established the EIC Program Office to administer the EIC appropriation and oversee the EIC-related activities of IRS functions involved in efforts to ensure the efficient application of the law; to increase participation of eligible taxpayers; and to reduce fraud, waste, and abuse. Each year, the IRS spends over \$100 million to help ensure that eligible taxpayers claim the EIC and to reduce

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<sup>10</sup> Pub. L. No. 107-67.

overclaims and fraud, waste, and abuse. Yet, in late FY 2001 the TIGTA found that the IRS does not have a process to identify and stop refunds on many tax returns using nonwork social security numbers<sup>11</sup> and erroneously claiming the EIC. In FY 2002, the TIGTA found that taxpayers did not receive consistent treatment when the IRS audited their EIC claims. Specifically, some taxpayers were allowed the EIC without having to provide required documentation during the audit to justify the EIC claim.

In addition, TIGTA identified erroneous payment issues in other program areas. For example, since the early 1990s, thousands of taxpayers have filed specious tax claims with the IRS for reparations credits payable to descendants of slaves. Although the vast majority of these claims are manually identified by IRS employees before any data are input to the IRS' computer systems and refunds issued, the process is subject to human error plus some employees may knowingly allow these illegal claims to be processed. In another program area, the TIGTA found IRS controls were not adequate to ensure that Treasury Communications System charges were appropriate and credits received. As a result, the IRS was charged for circuits and equipment after the items were removed from service. In another audit, the TIGTA found that the IRS was billed monthly for the yearly costs of maintenance coverage for nine contract line items, causing an over billing for services.

The TIGTA recently established a Procurement Fraud Section, which may help identify other areas of erroneous payments. This section, a joint endeavor involving both the Office of Investigations and the Office of Audit, is comprised of special agents and auditors, and dedicates its resources to investigating civil and criminal matters involving vendors and suppliers, as well as IRS employees or non-employees involved in IRS procurements. In addition, the Office of Audit may issue reports to appropriate IRS managers on issues involving internal control weaknesses or non-adherence to established procedures or sound business practices. This section also focuses its efforts on promoting fraud awareness in the public and private sector contracting communities and within the IRS.

### **Taxpayer Protection and Rights**

The RRA 98, which was signed into law on July 22, 1998, contains 71 provisions that increase or help protect taxpayers' rights. TIGTA reviews during FY 2002 show that the IRS has made progress in complying with the RRA 98. For example: the IRS adhered to legal provisions in all seizures reviewed; the TIGTA did not identify any instances of potential violations of using tax enforcement results in employee evaluations or to suggest production quotas or goals; Appeals Officers generally complied with the requirements of the law for the filing of a notice of lien or a notice of intent to levy and the right of the taxpayer to appeal; and the IRS has removed the Illegal Tax Protesters

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<sup>11</sup> Nonwork social security numbers are issued to individuals to obtain federal benefits but are not valid for work.

(ITP) codes from the Master File<sup>12</sup> and two inventory management systems and has made obsolete two publications with ITP references.

The IRS, however, is not yet in full compliance with all provisions of the RRA 98 and taxpayer rights remain at risk. For example, the IRS did not always timely mail the Notices of Federal Tax Lien to notify taxpayers of the lien notices, as required by law, and improvements around levies issued outside of the systemic controls of the automated systems are still needed. In addition, IRS employees may not have always advised taxpayers of their rights to refuse or restrict the scope of the statute extension, and case files did not always document that both spouses on joint returns and taxpayer representatives received this information. The TIGTA also found that the IRS improperly withheld information from requesters in 10.6 percent of the denied, partially denied, or no responsive record Freedom of Information Act (FOIA)<sup>13</sup> and Privacy Act (PA) of 1974<sup>14</sup> requests and 12.2 percent of the Internal Revenue Code (I.R.C.) § 6103<sup>15</sup> requests where information was partially or fully denied or requesters were told that records could not be located. In addition, responses to FOIA and PA requesters were not timely in 22.7 percent of the cases in this year's sample. In addition, the TIGTA identified potential taxpayer rights violations and increased taxpayer burden caused by discrepant computer programs and lax internal controls over applying the suspension of interest provision of the RRA 98. The TIGTA identified approximately 4,600 taxpayers that were over assessed an estimated \$536,000 in interest because the IRS did not correctly input the date the taxpayer was notified of the additional assessment and an additional 2,000 taxpayers that were over assessed interest of approximately \$26,000 for adjustments to the EIC.

In addition, IRS management information systems do not separately record or monitor direct contact requirements or IRS responses to written information requests from joint filers. Therefore, the TIGTA could not determine if the IRS fully complied with the requirements. The IRS uses the Integrated Complaint Tracking and Reporting System to integrate complaints of employee misconduct from two systems, and determined that it would not integrate complaints from all other existing systems. Until the IRS is able to track and integrate the complaint information from all systems and eliminate duplicate complaints contained in more than one system, it will not be able to determine the total number of taxpayer complaints received.

### **Human Capital**

Many Federal departments and agencies are moving towards becoming results-based organizations, and leading results-based organizations understand that human capital planning must be an integral part of an organization's strategic and program planning. Inadequate attention to strategic human capital management perpetuates a

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<sup>12</sup> The Master File is an IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organization data.

<sup>13</sup> 5 U.S.C. § 552 (1994 & Supp. IV 1998).

<sup>14</sup> 5 U.S.C. § 552a (1994 & Supp. IV 1998).

<sup>15</sup> I.R.C. § 6103, Confidentiality and Disclosure of Returns and Return Information.

government-wide risk of some agencies not performing their missions economically, efficiently, and effectively. The GAO considers strategic human capital management as a high-risk area for the Government, and the President, in his FY 2001 budget request, added human capital to the list of Priority Management Objectives.

Like many other government agencies, the IRS continues to face a range of serious personnel management issues, ranging from recruiting, training, and retaining employees to problems associated with the IRS' recent reorganization and modernization efforts. In FY 2002, however, the IRS initiated actions to incorporate a workforce planning process into its strategic planning processes. For example, the overall strategic direction for workforce planning has been set and the process of establishing organizational goals has generally been completed.

The IRS management, however, has not established a project plan that assigns responsibilities and includes milestones for each of the steps in an overall workforce planning process. Workforce planning guidance documents do not currently focus on long-term planning, i.e., beyond three years. In addition, the workforce planning process being developed may not effectively address long-term (three to five years) workforce planning goals. The current focus on a three-year planning process is the result of IRS plans to integrate its workforce planning process with the ongoing strategic planning and budgeting processes. Although the process requires management to develop and report actual workload and resource estimates for the short-term (i.e., the current fiscal year and the two future years being planned), quantitative measures for long-term planning are not always required. Expanding the workforce planning process and guidance to encompass five years would increase the IRS' ability to identify risks and provide necessary data to key stakeholders.