



February 3, 2003

# FISCAL YEAR 2004 ANNUAL PERFORMANCE PLAN

## **The IRS Mission**

**Provide America's Taxpayers With Top Quality Service by Helping Them to Understand and Meet Their Tax Responsibilities and by Applying the Tax Law With Integrity and Fairness to All.**

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February 3, 2003

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## ***I. Strategic Context***

### **I.A. Mission/Goals/Objectives**

IRS' mission is *to 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*. This mission statement accurately describes the IRS' role, as well as the public's expectation as to how we should perform that role. In the United States, the Congress passes tax laws and requires taxpayers to comply with them. The taxpayer's role is to understand and meet their tax obligations - and most do, since roughly 98% of the taxes collected are paid without active intervention by the IRS. Its role is to help the large majority of taxpayers who are willing to comply with the tax law, while seeing to it that the minority who are unwilling to comply are not allowed to burden their fellow taxpayers. The IRS recognizes that it must meet the highest of standards in performing this role.

While a mission statement and clarification of the public's expectations are fundamentally important, it is equally important that the IRS defines the specific goals and objectives needed to achieve its mission. In a practical sense, these goals and objectives represent what the IRS is striving to achieve and how it will judge its success both qualitatively and quantitatively.

The IRS has formulated three strategic goals:

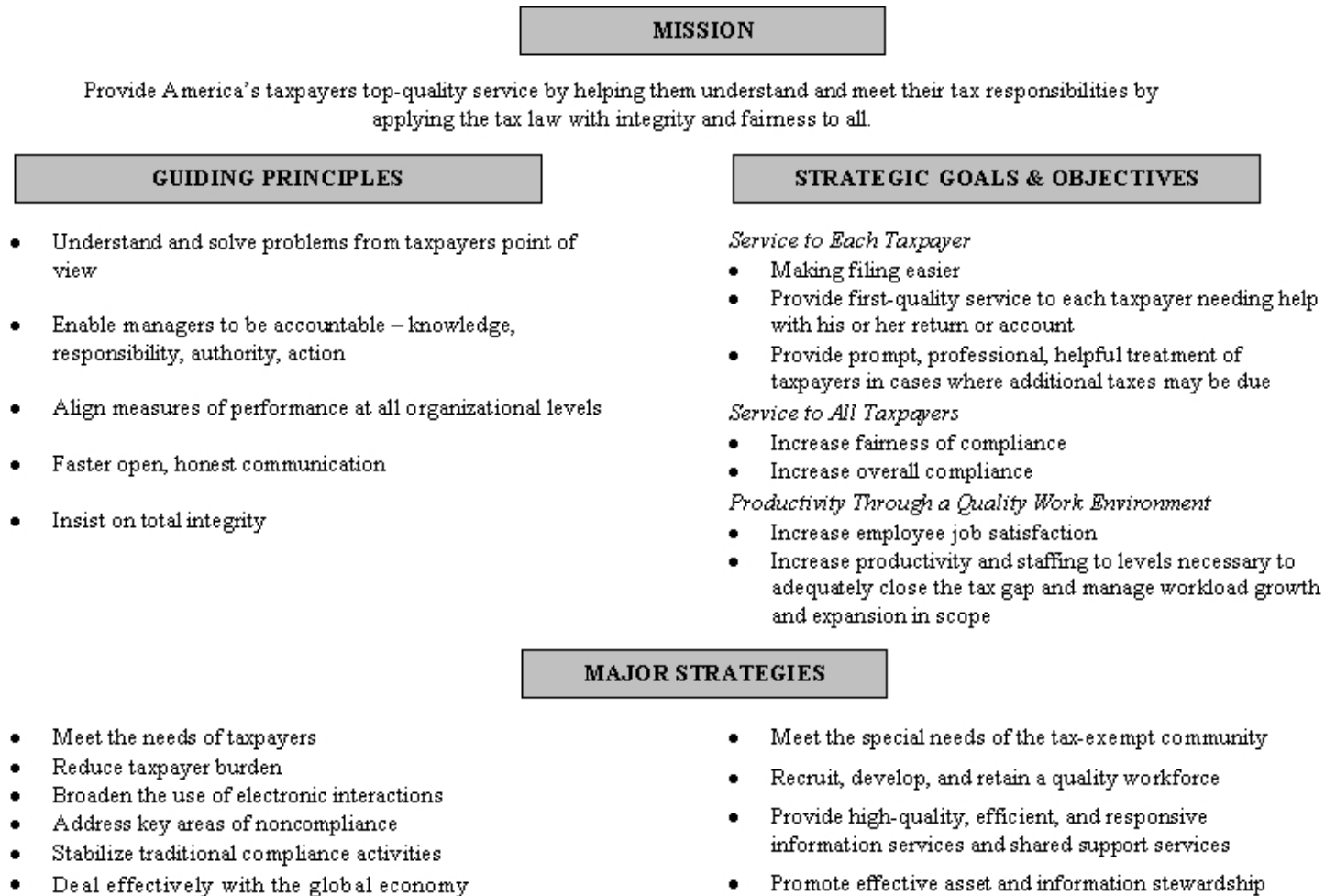
- Top-quality service to each taxpayer in every interaction
- Top-quality service to all taxpayers through fair and uniform application of the law
- Productivity through a quality work environment

If progress is made on all three of these goals, the IRS can be confident that it is moving toward achieving its mission and meeting the public's expectations.

Major strategies are the approaches the IRS will use to achieve progress on its strategic goals over a two-to-three year timeframe. The IRS has developed these strategies based upon senior management's consideration of internal research and analysis, external stakeholder input, Treasury Inspector General for Tax Administration (TIGTA) and General Accounting Office (GAO) recommendations, and employee input on the key trends, issues, and problems that most affect the IRS.

Guiding principles help link the IRS mission and goals to the everyday actions of IRS employees from all levels of the organization. It will take thousands of everyday actions to accomplish IRS goals, and the guiding principals help employees understand the relationship between their actions and its goals. The relationship between the IRS Mission, Goals and Objectives, Guiding Principles and Major Strategies is shown in Figure 1 on the following page.

Figure 1



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**I.B. Pre-Filing, Filing, and Post-Filing Services**

The IRS FY 2004 Annual Performance Plan (APP) presents the high-level programs and services that the agency carries out to accomplish its mission, goals and strategies outlined in its strategic plan. The APP is the linkage between the Strategic Plan and the program activities in the budget request.

The IRS provides three primary services: Pre-Filing Services, Filing Services and Post-Filing Services.

**Pre-Filing Services** – These are services that are provided to a taxpayer before the return is filed to assist in filing a correct return. A very strong emphasis is being placed on pre-filing education and assistance of all customers. In general, the focus is on increasing time spent on education and outreach, increasing volunteer support time and locations, expanding pre-filing agreements and rulings, and enhancing pre-filing customer support through electronic media.

**Filing Services** - These are services provided to a taxpayer in the process of filing a return and paying taxes, including electronic filing and payment. The focus is on decreasing paper returns processed and increasing electronic returns, increasing the use of electronic payments, increasing telephone and in-person customer service levels and volume of calls answered.

**Post-Filing Services** – Traditionally known as compliance, these services are provided to taxpayers after a return is filed to identify underreporting, non-filing and nonpayment. Compliance efforts will focus on decreasing the number of abusive and frivolous returns and claims that are filed. Emphasis will be placed on high-income taxpayers, K-1 matching and flow through entities. We will target promoters of abusive tax avoidance transactions, including Internet promoters.

These services are applicable to all taxpayers including wage earners, small businesses, self-employed individuals, large and mid-size businesses, tax-exempt organizations and government entities. The three primary services are also sub-divided into ten programs that are explained in the Program Activities section.

To ensure a consistent approach to planning for and delivering the agency's strategic goals, IRS organizes its strategy and program plans, budgets, financial plans and reports, and accounting systems around these three services and their underlying programs. In addition, to ensure that IRS can achieve its mission and goals, the IRS Commissioner and his Senior Management Team established a new Strategic Planning, Budgeting and Performance Management (SPBPM) process in early 2000. This new process significantly changes the prior strategic planning and performance management practices.

With the SPBPM process, each organizational unit commissioner or chief executive officer works with his/her senior management team to develop and execute the Strategy and Program Plans that best address the trends, issues and problems that impact their taxpayers and that accomplish the

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agency mission and goals. Strategy and Program Plans along with the Strategic Plan provide the basis for developing annual performance plans, for formulating program justification, and for evaluating and reporting progress in meeting annual performance targets.

The APP reflects the major strategies, operational priorities, and improvement projects developed by every IRS organizational unit in their Strategy and Program Plans that are designed to provide internally specific program direction. A brief description of the IRS strategic framework is included to set the context for IRS' services and programs. It is followed by sections on each of the IRS major programs that describe its annual performance goal and what specific activities, resources and performance measures will be accomplished in FY 2003 and FY 2004 to achieve these goals.

This performance plan projects significant increases in performance indicators for most programs in fiscal years 2003 and 2004. These increases are projected based on goals we have established for increased productivity and effectiveness as a result of the new more focused organization structure and the benefits from technology investments and other improvement projects. They are very aggressive goals and they depend on many assumptions. We are committed to achieving these stretch goals.

### **I.C. Programs/Performance Goals**

The Pre-Filing, Filing, and Post-Filing services are supported by ten high level programs. To ensure a consistent approach to planning for and delivering our strategic goals and objectives, we organize our strategy and program plans, budgets, financial plans and reports, and accounting systems around these three service categories and their supporting programs. These programs are shown below along with the corresponding annual performance goal. The subsequent sections of the Annual Performance Plan describe in more detail what specific activities, resources and performance measures will be accomplished in FY 2002 and FY 2003 to achieve these annual goals.

**Pre-Filing Taxpayer Assistance and Education** - *The IRS will provide taxpayers with greater access to information, assistance and support before they file their tax return.* – IRS is taking action to promote taxpayer education, improve outreach education efforts and expand partnerships with key stakeholders. The IRS is offering enhanced electronic services including the IRS Website, electronic filing, and electronic payments. The IRS is working to have more effective pre-filing guidance and to reduce the burden of complying with the tax laws.

**Filing and Account Services** - *Improve the quality of the service provided to taxpayers in filing their tax returns.* – The IRS is modernizing its work processes and expanding its partnership with individuals and organizations by providing help filing returns, increasing electronic filing options, ensuring that notices and letters are more understandable, expanding our assistance into different languages, and paying refunds faster.

**Compliance Services** - *Identify and correct all substantive errors in filed tax returns, reporting of income, and payment of taxes.* – The IRS will focus on bringing the highest risk taxpayers into compliance with the tax laws. We will also emphasize improving compliance through better and more targeted taxpayer education, better reporting, voluntary agreements, improved regulations, earlier intervention and reducing the length of the appeals process. The IRS will increase the level of enforcement activity and take appropriate action in each case.

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**Research and SOI** - *Perform strategic and tactical research to anticipate and identify compliance and tax administration problems.* – The IRS will collect and tabulate data with respect to individuals, corporations, partnerships, sole proprietorships, estates, nonprofit organizations and trusts.

**Information Services** – *Provide the information systems services required by IRS activities to effectively administer the nation's tax law.* – The IRS is consolidating notice printing and mid-range computers, and developing and managing telecommunication services. To keep reasonable pace with industry software advances, IRS will replace a portion of its desktop/laptop inventory annually. In addition, the IRS will perform ongoing maintenance of hardware, software, virus detection, and other standard commercial applications.

**Information Systems Improvement Programs** - *Develop and implement systems projects that respond to the specific requirements of one or more of the taxpayer groups served by IRS Operating Divisions.* – The IRS will improve its financial and administrative systems, ensure the security, privacy and reliability of its Information Technology (IT) infrastructure, and standardize and expand the range of services to taxpayers and Service employees.

**Business Systems Modernization** - *Effectively manage the contract resources that support capital asset acquisition of business systems modernization.* – The IRS will make fundamental improvements in the way it carries out business by taking advantage of all appropriate technology. The IRS has published and updated a comprehensive technology blueprint to guide it through this multi-year project. Initiatives to expand electronic government and increase electronic filing alternatives will be pursued.

**Earned Income Tax Credit** - *Expand customer service and enforcement activities to reduce erroneous filings and payments associated with the Earned Income Tax Credit.* – IRS will attempt to address potentially erroneous claims before they are accepted for processing and before any EITC benefits are paid.

**Shared Services Support** - *Effectively provides the logistical services required by IRS activities to administer the nation's tax laws.* – The IRS is reengineering standardized processes and identifying areas to continue expanding electronic government. E-commerce alternatives are being explored to improve customer access, streamline vendor interactions and ensure effective use of stewardship and property assets.

**General Management and Administration** - *Provide effective leadership and direction in the administration of the nation's tax laws.* – The IRS' organization and business practices are designed to reflect its customer's needs and address significant human capital issues. Competitive sourcing alternatives are being identified and financial systems are being updated to improve financial performance. The IRS is fully integrating its strategic planning, budget and performance management process to more effectively achieve its strategic goals and objectives.



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## II. Key Strategic Issues

Our success in achieving the IRS mission, goals, and objectives is influenced by the environment in which we operate. The IRS budget request is based upon key drivers identified through our Strategic Planning, Budgeting and Performance Management process that are directly related to accomplishment of our basic mission. The IRS Annual Performance Plan describes the high-level programs or services that the agency carries out to accomplish its mission, goals, objectives, and strategies as expressed in the IRS Strategic Plan. The most significant challenges have been organized around the following themes:

**Service to Taxpayers.** Providing taxpayers with consistent, accurate account information, timely processing of tax returns, and immediate account resolution with the minimum number of encounters with employees. Providing taxpayer education opportunities and outreach programs.

**Communication with Taxpayers.** Improving our written communications to make them easier to understand and more responsive to taxpayer needs. Improving the timeliness of notices sent to taxpayers. Providing taxpayers with easy access to our toll-free number with minimal use of voice mail and recorders.

**Electronic Tax Administration.** Expanding operations for electronic filing, payment, communication, and other automated services.

**Complexity of the Tax Law.** Relieving taxpayer burden by removing as much complexity from the tax law as possible.

**Globalization.** Continually improving our globalization efforts as large and mid-sized business taxpayers continue to grow significantly in global trading and U.S. multi-national corporations are increasingly involved in foreign activities.

**Compliance Services.** Striving to increase our examination coverage and improve the compliance rate of individual taxpayers and small business and self-employed taxpayers. Implementing a balanced compliance program and targeted education efforts to increase voluntary compliance. Combating formation, use, and impact of abusive tax non-compliance. Developing regular and up-to-date measures of overall compliance and compliance by major customer sectors.

**Human Resource Issues.** Recruiting, developing, and maintaining a highly qualified and skilled workforce. Promoting employee satisfaction by improving practices that maintain a quality workforce. Ensuring health, safety, and security of facilities and employees.

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**Technology in Support of Business Operations.** Continuing to improve our technology to provide a level of service to taxpayers consistent with today's standards for a finance-oriented, public service institution.

**Shared Services in Support of Business Operations.** Continuing to improve personnel and payroll processing systems and services. Ensuring health, safety, and security of facilities and employees.

### **III. Relationship Between the Strategic Plan and the Annual Performance Plan**

The tax administration function is large and complex. The IRS developed goals and strategies to address these complex functions and performance goals to address our progress on our goals and toward achievement of the IRS mission. The table on the following page depicts how all of our Performance Goals support and address our three strategic goals that in turn support four of the Treasury Strategic Goals.

Treasury Strategic Plan	IRS Strategic Goal	IRS Performance Goals
<p><b><u>Financial Mission:</u></b></p> <p><u>Goal (1 of 4):</u> Collect revenue due to the Federal Government</p> <p><u>Objectives (2 of 3):</u></p> <p><i>Improve and simplify tax laws</i></p> <p><i>Increase compliance</i></p> <p><b><u>Management Mission:</u></b></p> <p><u>Goal:</u> Support the Achievement of Business Results</p> <p><u>Goal:</u> Improve Customer Satisfaction</p> <p><u>Goal:</u> Improve Employee Satisfaction</p>	Service to Each Taxpayer	Provide taxpayers with greater access to assistance before they file their tax return.
		Improve the quality of the service provided to taxpayers in filing their tax returns.
		Identify and correct all substantive errors in the filing of tax returns, reporting of income, and payment of taxes.
		Provide the logistical services required by IRS activities to administer the nation's tax laws.
	Service to All Taxpayers	Provide effective leadership and direction in the administration of the nation's tax laws.
		Perform strategic and tactical research to anticipate and identify compliance and tax administration problems.
	Productivity through a Quality Work Environment	Expand customer service and enforcement activities to reduce erroneous filings associated with the EITC.
		Develop and implement systems projects that respond to the specific requirements of one or more of the taxpayers groups served by the IRS Operating Divisions.
		Provide the information systems services required by IRS activities to effectively administer the nation's tax law.
		Manage the resources associated with non-labor costs that support capital asset acquisitions of information technology systems.

Treasury has 4 missions (Economic, Financial, Law Enforcement, and Management), 14 goals, and 40 objectives. The above table originally appeared in the *FY 2003 IRS Annual Performance Plan*. It depicts how IRS' ten Performance Goals support and address its three Strategic Goals, and how these goals support Treasury's Strategic Goals.

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## II. Program Activities

### PRE-FILING TAXPAYER ASSISTANCE AND EDUCATION

**Performance Goal:** *The IRS will provide taxpayers with greater access to information, assistance and support before they file their tax return.* – IRS is taking action to promote taxpayer education, improve outreach education efforts and expand partnerships with key stakeholders. The IRS is offering enhanced electronic services including the IRS website, electronic filing, and electronic payments. The IRS is working to have more effective pre-filing guidance and to reduce tax law complexity.

FY 2004

IRS will continue to expand and improve programs that focus pre-filing efforts on reducing taxpayer burden and increasing tax compliance. Integrated information management systems will be refined to support partnerships with key stakeholders, development and delivery of educational materials, management metrics, and the assessment of results. Expansion of education and targeted partner- and compliance-oriented outreach programs will increase the value of national and local customer education, support, and service delivery. IRS will expand automated electronic and web-based systems to provide taxpayers and partners with 24-hour access to a greater array of products and services, training, volunteer guides, and self-help frequently asked questions. Research will focus on customizing marketing tools to better address needs of taxpayer target segments.

IRS will continue efforts to combat non-compliance and fraud through outreach and partnership programs. EITC law education will be provided to partners and return preparers to promote compliance and discourage fraudulent claims. Tax forms, publications, and other documents will continue to be clarified and simplified. Electronic document repositories will be expanded and the development of a multilingual centralized database will be completed. The availability and accessibility of electronic products will be enhanced for all customers. A new 1040 e-filing system will be developed. Department of Treasury, IRS, and tax industry representatives will work together to offer free online tax preparation and filing to a significant portion of individual taxpayers. Expanded electronic tax products for businesses will reduce burden and improve IRS operational efficiency and effectiveness.

FY 2003

Pre-filing services provide taxpayers with the information, assistance, and support they need to understand and fulfill their tax obligations before they file their tax returns. Pre-filing services attempt to reduce taxpayer burden and increase tax compliance by making it easier for taxpayers to understand and comply with their tax responsibilities. Partnerships will be enhanced and expanded through programs that build relationships with organizations and groups actively involved in tax administration and that regularly interact with taxpayers. Volunteers will be trained and equipped

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to assist taxpayers in meeting their annual tax filing requirements. Internal Revenue Service FY 2004 Proposed Performance Plan and FY 2003 Final Plan Education outreach programs will focus on providing products and services tailored to the needs of specific taxpayers, using more convenient, easy-to-use distribution channels.

The IRS public web site (www.irs.gov) will be enhanced with registered user capability, electronic transcripts, and greater information availability. Multilingual services, including development of a multilingual document database, will be implemented to reduce burden on taxpayers with limited English proficiency. Reducing taxpayer burden is a key priority at IRS. Publications and documents will be clarified and simplified. Incentives and promotion for electronic filing of tax returns and other documents will be expanded in efforts such as the Self-Select PIN program and Internet Employee Identification Numbers. All efforts will be designed to maximize customer satisfaction and enhance service delivery. IRS will use an integrated research and customer feedback strategy to identify customer segments, values, and needs. Gaps in taxpayer understanding of tax law and emerging compliance issues and trends will be addressed. Balanced measures will be implemented and results baselined to identify taxpayer issues, filing patterns, and emerging needs.

### Resource Summary

	FY 2001	FY 2002	FY 2003	FY 2004
<b>Budget Authority (\$000s)</b>	\$570,401	\$581,465	\$628,440	\$646,500
<b>Direct FTE</b>	3,280	3,724	4,061	4,065

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**Program Performance Annual Performance Goals, Measures, Indicators, and Informational Table**

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
1. Number of taxpayers assisted (direct)	4,662,935	3,693,309	3,817,000	19,772,101	7,000,000	6,000,000
2. EP/EO determination letters	109,461	109,326	190,800	129,680	189,000	128,000
3. APAs and Negotiated Positions	N/A	N/A	104	176	140	160
4. Number of taxpayers assisted (indirect)	N/A	N/A	13,400,000	100,602,546 <sup>1</sup>	17,000,000	23,000,000
5. Education and outreach staff-years	1,099	1,105	1,457	1,415	1,600	1,700
6. Total published guidance items published	N/A	249	N/A	367	330	400

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<sup>1</sup> FY2002 count includes media contacts.

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## FILING AND ACCOUNT SERVICES

**Performance Goal:** *Improve the quality of the service provided to taxpayers in filing their tax returns.* – The IRS is modernizing its work processes and expanding its partnership with individuals and organizations by providing help filing returns, increasing electronic filing options, ensuring that notices and letters are more understandable, expanding our assistance into different languages, and paying refunds faster.

FY 2004

IRS will continue its efforts to improve delivery, access, and customer satisfaction in processing tax returns and answering inquiries. E-filing options will increase as additional electronic forms are offered. In addition, as the growth in electronic filing achieves the projected goals, fewer return processing sites will be needed. As a result, IRS will close the Brookhaven Submission Processing site. Taxpayer communication will be enhanced by the ability to submit questions on IRS' public web site ([www.irs.gov](http://www.irs.gov)) and by online access to filing and refund status information. Overall taxpayer services and delivery locations will continue to be expanded. Taxpayer assistance will be enhanced by the Electronic Research System, which provides high-level search capabilities that will improve response time and quality to customers. The Remittance Transaction Research system will improve the accuracy of payment posting and will assist in the resolution of missing or misapplied payments. Toll-free telephone support via live assistants and automated systems will continue, as will the expansion of service delivery locations begun in FY 2003. The Queuing Management System will be fully implemented, reducing paperwork and increasing employee efficiency. Embedded quality scores will enable IRS to better measure and improve service quality, and efforts to increase and enhance customer support and accuracy will continue.

FY 2003

IRS will focus on accurate and timely processing of tax returns and payments along with electronic filing, payment of taxes, and information access. IRS will expand e-file options by offering new electronic forms and increasing credit card, phone and direct debit payment options. Online information delivery will speed access to correspondence for more efficient account management and case resolution and enable greater public and practitioner access to information. Overall service delivery locations will be increased, and the use of mobile units, alternative sites, and kiosks will be expanded. Taxpayers with limited English language proficiency will be provided with products and services to assist them in meeting their tax obligations.

IRS will differentiate business and individual returns to provide more specialized service to taxpayers. IRS' ten Submission Processing centers will continue to transition to eight individual tax return sites and two business tax return sites. Teletax automated toll-free telephone service will provide taxpayers with service 24 hours a day. Additional modifications to the intelligent call routing system will enable calls to go to sites dedicated to

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specific types of work, as well as to specialized Customer Service Representatives. The online Electronic Account Resolution system will allow IRS to better serve the needs of the taxpayer practitioner community. The Internal Revenue Service will continually strive towards quality in its focus on improving taxpayer access levels and customer satisfaction. Enhanced tools and training will allow Customer Service Representatives to better assist taxpayers. Networking will begin on the Queuing Management System, which will reduce paperwork and increase employee efficiency. Quality review systems will be implemented to measure accuracy, professionalism, and timeliness levels in IRS service delivery.

### Resource Summary

	FY 2001	FY 2002	FY 2003	FY 2004
<b>Budget Authority (\$000s)</b>	\$1,598,832	\$1,578,477	\$1,612,326	\$1,656,745
<b>Direct FTE</b>	31,140	32,039	31,137	30,543



**Program Performance Annual Performance Goals, Measures, Indicators, and Informational Table**

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
7. Individual 1040 returns (paper) (thousands)	92,319	90,586	86,000	84,740	79,000	75,000
8. Business returns (paper) (thousands)	36,690	33,883	34,080	37,126	34,000	33,000
9. Individual 1040 returns (electronic) (thousands)	35,365	40,222	46,000	46,785	54,000	60,000
10. Total primary electronic returns (thousands)	38,585	46,483	52,251	53,026	61,000	67,600
11. Total primary returns filed (thousands)	167,594	170,952	172,331	174,892	174,000	175,600
12. Percent of individual returns filed electronically	28%	31%	35%	36%	41%	44%
13. Information returns filed electronically (thousands)	219,739	330,239	474,700	376,063	TBD	TBD
14. Information returns filed electronically (%)	17%	22%	34%	26%	TBD	TBD
15. IRS Digital Daily hits (billions)	1.56	2.60	3.00	3.11	4.00	4.70
16. Customer account correspondence	16,749,967	19,184,321	18,386,660	22,525,594	22,600,000	23,200,000
17. Teletax and toll-free automated calls (thousands)	49,700	76,117	75,000	63,796	50,000	50,000
18. Assistor calls answered (thousands)	32,300	32,091	33,750	30,525	33,700	35,000
19. Toll-free customer satisfaction (% satisfied)	58%	59%	N/A	56%	56%	57%
(% dissatisfied)	2%	2%	N/A	2%	2%	2%
20. Toll-free level of service	59.0%	56.4%	71.5%	68.0%	72.0%	73.0%
21. Toll-free tax law quality	73%	76%	78%	81%	86% <sup>2</sup>	88% <sup>2</sup>
22. Toll-free account quality	60%	70%	72%	74%	77%	TBD

<sup>2</sup> Represents W&I performance. Previous years include SB/SE performance.

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
23. Customer satisfaction (walk-in) (% satisfied)	91%	90%	N/A	86%	88%	88%
(% dissatisfied)	6%	6%	N/A	8%	7%	7%
24. Total returns prepared	1,092,691	1,009,390	984,000	886,797	737,000	589,000
25. Payment received electronically (thousands)	63,380	64,366	67,438	66,029	66,200	67,100
26. IRS Digital Daily downloads (millions)	149	317	473	438	496	579
27. Tax law contacts	N/A	1,787,338	N/A	1,843,000	1,900,000	2,000,000
28. Customer accounts correspondence quality	78%	79%	85%	75%	79%	TBD
29. Accounts contacts	N/A	3,000,000 <sup>3</sup>	N/A	3,110,000	3,300,000	3,600,000
30. Toll-free tax law accuracy	N/A	N/A	N/A	N/A	87%	89%
31. Toll-free accounts accuracy	N/A	N/A	N/A	N/A	91%	93%

<sup>3</sup> Estimate.

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## COMPLIANCE SERVICES

**Performance Goal:** *Identify and correct all substantive errors in filed tax returns, reporting of income, and payment of taxes.* – The IRS will emphasize improving compliance through better and more targeted taxpayer education, better reporting, voluntary agreements, improved regulations, earlier intervention, and reducing the length of the appeals process. The IRS will stabilize the level of enforcement activity and take proper action in each case.

FY 2004

Achieving a balanced level of compliance and enforcement will be a major focus for the IRS in 2004. The overall direction will be the re-assignment of resources from lower income individuals and lower asset corporate entities to higher income individuals and larger asset corporate entities. In addition, resources will be applied to areas of critical compliance risks such as abusive tax avoidance transactions, electronic crimes, refund and preparer fraud, non-filers, noncompliance with employment tax laws, flow-through entities, offshore trusts and international and domestic terrorism. Additionally, resources will be used to identify and implement alternative treatments that positively impact compliance.

### Filing Compliance

Filing compliance initiatives in process during FY 03 will continue to be developed and enhanced during FY 04. The non-filer strategy, partnering service-wide compliance areas with Criminal Investigation, will identify new methods and efficiencies to encourage voluntary compliance and reduce taxpayer burden. Traditional compliance techniques, tailored to the high-risk taxpayers, will be utilized for those taxpayers that do not respond to voluntary compliance overtures.

### Payment Compliance

The IRS continues to perfect case selection criteria and case building techniques through the Collection and Examination Re-engineering projects. The goal is to deliver an inventory of higher yield cases for further compliance activity. In an effort to reduce non-compliance in the area of employment tax withholding, the improved Federal Tax Deposit Alert model was tested in FY 03. This model should provide advance knowledge of pyramiding of employment taxes and will allow the IRS to develop better techniques to respond in timely and effective manner. For those taxpayers who are unable to pay their tax liabilities in full, the Automated Offer-in-Compromise program will continue to expand and will enhance customer service while reducing the need for field Offer-in-Compromise staff. These resources can be re-directed to payment compliance efforts that address those situations where the taxpayer chooses not to pay. We will continue efforts to lessen the growth of accounts receivable (A/R) through process improvements, research and analysis of A/R trends. In this regard, payment compliance has a strategic measure component known as the Potentially Collectible Inventory (PCI). PCI quantifies the portion of the A/R portfolio that will actually be collected or is potentially collectible. Finally, the Budget proposes legislation to allow IRS to supplement its collection staff with private collection agents. These contractors will be paid from receipts. This initiative will help ensure fair tax compliance, and will begin in the fourth quarter of FY 04.

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### Reporting Compliance

Reporting compliance efforts will continue to migrate to higher income and asset cases and abusive/frivolous filing of returns and claims. Tax scheme promoters will be identified with examination and enforcement efforts appropriately focused to address those schemes. The Automated Under Reporter program will continue to be utilized to address compliance on individual returns. Research in other areas, including additional work in examination, re-engineering, e-commerce, and tax-reporting studies, will continue to help us effectively allocate resources in the future.

FY 2003

IRS Compliance Services provides resources to support services to taxpayers after a return is filed, to identify and correct possible errors or underpayment. Filing Compliance focuses IRS efforts to maximize the percentage of returns that are timely filed. Payment Compliance activities are centered on assisting taxpayers owing additional taxes through the fair and uniform application of the law. Reporting Compliance encourages tax return accuracy through programs that determine taxpayer's correct income levels and corresponding tax liabilities.

### Filing Compliance

Business units will work together to develop and implement a cross-functional nonfiler strategy, and will profile segments of the nonfiler population. Compliance-related entities will convert the current Nonfiler Master File Odyssey Program application into a national application in order to match current state employment tax data with federal nonfiler tax information.

### Payment Compliance

The IRS will continue to impact and deter the growth of accounts receivable through re-engineering efforts and process improvements. The IRS will also perform root cause analysis to determine accounts receivable trends. IRS business units will continue to upgrade payment compliance-related systems and equipment in an effort to improve workplace efficiency. The maturation of our Centralized Offer In Compromise program will allow experienced field collection personnel to return to more traditional duties.

### Reporting Compliance

The IRS will focus resources on expanding the high-income and unreported-income programs (UIDIF). In this regard, the IRS will redirect audit programs to include Schedule K-1 taxpayers and other taxpayers with incomes over \$100K. Compliance-related entities will continue to fully participate in the National Research Program. The IRS will profile Internet promoters of abusive tax avoidance transactions. We will also address promoters and participants of offshore abusive tax avoidance transactions or trusts and we will research offshore credit card holder information. The IRS will continue to fulfill the vision of the Examination Re-engineering project helping to identify non-compliance electronically and to automate routine examination processes. Limited Issue Focused Examinations, which concentrate examination resources on selected issues versus traditional issues, will better serve the taxpayer and the government in measuring reporting compliance.

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**Resource Summary**

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Budget Authority (\$000s)</b>	\$3,561,147	\$3,476,217	\$3,638,924	\$3,883,544
<b>Direct FTE</b>	44,852	44,331	44,646	45,776

**Program Performance Annual Performance Goals, Measures, Indicators, and Informational Table**

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
32. Telephone customer satisfaction (ACS) (% satisfied)	54%	56%	N/A	53%	45%	48%
(% dissatisfied)	2%	2%	N/A	3%	7%	6%
33. ACS closures – Taxpayer delinquent accounts	1,052,221	1,006,600	1,012,628	950,696	1,050,000	1,138,000
34. ACS closures – Taxpayer delinquent investigations	412,150	297,791	317,906	190,411	202,000	220,500
35. Automated collection system (ACS) level of service	79%	78%	80%	69%	74%	80%
36. Customer satisfaction – collection field (% satisfied)	47%	53%	N/A	51%	50%	51%
(% dissatisfied)	29%	22%	N/A	23%	15%	14%
37. Field collection – number of cases closed (TDA)	771,455	757,392	804,085	724,430	714,000	769,000
38. Field collection – number of cases closed (TDI)	144,764	119,451	107,119	140,737	113,000	122,000
39. Field collection quality	84%	84%	85%	84%	87%	89%
40. Offers in compromised processed	69,514	97,013	185,000	110,205	124,000 <sup>4</sup>	125,000
41. Automated underreporter cases	2,888,900	2,511,424	2,879,980	2,922,182	2,900,000	3,100,000
42. Automated underreporter quality	93%	95%	97%	95%	95%	TBD
43. Correspondence examination customer satisfaction (% satisfied)	34%	34%	N/A	33%	33%	34%
(% dissatisfied)	38%	30%	N/A	41%	35%	33%
44. Correspondence returns examined (EITC)	N/A	479,983	N/A	367,799	349,000	364,000
(non-EITC)	N/A	146,621	N/A	177,447	246,000	227,000

<sup>4</sup> Due to typographical error, the FY2003 OIC target is incorrectly shown as 100,000 closures in the President's Budget.

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
45. Correspondence examination quality	70%	71%	74%	71%	73%	TBD
46. Field exam customer satisfaction (% satisfied)	44%	47%	N/A	47%	52%	53%
(% dissatisfied)	29%	26%	N/A	27%	17%	17%
47. Individual return examinations (> \$100,000)	N/A	55,761 <sup>5</sup>	N/A	64,911	62,000	82,000
48. Individual return examinations (< \$100,000)	N/A	146,790 <sup>5</sup>	N/A	140,350	121,000	148,000
49. Field exam quality (SB/SE) (Office)	58%	70%	73%	74%	73%	74%
(Field)	58%	70%	71%	71%	76%	78%
50. Field exam quality (LMSB) (industry cases)	N/A	70% <sup>5</sup>	N/A	69%	75%	77%
(coordinated industry cases)	N/A	80% <sup>5</sup>	N/A	78%	85%	85%
51. Business returns examined	N/A	23,163	N/A	21,159	18,000	18,000
52. Corporate cases examined (large case)	369	417	566	528	486	486
53. Number of returns closed (large case)	3,578	3,734	3,453	4,851	4,100	4,100
54. EP & EO exam customer satisfaction (% satisfied)	67%	68%	N/A	70%	71%	71%
(% dissatisfied)	11%	10%	N/A	8%	7%	7%
55. EP / EO examinations closed	19,080	15,988	11,900	13,549	15,000	20,400
56. EP / EP examination quality	83%	73%	81%	75%	79%	82%
57. Innocent spouse determinations made & claimant notified	55,698	61,011	65,000	60,730	52,000	51,000
58. Appeals cases closed (disposals)	54,986	54,748	67,560	68,015	77,000	77,000
59. Criminal investigations completed	3,499	3,340	3,280	3,201	3,250	3,400

<sup>5</sup> Official computation of measure began in 2003.

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
60. Total Tax Court cases (beginning inventory & receipts)	35,962	31,883	34,100	36,141	30,000	31,000
61. Taxpayer Advocate closure to receipt ratio	N/A	97.6% <sup>6</sup>	N/A	108%	105%	105%
62. Taxpayer Advocate casework quality index	65%	72%	80%	78.5%	90%	90%
63. Total enforcement revenue (billions)	\$33.8	\$33.8	\$34.8	\$34.1	\$33.9	\$34.5
64. Agency-wide employee satisfaction	59%	51%	54%	55%	58%	62%
65. Servicewide FTE (including EITC)	97,074	97,938	99,901	99,181	99,155	100,043
66. Individual return examinations	N/A	202,551	N/A	205,261	183,000	230,000
67. Number of Tax Court receipts	13,478	14,766	13,500	17,371	18,000	18,500
68. Taxpayer contact FTE positions (with EITC)	65,415	65,730	68,306	68,243	67,534	69,290
69. FTE positions per billion dollars of real GDP	10.57	10.26	10.11	10.17	9.98	TBD

<sup>6</sup> Official computation of measure began in 2003.



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## RESEARCH AND STATISTICS OF INCOME

**Performance Goal:** *Perform strategic and tactical research to anticipate and identify compliance and tax administration problems.* – The IRS will collect and tabulate data with respect to individuals, corporations, partnerships, sole proprietorships, estates, nonprofit organizations and trusts. Approaches to measuring taxpayer compliance are being explored and developed.

### FY 2004

IRS will enhance analytical capabilities to address strategic goals through more efficient issue identification, risk management, workload selection, and resource allocation. Studies will continue to focus on abusive schemes, e-commerce, non-filers / underreporters, and electronic filing and paying. Efforts to create infrastructure and practices for developing, sharing, and maintaining institutional knowledge and data will continue.

Efforts will be aimed at not only measuring and improving compliance, but also enhancing customer service. Through partnerships and behavioral research, IRS will identify taxpayer needs and develop services and outreach programs to help taxpayers better understand and fulfill their tax responsibilities. Improved electronic data-capturing techniques will be adopted to more efficiently process and compile statistics of income and compliance. Balanced measure studies will be undertaken to enhance customer satisfaction and service delivery at all levels. Better understanding of the drivers affecting taxpayer burden will remain a key initiative.

The ultimate goal of all studies is to reduce taxpayer burden, increase overall compliance, and improve customer and employee satisfaction. Research that helps IRS better understand taxpayer knowledge and compliance trends will ensure accurate and fair service to all and better focus education, outreach, and partnership efforts.

### FY 2003

The IRS research community will conduct studies and develop models to support improved tax administration. Research provides analytical, statistical, and technology services that enable IRS to develop, implement, and improve critical strategies, programs, and processes. Customer-driven studies cover all areas of IRS, including compliance risks, globalization, e-filing, abusive tax avoidance transactions, and human capital.

IRS will create infrastructure and practices for creating, sharing, maintaining, and storing institutional knowledge and data. The Tax Administration Toolkit / Internal Revenue Manual Knowledge Base will provide a comprehensive source of IRS administrative policies and procedures as well as tax law research. Data capture and document imaging will be expanded to increase the efficiency of statistical research. Project scheduling software will be implemented to enhance research planning, timeliness, and quality.

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**Resource Summary**

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Budget Authority (\$000s)</b>	\$87,291	\$80,951	\$90,147	\$93,097
<b>Direct FTE</b>	831	843	885	880

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## INFORMATION SERVICES

**Performance Goal:** *Provide the information systems services required by IRS activities to effectively administer the nation's tax laws.*  
– The IRS is consolidating notice printing and mid-range computers, and developing and managing telecommunication services. To keep reasonable pace with industry software advances, IRS will replace a portion of its desktop/laptop inventory annually. In addition, the IRS will perform ongoing maintenance of hardware, software, virus detection, and other standard commercial applications.

### FY 2004

Information Services accounts for approximately 80% of the entire Modernization Information Technology and Security (MITS) Services budget and as such incorporates all major automation and information technology efforts in support of tax administration and internal management. This budget activity encompasses daily operations and maintenance, security, development and improvement of management processes (governance, program management, risk management, configuration management), and leadership aspects including human resources, investment portfolio management and budget planning and management.

In FY 2004, the focus of activities in this area will be on transitioning modernized deliveries first to support, and then to operations and maintenance while maintaining and enhancing the supporting infrastructure and continuing the delivery of successful filing seasons. IRS will provide increases of 49% in mainframe and 150% in installed midrange server capacity, almost 100% in data network bandwidth use, 50% in the number of voice message boxes, 50% in public web site use, and 25% in the number of e-mail messages.

During FY 2004, the heavy lifting of actually transitioning modernized systems into support and operations and maintenance is planned. The release plan calls for eight major project releases in FY 2004: CADE Rel 2, CAP Rel 1, e-Services Rel 2.0, HR Connect Rel 1 & 2, IFS Rel 1, and Modernized e-File Rel 1 & 2. This involves significant risk management, program management, training, hiring, resource balancing, and new hardware, software and telecommunications infrastructure within the IRS. Efforts will support ongoing operations of the IRS including telephones, toll free services, e-mail messaging, voice messaging, workstations, desktop software, application software for tax administration and internal management, and computer center operations.

Based on past experience, IRS will have approximately 350 active development projects (both sustaining operations and improvement projects) during FY 2003 and FY 2004 in addition to a steady increase in the number of modernization initiatives. In FY2004, daily transactions processed will increase 12%, the number of telephones serviced will increase 2%, and end user services to IRS employees will remain constant. The new Business Integration Office will develop an Executive Communications Plan and Program, and deliver an updated Program Architecture for common business processes and commercial off the shelf use.

IRS will continue to focus on identifying and implementing operational efficiencies and discontinuing less productive work to free resources to re-

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invest in our highest priority programs. IRS plans to recognize savings by significantly reducing contractor costs, implementing changes in the organization, deploying new infrastructure and effecting program improvements. Through these efforts, we have identified \$19.5 million in savings in FY 2004 that will be reapplied to higher priority work. We also identified an additional \$150 million of work that will be discontinued or not undertaken. Savings will be reallocated to support business priorities including expanding the Virtual Private Network Service for Revenue Agents at taxpayer sites.

Funds will also be used to provide software licensing/maintenance renewal for the Tier A Customer Relationship Management Exam BNA software that becomes an operational expense in that year. IRS will continue replacement of aged e-mail servers and file/print servers delayed from FY 2003.

The Human Resources (HR) Connect project will leverage Treasury's department-wide human resources modernization efforts to provide a state-of-the-art human resources management system. It will improve HR administration by providing a single, centralized repository of such data. It will allow staff self-service access and limited update capabilities to employee data, thereby reducing HR resource requirements, and will facilitate accurate financial data by centralizing all HR information into one database. HR Connect R1 (Pilot) will deploy a fully integrated human resources system. Release 1 will replace Position Management, Recruitment, and Personnel Action Requests (PAR) with an enterprise resource planning Commercial Off the Shelf (COTS) package for better integration and efficiency. It will also provide two new features: Employee Self-Service and Manager Self-Service. Release 2 will implement software upgrades and expand human resources management capabilities to include external recruitment.

#### FY 2003

In FY 2003, IRS will focus on perfecting the rigorous re-balancing of resources, priorities, and projects to meet business priorities commenced in FY 2002. IRS will continue to perform an expanded level of compliance reviews, sensitive systems certifications, and other mission assurance activities.

Transition to support and operations and maintenance address preparedness and acceptance of modernized systems into IRS. At present, a rough order of magnitude estimate of the total cost of this activity ranges from \$85 to \$150 million. Activities in this area for FY 2003 will be dominated by planning; increasing our understanding of the work of transitioning, refining schedules, timing and cost estimates; and piloting operations approaches and processes on those modernized system deployments in FY 2003. The release plan calls for five project releases in FY 2003.

Recognizing the need for closer coordination and integration with the business customers of modernization, BSMO created the Business Integration Office in mid- FY 2002, headed by a Deputy Associate Commissioner. In FY 2003 the Business Integration Office will stand up as a small organization, become established and build some key relationships. While it will never be a large organization, it is expected to expand in step with the Business Systems Modernization (BSM) program as BSM grows and becomes increasingly complex.

**Resource Summary**

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Budget Authority (\$000s)</b>	\$1,584,682	\$1,530,888	\$1,582,579	\$1,620,174
<b>Direct FTE</b>	7,441	7,674	8,025	7,986

**Program Performance Annual Performance Goals, Measures, Indicators, and Informational Table**

<b>Performance Measures</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>		<b>FY 2003</b>	<b>FY 2004</b>
	<b>Performance</b>	<b>Performance</b>	<b>Target</b>	<b>Performance</b>	<b>Target</b>	<b>Proposed</b>
70. Ticket Activity - Open	N/A	N/A	N/A	656,000	660,000	720,000
71. Ticket Activity – Closed	N/A	N/A	N/A	649,000	660,000	720,000
72. Percent Resolution at First Contact	N/A	N/A	N/A	47%	60%	70%
73. Percent Resolved on Time	N/A	N/A	N/A	71%	80%	85%
74. Mean Queue Time (minutes)	N/A	N/A	N/A	1	1	1

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## INFORMATION SYSTEMS IMPROVEMENT PROJECTS

**Performance Goal:** *Develop and implement systems projects that respond to the specific requirements of one or more of the taxpayer groups served by IRS Operating Divisions.* – The IRS will improve its financial and administrative systems, ensure the security, privacy and reliability of its Information Technology (IT) infrastructure, and standardize and expand the range of services to taxpayers and Service employees.

FY 2003 / FY 2004

The Tier B program funds near-term improvement or enhancement projects that modify/enhance existing systems or processes; provide limited change in functionality; provide a bridge between current and Modernization architecture; and provide new capabilities to fill missing functional gaps in the modernized enterprise architecture. These are small to medium projects. And, although these projects are owned by a single IRS Business Unit, they may provide capability and functionality that serve multiple Business Units.

### Treasury Performance Budgeting Application Criteria Addressed

**Timeliness/Urgency** – The information systems activities funded are required to maximize the effectiveness and efficiency of the modernized IRS business structure.

**Ties to IRS Core Mission** – This activity directly supports the core mission of the IRS by supporting the information needs of the IRS Business Units in most mission areas, including submissions, compliance, filing and payment and internal management.

### Performance Measure(s) Proposed for Improvement

IRS is requesting \$49.87 million to provide quality systems that will deliver the business vision of the IRS by continuing to support current near-term and new Tier B projects that require funding in FY 2004. Tier B projects were considered with an overall enterprise view of agency-wide IT investments, as well as with a view of maintaining a strong linkage with the modernization initiatives and compliance with the Enterprise Architecture (EA).

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The EA describes the long-term business functionality to be provided by the Tier A or BSM program. The Release Architecture (RA) is the actual business functionality delivered, deployed and transitioned to operations and maintenance over time by the Tier A program. In this context, an excellent characterization of the purpose and expected accomplishments of the Tier B program is to fill the gap between the functional requirements of the EA and the delivered functionality of the RA. That is, the Tier B program provides “stay-in-business” functionality to the business while they wait for Tier A Modernization. In addition to providing this “gap functionality,” the Tier B program also provides missing functionality from the Tier A program (i.e., some internal management functions for some functional divisions and shared services divisions).

Because of this “filling the gap” role of the Tier B program, it is important that the Tier B projects are not only compliant with the Enterprise Architecture (one of the six criteria for ranking and selecting Tier B projects), but they are managed in an integrated manner with the Tier A program. Integrated planning prioritization and management within MITS ensures programmatic links among the Tier A, B and C projects. Specifically, the Tier B projects are implemented using Enterprise Life Cycle (ELC)-lite, an abbreviated version of the Tier A ELC. And, selected Tier B projects (termed Strategic Tier B) are subject to the Sub-Executive Steering Committee governance processes of the

Tier A or BSM program. The recent successful transfer of two Tier B projects, 1120/1120S e-File and 990 e-File, to the Tier A Modernized e-Services project serves as evidence of this tight linkage.

With an increasing business demand for Tier B projects, the prioritization and selection methodology and process are critical. This process utilizes the Business Systems Planner/Division Information Officer (BSP/DIO) Council to review all Tier B projects (a five-day exercise) against a set of five criteria, rank the projects based on their total scores in the five criteria, and then these projects are presented to the IRS Senior Management Team (SMT) or its surrogate Enterprise Architecture Integration Council (EAIC) for approval.

We took steps in FY 2002 to further improve the implementation of a comprehensive investment management framework for managing our Tier B investment portfolio. This framework (*Select, Control, Evaluate*) is based on the investment management process being applied across government agencies, and supports the formulation, management, and maintenance of IT investments. This process is key to ensuring that the investment portfolio adequately addresses our business strategies.

In addition, we conducted the first FY 2003/2004 integrated prioritization session with an enterprise perspective. This meant that Tier B Improvement initiatives took into account the relative dependencies and impacts from Tier A Modernization initiatives and Tier C

Improvement initiatives, as well as gaining an understanding of IT platform infrastructure initiatives in regards to Tiers I (mainframes), II (servers), III (desktops), and IV (telecommunications).

As part of the prioritization session, the BSP/DIO Council participated in an Equity Session to screen, brief and score existing and proposed Tier B projects, and considered other Tier initiatives for corresponding impacts. During the prioritization session, the BSPs and DIOs screened the IT project proposals, focusing on business value mission, impact, criticality, probability of success, and Tier A implications/dependencies. Projects were recommended for inclusion in the portfolio based on their business value and business unit priority, and this resulted in a ranked list of projects.

The selected projects will follow a tailored Enterprise Life Cycle (ELC) process and the Resources Allocation and Measurement division will monitor and control these IT investments to minimize the likelihood of project failure, excessive cost, and schedule over runs.

The following are the approved Tier B projects in the FY 2004 investment portfolio that total to the requested \$49.9Million, along with their general project descriptions. More detailed descriptions can be found in Exhibit 53 of the Information Technology Investment Portfolio Systems (I-TIPS) database. Only one project was considered a major project (Enterprise E-Learning Strategy) and was submitted via an Exhibit 300.

<b>PAC 3B–Tier B Improvement Projects FY 2004</b>		
<b>Business Unit</b>	<b>Project</b>	<b>Description</b>
SBSE	Collection Strategy \$ 0.09M	Prioritize collection cases that will allow productive cases to be worked at an earlier time, increasing the taxpayer’s opportunity to satisfy his/her tax liability before excessive penalties and interest accumulate.
LMSB	Issue Management System (IMS) \$ 0.45M	An issue based tracking system that captures examination progress and results. Information to be captured includes examination planning data, audit results and timekeeping data. A key feature will be the ability to work on-line (connected to a data repository) or off-line (data is stored on the local computer for transfer to the data repository later).



**PAC 3B–Tier B Improvement Projects  
FY 2004**

<b>Business Unit</b>	<b>Project</b>	<b>Description</b>
W&I	Queuing Management System  \$ 3.39M	An on-line system available at selected major taxpayer assistance centers to facilitate workload and resource distribution by screening and categorizing taxpayer needs at the point of registration.
LMSB	RGS Enhancement System  \$ 3.50M	Establish an automated tool that allows 25,000 users in all operating divisions of IRS to create cases for audit through user input of taxpayer data or through the automatic download of taxpayer data from Returns Transaction File; maintain administrative case files; preplan examinations; create work papers; request taxpayer information; compute tax, penalties and interest; generate audit adjustments, forms and letters to the taxpayer; and maintain an inventory of cases.
LMSB	Issue Based Management Information System  \$ 3.55M	Establishes a Web-based centralized system for managing case information for tracking, planning, and reporting purposes. This provides Team Managers, Territory Managers, and Executives a centralized, online management information reporting system for Coordinated Industry Cases, Industry Cases, International Cases, and Specialist. In addition, it will allow managers the ability to report on case activity; monitor examination plans and Specialist measures and activity; and, capture vital statistics for their area of responsibility.
SHR	Enterprise E-Learning Strategy  \$ 2.95M	Business strategy that leverages technology to deliver competency-based learning to ODs/FDs online, using standard interfaces, content repositories, and a learning administration system. Outcomes include increased productivity, increased direct time spent on compliance, customer service, and other mission critical work; increased access to learning for all employees.
W&I	Desktop Integration (Common Desktop)  \$ 1.80M	Desktop Integration will provide access to various Compliance systems (e.g. ICS and RGS) from a common Integrated Case Processing (ICP) interface. It will allow end-users to capture, manage and respond to all taxpayer inquiries or follow-up activity using a single system. In addition, it will further improve “one-stop” service by reducing the length of time spent on responding to taxpayer inquiries and increasing the number of taxpayers serviced.

**PAC 3B–Tier B Improvement Projects  
FY 2004**

<b>Business Unit</b>	<b>Project</b>	<b>Description</b>
W&I	Management Information System (MIS) for SPEC  \$ 0.90M	Reduces the cost expended with use of the current system. Allows management real time monitoring of program results, providing the ability to take timely corrective action.
TAS	Taxpayer Advocate Service Management Information and Control Systems (TAMIS)(Taxpayer Advocate MIS Case Assignment)  \$ 0.89M	TAMIS provides a database that tracks the status and progress of taxpayer cases that meet Taxpayer Advocate Service criteria as mandated by Congress in the Restructuring and Reform Act of 1998 (RRA98). The TAMIS system is mission critical for: the receipt, control, processing and analysis of TAS criteria cases; the recordation and analysis of all Congressional cases, tax and non-tax related; the control of all taxpayer cases resulting from Problem Solving Day events; and taxpayer issues/concerns addressed to and forwarded from the Senate Finance Committee. The data is used in required reports to Congress and Treasury, to analyze Service processes, practices and policies as well as existing tax laws with a view to changing and/or improving them if they appear burdensome or inequitable for taxpayers. Many sources such as GAO, TIGTA, and Operations, also use the data for analysis.
W&I	Remittance Transaction Research System (RTR)  \$ 0.50M	Provides a more efficient means of researching payments. RTR will be a one-stop shop for checks, images, thus eliminating search through storage archives for source documents. Provide ability for real-time queries to a database for all MIS data resulting in improved productivity.
W&I	Correspondence Imaging  \$ 3.42M	An image-based correspondence system would enable the CSR's to work from a stored image using the same workstation they use to access IDRS. IDRS connectivity would enable management, as well as the Adjustments Control Unit, to batch, control and assign cases in a more efficient manner, thereby reducing the time it takes correspondence to reach the CSR for resolution. Once a case is closed, images of the correspondence and related case documentation can be retained online which will assist the CSR in subsequent contacts by the taxpayer.

<b>PAC 3B–Tier B Improvement Projects FY 2004</b>		
<b>Business Unit</b>	<b>Project</b>	<b>Description</b>
W&I	Media & Publishing Architecture and Publication (End-To-End Publishing)  \$ 3.60M	Streamline end-to-end business processes associated with IRS publishing and distribution. This will include procurement and integration of multiple COTS products to improve value and address document creation, document management, printing procurement, electronic publishing, order fulfillment, warehouse management and transportation management.
SBSE	Integrated Insolvency System  \$ 1.10M	This system provides for an automated proof of claim computation and an electronic claim form for filing in the court. The bankruptcy courts are imposing the requirement for electronic filing of all claims. Accurate proof of claim filing is one of the primary requirements for Insolvency. Automation will enhance that effort, and accommodate the increasing number of filings.
CFO/NHQ	Business Performance Management System  \$ 3.04M	A logical growth of IRS's efforts over the last 2 years to establish performance measures and business performance review system in response to IRS' need to measure and report on its performance, as well as to comply with the mandates of the Government Performance Review Act.
TEGE	TE/GE Reporting and Electronic Examination System (TREES)  \$ 3.40M	Consolidate end user (revenue agents & managers) examination tools to increase the accuracy and efficiency of the examination process, and enhance management information report capabilities.
CI	Criminal Investigation Management Information System (CIMIS)  \$ 2.75M	CIMIS provides the vehicle to collect, compile, and deliver accurate, real time investigative information to all levels of CI management. Much of the data is required by congressional mandates, Treasury regulations, and OMB requirements, and is relied upon heavily for preparing congressional testimony. Phase I: 10/1/2002, Phase II: 3/1/2004, Phase III: 10/1/2005
SBSE	Automated Trust Fund Recovery (ATFR)  \$ 0.98M	The Automated Trust Fund Recovery is an approved National Standard Application developed by Headquarters Office and The Mid-America Development Center in Austin, Texas. The application design divides the application into two distinct but interactive parts; the Area Office (AO) and the Compliance Center (CC). The AO portion was implemented nationwide in October 2000 and the CC Phase I is currently being piloted at the Philadelphia Campus.

<b>PAC 3B–Tier B Improvement Projects FY 2004</b>		
<b>Business Unit</b>	<b>Project</b>	<b>Description</b>
W&I	Contact Recording Project \$ 5.30M	Recording customer calls will support the Service’s quest to improve the quality of service provided to our customers by allowing employees to provide specific customer feedback based the actual events that did/did not occur on the call. It will focus the review discussions directly on the performance that actually occurred on the call. In addition, by setting sampling parameters to ensure that a random call sample is reviewed, we address a significant TIGTA concern with our current quality measurement system (CQRS). Call recording will enable us to more efficiently and effectively review telephone calls, develop and evaluate employees and improve the overall quality of service provided to our customers.
TEGE	Determination System Redesign -Release 2 \$ 3.30M	Will fully realize TE/GE's business objective. Release 2 of the Determination System will allow for greater functionality of the system by EP, EO, and GE users. This functionality will greatly expand the capability of the system to users within the organization.
SBSE	Excise Files Information Retrieval System (ExFIRS) \$ 4.96M	Tremendously enhances the information currently available to both federal and state governments in the area of fuel tax compliance.

**Resource Summary**

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Budget Authority (\$000s)</b>	\$33,786	\$38,665	\$49,865	\$49,865
<b>Direct FTE</b>	0	0	0	0

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## BUSINESS SYSTEMS MODERNIZATION

**Performance Goal:** *Effectively manage the contract resources that support capital asset acquisition of business systems modernization.* – The IRS will make fundamental improvements in the way it carries out business by taking advantage of all appropriate technology. The IRS has published and updated a comprehensive technology blueprint to guide it through this multi-year project. Initiatives to expand electronic government and increase electronic filing alternatives will be pursued.

FY 2003 / FY 2004

The IRS has embarked upon a comprehensive modernization program to produce world-class information systems that meet U.S. taxpayer needs and the tax administration goals of the Nation. The U.S. tax administration system collects \$2 trillion in revenues annually. The IRS is critically dependent on obsolete, fundamentally deficient, computer systems developed over the last 40 years. They do not and will not allow the IRS to administer the tax system of the Nation and provide essential service to taxpayers at an acceptable level of efficiency, effectiveness, and risk.

In 2002 the Business Systems Modernization (BSM) Program implemented basic building blocks (secure online system and system management capability) and an initial taxpayer-facing application, Internet Refund/Fact of Filing. In 2003 and 2004, additional supporting infrastructure services will be added, and an increasing number of business and internal applications will be delivered, creating taxpayer value and enabling internal efficiencies.

The IRS will augment the infrastructure components installed in FY 2002 to provide the capacity to handle increased numbers of users and additional applications. Security improvements will keep pace with the additional requirements, including increased usage of employee and registered user Internet portals.

Increasingly, data will migrate to a modernized relational database. Taxpayers migrated to the Customer Account Data Engine (CADE) by the end of FY 2005 will include much of the 1040 family of electronically filed tax returns (full paid or refund), not including those with open issues or with power of attorney in the IRS' Centralized Authorization File. This migration will bring an estimate of 35 million accounts onto the modernized databases and result in faster refunds through daily processing for those taxpayers and sets the stage for modernized customer service.

The Internet will become an increasingly important source of information to customers, and provide increased capabilities for communicating with IRS personnel. E-services will provide practitioners and business partners additional automated service over the Internet and enable the IRS to improve relationship management among this important set of customers. It is anticipated that this will directly influence additional electronic filing.

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We will implement consolidated data (Individual Master File (IMF) data going to CAP for FY 2004) for research and analysis, management information, and a host of operational uses through the Custodial Accounting Project (CAP). CAP ensures effective financial management of revenue transactions including accurate and timely reporting of individual receipt and refund activity. The first release of CAP will be implemented in FY2004 and will create the repository for modernized individual taxpayer account data. The second release of CAP will be developed in FY2004 and will support the Business Master File (BMF), Non-Master File (NMF) and Information Returns Account File (IRAF). Both releases provide for information decision analytics and reporting; infrastructure support for fat clients and terminal clients; auditing capabilities for on-line analytical processes; and taxpayer account sub ledger to support FFMI SGL.

In FY 2004, the Integrated Financial System (IFS) will enable the IRS to meet regulatory and oversight financial reporting requirements through the implementation of a Commercial Off the Shelf (COTS) solution. This project will deliver the internal financial reporting capabilities needed to develop and track budgets and expenditures. Core financial capability, including general ledger, accounts receivable, accounts payable, cash, cost accounting, and financial reporting will be implemented. IFS will be a Joint Financial Management Improvement Program (JFMIP) compliant system.

FY 2004

#### **Business Projects**

- E-Services will provide support for the 2004 Filing Season as well as implement support structures for Modernized e-file planned for implementation later in the fiscal year.
- Modernized e-file will provide electronic filing for large and medium-sized businesses (Forms 1120 and 990), as well as a new Tax Return Data Base, which will greatly improve customer service and issue resolution. This project uses state of the art XML technology that will enable a revolutionary new way to exchange electronic data in the future over the Internet.

#### **Internal Management Projects**

- Integrated Financial Services (IFS) will develop the detailed functional requirements for a Commercial Off the Shelf (COTS) solution to support internal management requirements for financial and management planning, execution and reporting. Each release will represent a distinct usable segment. Release 1 will replace the Core Financial Systems (CFS) and include budget formulation information, plus implementation of a Cost Accounting System. Release 2 will focus on Property Accounting/Management, Travel Management, Procurement Management, Performance Management, Seized Property Management, and administrative Data Warehousing.
- The Custodial Accounting Project (CAP) will provide an integrated enterprise data warehouse to support organizational data needs, performance measurement, and tax operations process improvements for individual filers. CAP R1 will provide support for individual filers. CAP R2 will provide support for business filers.

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**Data/Infrastructure Projects**

- Customer Account Data Engine (CADE) will allow for electronic processing of selected 1040 Wage & Investment returns with additional taxpayer segments with increasingly more complex tax returns and /or balance due returns.
- Infrastructure Shared Services (ISS) will continue a program to build and deliver an agile infrastructure that is scalable, interoperable, flexible, manageable, and features standardized operations and a single security and enterprise systems management framework. This infrastructure will enable us to deploy modernized business systems and fully integrate with the current processing environment to support data access, databases, web based service delivery for taxpayers and internal users, and do so in a fully secure and optimally managed operational environment. ISS is an umbrella program for multiple projects including Security, Technology Infrastructure Release (STIR), Telecommunications Near-Term, and Enterprise Systems Management (ESM).

FY 2003

**Business Projects**

- E-Services will provide online application for third party status, authentication and authorization, access to education and communication resources available on the IRS Intranet and Intranet sites, exchange of secure communications, electronic Power of Attorney/Tax Information Authorization (POA/TIA) application, electronic Taxpayer Identification Number (TIN) matching and electronic transcript delivery request.
- Internet EIN will bring Internet capability to new businesses to be able to apply for an Employer Identification Number (EIN). In hearings before the IRS Oversight Board, this was one of the three most desired functions that business representatives sought.
- Internet Refund Fact OF Filing (IRFOF) improves customer self-service by instantly providing refund status information and instructions for resolving refund problems to taxpayers with Internet access.

**Resource Summary**

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Budget Authority (\$000s)</b>	\$93,616	\$243,892	\$380,000	\$429,000
<b>Direct FTE</b>	0	0	0	0

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## EARNED INCOME TAX CREDIT PROGRAM

**Performance Goal:** *Expand customer service and enforcement activities to reduce erroneous filings and payments associated with the Earned Income Tax Credit.* – IRS will attempt to address potentially erroneous claims before they are accepted for processing and before any EITC benefits are paid.

FY 2004

IRS will attempt to address potentially erroneous claims before they are accepted for processing and before any EITC benefits are paid by using an integrated strategy. IRS will begin to implement a certification plan for qualifying child relationship and residency to ensure that each EITC filer claiming a child meets the EITC eligibility requirements before receiving benefits. IRS will use all of its available data to determine that each EITC filer claiming a child meets the EITC relationship requirements-without requiring any additional actions on the part of the claimant. IRS will systemically certify nearly eighty percent of EITC claimants on the relationship issue. IRS will also use compliance study data and risk analysis to determine which EITC filers claiming children are most likely to meet the residency requirements. Using this information, IRS will eliminate by nearly eighty percent the number of claimants required to certify residency. In circumstances where available data is insufficient to determine whether a claimant meets the qualifying child eligibility requirements (approximately 20% of claimants), IRS will seek information from the claimant before the refund is paid. In addition, IRS will use historical data, third party data and limited additional taxpayer information, in combination with error detection systems, to detect and freeze refunds with high risk of filing status errors and will use historical data, in combination with error detection systems, to detect and freeze refunds with high risk of income misreporting.

FY 2003

IRS will direct efforts to increase taxpayer and preparer compliance through a balance of research, outreach, education, assistance, and enforcement activities. These efforts will assist taxpayers and tax preparers in determining EITC eligibility and ensuring accurately filed claims. Taxpayer education will play a vital role in curbing erroneous EITC claims through extensive community education and outreach activities. IRS will refine existing Dependent Database business rules to validate EITC and other family-related issue claims. IRS will also develop EITC research strategies to include cataloguing internal and external research, understanding taxpayer behavior, identifying unique taxpayer segment treatments, and understanding reasons for noncompliance and nonparticipation. An Executive Advisory Council will provide oversight and leadership for the EITC program within IRS, ensuring timely accomplishment of operational priorities and resolution of cross-functional issues.



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**Resource Summary**

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Budget Authority (\$000s)</b>	\$149,308	\$146,000	\$146,000	\$251,167
<b>Direct FTE</b>	2,196	2,467	2,353	2,994

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## SHARED SERVICES SUPPORT

**Performance Goal:** *Effectively provides the logistical services required by IRS activities to administer the nation's tax laws.* – The IRS is reengineering standardized processes and identifying areas to continue expanding electronic government. E-commerce alternatives are being explored to improve customer access, streamline vendor interactions and ensure effective use of stewardship and property assets.

### FY 2004

Efforts initiated in FY 2003 will continue. There will be continued emphasis on rent containment, prioritization and implementation of a long-term capital plan, and employee/building safety and security. IRS will continue investing in employee training and development in areas such as professional skills, cultural sensitivity, workplace diversity, and the Alternate Dispute Resolution (ADR) process. Continuing Professional Education modules will also be developed to enhance learning opportunities. Competitive sourcing programs that were introduced in FY 2002 continue to expand in FY 2003-2004 requiring significant resources. However, the program is expected to improve efficiencies and create program savings for the IRS, either through outsourcing or improved government performance.

Efforts to continue expanding electronic government will continue. The use of IT in e-commerce and knowledge management will continue to be pursued. By FY 2005, HR Connect will be significantly implemented. It will provide accurate information for management of the IRS workforce, improve the accuracy and timeliness of personnel actions, and improve communications to all customers. Developing and implementing processes to promote greater financial control and accountability by operating divisions will be a special priority.

### FY 2003

The shared services program provides internal management of the human, logistical, contractual, and labor / management resources necessary to fulfill IRS' mission and strategic goals. Efforts to implement and enhance automation initiatives for systems supporting space and property, rent, security and safety, and project tracking will be undertaken. IRS will pursue programs that promote employee development and continuity, such as training, succession planning, and workplace conflict prevention. A new Diversity Awareness Council will be developed to advise managers and employees on workplace conduct that supports inclusion, independence, and empowerment.

IRS continues to expand its electronic capabilities through a growing number of methods for procuring products and services, such as electronic catalogs, reverse auctioning and increased interfaces. Web-based interfaces such as WebRTS (Requisition Tracking System), WebIPS (Integrated Procurement System), and e-commerce initiatives will be pursued to improve customer service and vendor access, as well as reduce costs and user

burden. Additionally, although not a shared services' initiative, significant commitment will be made to the development and implementation of the Integrated Financial System (IFS) in order to ensure that it includes the capabilities, and performs the critical activities, necessary to achieve acceptance in the IRS financial community.

Special emphasis will be given to rent containment and reduction, further development of the long-term capital plan, the availability of ergonomically appropriate furniture, and most importantly, workplace safety and security. IRS is committed to process refinements that increase efficiency and timeliness of service delivery, reduce burden, and improve customer and employee satisfaction.

### Resource Summary

	FY 2001	FY 2002	FY 2003	FY 2004
<b>Budget Authority (\$000s)</b>	\$1,175,700	\$1,190,879	\$1,196,875	\$1,230,970
<b>Direct FTE</b>	4,640	4,917	4,837	4,604

### Program Performance Annual Performance Goals, Measures, Indicators, and Informational Table

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
75. Employee health and safety – lost workday case rate	NA	N/A	0.49%	0.98%	0.49%	TBD

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## GENERAL MANAGEMENT AND ADMINISTRATION

**Performance Goal:** *Provide effective leadership and direction in the administration of the nation's tax laws.* – The IRS' organization and business practices are designed to reflect its customer's needs and address significant human capital issues. Competitive sourcing alternatives are being identified and financial systems are being updated to improve financial performance. The IRS is fully integrating its strategic planning, budget and performance management process to more effectively achieve its strategic goals and objectives.

FY 2004

IRS will continue its focus on delivering customer-defined services that meet taxpayer needs. IRS will develop and expand educational products and communication efforts to assist taxpayers and practitioners in fulfilling their tax obligations. Customer satisfaction surveys will be migrated from paper to non-paper channels to improve information timeliness and trend identification. Balanced measures will be used improve service delivery, performance, and compliance.

IRS will continue to address human capital resource issues by implementing programs to recruit and retain highly skilled personnel and expand training opportunities. IRS will also continue succession planning, manager/employee relationship building, and EEO/diversity activities. Efforts to expand employee training and development will continue. Employee surveys will be used to refine the focus of new initiatives and areas for improvement.

Efforts will be undertaken to provide quality service while reducing taxpayer burden. IRS will continue responding timely to inquiries from GAO, TIGTA, Congress, and other parties and communicating its message via print, broadcast, and online media. IRS will continue pursuing partnerships and data sharing opportunities with external organizations and groups that are actively involved in tax administration.

FY 2003

IRS will focus on delivering customer-defined services that meet taxpayer demands in the manner most convenient and appropriate for the particular taxpayer. IRS will develop and expand educational products and communication efforts to assist taxpayers and practitioners in fulfilling their tax obligations. Customer satisfaction surveys will be used to refine objectives and critical measures. Efforts will focus on improving customer satisfaction, compliance, and internal performance.

IRS will address human capital resource issues by implementing programs to align compensation with performance, recruit and retain highly skilled personnel, and expand training opportunities. Succession planning, manager/employee relationship building, and EEO/diversity activities are

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important human capital issues. IRS will expand knowledge management and training initiatives for all employees. Employee surveys will be used to refine the focus of new initiatives and areas for improvement.

Competitive sourcing programs will be pursued to increase program efficiency and effectiveness. Efforts will be undertaken to provide quality service while reducing taxpayer burden. IRS will respond to inquiries from GAO, TIGTA, Congress, and other parties and communicate its message via print, broadcast, and online media. IRS will also pursue partnerships and data sharing with external organizations and groups that are actively involved in tax administration.

### Resource Summary

	FY 2001	FY 2002	FY 2003	FY 2004
<b>Budget Authority (\$000s)</b>	\$548,435	\$461,637	\$520,696	\$540,479
<b>Direct FTE</b>	3,327	3,186	3,211	3,195

### III. Supporting Materials

#### Major Management Challenges and High-Risk Areas

Over the last several years the General Accounting Office (GAO) and the Treasury Inspector General for Tax Administration (TIGTA) have identified several Management Challenges and High-Risk Areas facing IRS. IRS has identified specific steps and actions to address these issues through its existing program activities. Measures of these program activities serve to show progress in addressing the management challenges and high-risk areas. Below is a crosswalk showing the relationship between management challenges and IRS program activities.

Management Challenge or High Risk Area	Budget Activity									
	Pre-Filing	Filing	Compliance	Research & SOI	Information Services	Information Services Improvement Projects	Business Systems Modernization	EITC	Shared Services	General Management & Administration
Systems Modernization of the IRS							X			
Complexity of the Tax Law				X						
Security of the IRS – Employees and Facilities									X	
Security of the IRS – Information Systems					X					
Integrating Performance and Financial Management – Performance Management										X
Integrating Performance and Financial Management – Financial Management										X
Processing Returns & Implementing Tax Law Changes During Filing Season	X	X								
Tax Compliance Initiatives	X	X	X	X						
Providing Quality Customer Service Operations	X	X	X							
Erroneous Payments; Noncompliance with EITC	X	X	X					X		
Taxpayer Protection and Rights	X	X	X							
Human Capital										X
Collect Unpaid Taxes	X		X							
Revamp Business Practices to Meet Taxpayer Needs	X	X	X	X						X

Table: Management Challenge Crosswalk to Program Activity

The following pages summarize each Management Challenge and High-Risk issue, FY 2002 accomplishments, and actions identified for completion in FY 2003 and beyond.

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**Management Challenge or High Risk Area: *Systems Modernization of the IRS***

The ability to balance the goals of helping taxpayers meet their tax responsibility and improving overall compliance with tax laws depends on the successful completion of the modernization effort. Modernization of technology is crucial to implementing the new business vision of providing world-class service to taxpayers. While the development of new technology evolves, existing operations must continue, and improvements must be made to meet the needs of tax administration and demonstrate IRS' commitment to improved service to taxpayers.

**FY 2002 Accomplishments:**

Critical to the successful modernization of IRS business processes and enabling information technology are disciplined management processes. Through focused development and implementation of repeatable management processes this year, IRS has made considerable progress in the ability to manage the Business Systems Modernization Program. Continued strict adherence to these processes will effectively allow the IRS to meet the challenges identified by GAO and TIGTA. In FY 2002, IRS addressed this challenge through the following accomplishments:

- Matured Business Systems Modernization Office (BSMO) management processes as evidenced in TIGTA audits and GAO reviews.
- PRIME achieved Software Acquisition Capability Maturity Model (SA-CMM) level 3 rating, first in world to do so.
- Delivered Internet Refund Fact of Filing (IRFoF), Secure and Technical Infrastructure Release (STIR), Enterprise Systems Management (ESM), and Enhanced Call Routing applications.
- Began Customer Account Data Engine Release 1 (CADE R1) pilot.
- Fully matured program governance (established framework for and implemented fully functional Executive Steering Committee [ESC] and Sub-Executive Steering Committee [SUB-ESC] structure), which includes extensive participation of key executives across the IRS and external stakeholders.
- Achieved SA-CMM level 2 rating for BSMO, first civilian government agency to achieve that level of management maturity.

**Actions Planned or Underway:**

The following actions will enhance the IRS' ability to modernize technology:

- Implement CADE R1 to allow the first processing of individual taxpayer returns on a system other than the Individual Master File (IMF) in 40 years. (09/2003)
- Focus on better cost and schedule estimating and building reserves in plans. (09/2004)
- Implement E-Services R1.1 and R1.2, providing electronic support to third party providers. (09/2004)
- Implement HR Connect R1, establishing new HR system in selected business units. (09/2004)
- Implement Internet Employee Identification Number (EIN), providing Internet based applications for employer identification number online. (09/2004)
- Improving the Spend Plan process. (09/2004)

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**Management Challenge or High Risk Area: *Tax Compliance Initiatives***

IRS' goal of providing world-class service to taxpayers hinges on the theory that if 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 compliance program (examining tax returns and collecting tax liabilities) addresses taxpayers that do not voluntarily comply. During the last decade, the number of tax returns selected for examination by IRS has decreased while the number of tax returns filed has increased. The challenge to IRS management is to establish a tax compliance program that identifies those citizens who do not meet their tax obligation, either by not paying the correct amount of tax or not filing proper tax returns, and effectively bring them into compliance.

**FY 2002 Accomplishments:**

In FY 2002, IRS completed the following actions:

- Analyzed Correspondence Examination programs to determine areas of non-compliance that can be addressed through the use of soft notice and math error treatments.
- Developed improvement strategies to address escalating and aged Offers in Compromise (OIC) inventory and to reduce open OIC inventory within six to twelve months.
- Enhanced and realigned the current Examination legacy systems to help identify the most productive returns to examine. Information will be made available to examiners to conduct more effective examinations.
- Expanded the range of information documents and returns that may be filed electronically for Corporate Taxpayers.
- Estimated payment compliance measures by type of tax and by Operating Division for tax year 1999; estimated filing rate measures for individual income tax for tax years 1990-1999.
- Completed training for all technical large and mid-size business employees on the Limited Issue Focus Examination (LIFE).

**Actions Planned or Underway**

Efforts in FY 2003 and beyond will address compliance areas through better education of the public; systematically identifying promoters and participants; improving the efficiency of exam and collection efforts through reengineering; and reinvigorating enforcement actions such as summons enforcement, injunctions and criminal investigation of promoters. IRS must continue to make significant progress in collecting better compliance and non-compliance data as well as quantifying corporate level strategic compliance measures. These two goals will be achieved in large part through the new National Research Program (NRP). The first available NRP data on payment and filing compliance recently became available, with updated measures available in FY 2003. Data on reporting compliance will be available in FY 2004. The following activities will allow IRS to implement a balanced compliance program:



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- Deploy a range of initiatives using education and outreach to improve the overall rate of voluntary compliance. (09/2004)
  - Increase efficiency and effectiveness by updating and re-engineering work processes to make better use of resources. (09/2004)
  - Advance the use of Voluntary Compliance Agreements, reducing the need for traditional enforcement actions. (09/2003)
  - Fully implement K-1 matching program and target enforcement efforts towards promoters and participants of abusive tax avoidance transactions. (09/2003)
  - Implement improved processes to move to an issue-driven compliance process that will result in productivity savings and redirect these savings to the highest compliance work. (09/2003)
  - Explore the use of limited scope examination processes to increase our ability to improve case resolution. (09/2003)
  - Analyze the Potentially Collectible Inventory reports to identify the causes of growth and develop a course of action to impact continued growth. (09/2004)
  - Apply alternative dispute resolution procedures and other issue resolution programs to resolve abusive tax avoidance transactions and other issues in a timely and consistent manner. (09/2004)
  - Identify methodologies that will most positively impact non-compliant taxpayers using Research data. (02/2004)
  - Use Filing Compliance rate estimates for individual income tax to develop dollar gap estimates. (09/2004)
  - Continue Reporting Compliance study of individual income tax. Most examinations will be done in FY 2003 . Data will become available in FY 2004.
  - Establish and staff the Exempt Organizations Contact Unit to improve the IRS presence in the exempt organizations community. (10/2004)
  - Collaborate with Department of Labor to identify and contact Form 5500 nonfilers. (09/2004)

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**Management Challenge or High Risk Area: *Security of the IRS – Employees and Facilities***

Recent terrorist attacks highlighted vulnerabilities in many businesses and government agencies. This terrorist activity within the United States demonstrated very graphically that the physical security of IRS employees, equipment, and structures should be of utmost concern to IRS management. The IRS must remain vigilant to all opportunities to enhance the safety of employees.

**FY 2002 Accomplishments:**

In FY 2002, IRS addressed this challenge through the following accomplishments:

- Developed National Physical Standards that establish security enhancements for areas such as guard services, blast mitigation, and IRS infrastructure.
- Conducted an assessment of all IRS buildings and facilities based upon current and proposed security standards.
- Developed contingency plans for all ten IRS campuses to address hazardous materials threats for the upcoming filing season.
- Purchased and distributed protective equipment, such as gloves, masks, and lab coats, as a result of the anthrax threats.
- Consolidated and/or contained many mail-opening activities throughout IRS.
- Participated in government-wide programs that plan for and minimize the risk of catastrophic events on mission achievement.
- Developed posters, tri-fold brochures, and a Director's briefing package to provide information and instruction to managers and employees regarding anthrax and other hazardous materials threats.
- Developed a plan to upgrade communications systems such as public address and closed circuit television for all ten IRS campuses.
- Developed an action plan to address deficiencies in offices that do not meet the National Physical Security Standards.
- Completed Phase 1 and 2 initiatives to contain Service Center Automated Mail Processing System and mail extraction units in all campuses to isolate these areas from other units.
- Enhanced and tested headquarters' continuity of operations (COOP) capabilities
- Developed and tested enterprise situation awareness management capabilities (SAMC)

**Actions Planned or Underway**

IRS will continue to respond to this challenge through the following planned actions:

- Continue to work with GSA and law enforcement agencies to safeguard personnel and assets. (09/2004)
- Closely monitor procedures regarding the inspection of incoming mail and packages. (09/2004)
- Continue implementation of security enhancements. (09/2003)
- Continue to participate in government-wide programs that plan for disaster response. (09/2004)

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- Take actions to improve and institutionalize changes for campus mail operations. (09/2003)
  - Continue to enhance and maintain COOP and SAMC initiatives. (09/2004)
  - Complete security risk assessments of Level 1, 2, and 3 buildings. Implement appropriate corrective measures and/or upgrades, subject to funds availability and consistent with comparable GSA scheduling for Level 4 buildings. (09/2003)

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**Management Challenge or High Risk Area: *Security of the IRS – Information Systems***

Whereas the IRS' computer security capabilities have measurably improved, the remaining computer security control weaknesses continue to expose the Service's automated systems and taxpayer data to unacceptable risks associated with both internal and external threats. As the primary revenue collector for the United States, the IRS is a highly visible target for hackers, unhappy taxpayers, disgruntled employees, and other types of dissatisfied people. This threat has increased over the last few years with more interconnectivity of systems. 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.

**FY 2002 Accomplishments:**

In FY 2002, IRS addressed this challenge through the following accomplishments:

- Refocused Security Services organization to create corporate security solutions.
- Focused on evaluating and improving IRS security programs and processes, and identifying how to implement security capabilities that are balanced with operational requirements.
- Conducted reviews of IRS facilities and programs to evaluate and test security controls, and assisted IRS organizations to set up internal security review processes.
- Monitored IRS networks to prevent cyber attacks.
- Enhanced incident response capability (CSIRC) to 24X7 operation; initiated more detailed analysis process to better protect and defend IRS systems and networks; provided daily status reports to executive leadership.
- Improved certification process through deployment of an automated tool.
- Conducted agency-wide awareness activity to better enable employees to understand their responsibilities and use good practices.
- Began earlier engagements with Modernization project offices and BSMO with regard to development process to ensure consistent, satisfactory implementation of security methodologies and to ensure that all new systems meet the security certification mandate.
- Established in-house mainframe disaster recovery capabilities.

**Actions Planned or Underway**

IRS will continue to respond to this challenge through the following planned actions:

- Conduct reviews to evaluate security performance in key business areas, such as remittance processing, and work with IRS business units to mitigate these weaknesses. (09/2004)
- Improve the adequacy of physical, logical, communications, and personnel security, operating practices, software quality assurance activities

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- and business resumption plans to mitigate the IRS' computer security material weaknesses. (09/2004)
- Use a model facilities approach to improve the consistency of security controls across IRS facilities. (09/2004)
  - Continue to improve the ability to prevent, identify and resolve cyber attacks by completing build-out and improving operational readiness of the Computer Security Incident Response Center. (09/2004)
  - Conduct regular assessments of the overall state of security in IRS; use the security assessment framework as a guide to improve and better measure IRS security capabilities. (09/2004)
  - Develop and disseminate security guidelines for the businesses that will facilitate implementation of security mechanisms, encourage business area participation and foster understanding of the business area role in the security process. (09/2004)
  - Better define & implement the security roles and responsibilities for all IRS executives, managers, and employees to ensure compliance with security policies and new legislative requirements. (09/2004)

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**Management Challenge or High Risk Area: *Integrating Performance and Financial Management - Performance Management***

The Government Performance and Results Act of 1993 (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. The President's Management Reform Agenda addresses integrating performance review with budget decisions. The IRS Strategic Planning and Budget process, which includes the Annual Performance Plan and Annual Performance Report, satisfies a major requirement of the GPRA. However, 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.

**FY 2002 Accomplishments:**

In FY2002, IRS completed the following actions:

- Almost all functions have approved balanced measures composed of business results quantity and quality, customer satisfaction and employee satisfaction.
- Divisions used balanced measures to report to the Commissioner on executing their workplans, and also as the cornerstones for building their strategic plans.
- Divisions are in the process of deploying and setting targets for their balanced measures down to the Area office (or equivalent) level.
- Began implementing Embedded Quality (EQ), which revamps the way quality is measured, calculated, and reported in the sites. EQ will create accountability by connecting employee evaluations directly to the corporate balanced measures in a fair and meaningful way.
- IRS replaced the manual process to collect, collate and report performance data by automating these steps through the Data Mart and Business Performance Management System (BPMS) for most of the IRS critical measures.
- IRS continues to develop its strategic measures, and included seven strategic measures in the FY2004 OMB Budget Submission - four related to tax administration and three on worker safety. Three of the tax administration strategic measures in the budget had historical data: Payment Compliance, Filing Compliance and Potentially Collectible Inventory (PCI). Data for the fourth, Reporting Compliance, will be available in FY 2004.
- Expanded participation in American Customer Satisfaction Index.

**Actions Planned or Underway**

IRS will continue to respond to this challenge through the following actions:

- Continue to automate data collection and reporting through Data Mart and BPMS. (09/2004)
- Beginning with linking collection workplans to reducing PCI, divisions are in the process of linking their operational critical measures to relevant strategic measures to better align resource decisions to achieving strategic outcomes. (09/2004)
- Major operating divisions are developing their own strategic measures. (09/2004)

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**Management Challenge or High Risk Area: *Integrating Performance and Financial Management - 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 audit opinion from the General Accounting Office (GAO) on all financial statements for FY 2001. IRS' current financial systems alone cannot produce reliable information necessary to prepare financial statements in accordance with federal accounting standards. The data produced from the current financial system has to be reconciled with other subsidiary systems to produce reliable financial statements. The IRS lacks the timely, accurate, and useful information needed to make informed management decisions on an ongoing basis.

**FY 2002 Accomplishments:**

To improve overall financial management, IRS is implementing two major systems: the Custodial Accounting Project (CAP) and the Integrated Financial System (IFS). In FY2002, IRS completed the following actions:

- Completed the Architecture Phase of the CAP.
- Merged the Enterprise Data Warehouse (EDW) project and CAP
- Closed the year-end books and prepared all financial statements in 45 days.
- Implemented new three-day month end close procedures.

**Actions Planned or Underway**

IRS will continue to respond to this challenge through the following actions:

- The Systems Development Phase of the CAP is scheduled for completion in December 2002.
- End use deployment of EDW providing the first tier of detailed data in the data warehouse, first tier of summarized data in the Revenue Data Mart and the first suite of tools for data analysis and report generation is scheduled for May 2003.
- The first release of IFS is scheduled for deployment on October 1, 2003 and will include the Core Financial System as defined by the Joint Financial Management Improvement Program (General Ledger, Accounts Payable, Accounts Receivable, Funds and Cost Management, and Financial Reporting), as well as Budget Formulation.

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**Management Challenge or High Risk Area: *Processing Returns & Implementing Tax Law Changes during the Filing Season***

The filing season impacts every American taxpayer and is therefore always a highly critical program. Many programs, activities and resources have to be planned and managed effectively for the filing season to be successful. Critical programming changes for the filing season must receive priority over other programming requests. Although the FY 2002 filing season was a great success, the IRS still needs to address some problems in processing tax returns, specifically in the areas of the Rate Reduction Credit (RRC), Additional Child Tax Credit (ACTC), undelivered refund checks and processing of small business corporate returns.

**FY 2002 Accomplishments:**

In FY 2002, IRS completed the following actions:

- Implemented a secure transaction-based web site.
- Incorporated new procedures required by the Economic Growth and Tax Relief Reconciliation Act of 2001.
- Completed centralization of all employment tax processing, including information returns, by consolidating operations in two Submission Processing sites.

**Actions Planned or Underway**

IRS will continue to respond to this challenge through the following planned actions:

- Continue to use workload forecasting to ensure the required number of employees is available for each telephone product line and ensure tools are updated and available timely. (09/2004)
- Continue to identify training needs and develop training plans to improve performance. (09/2004)
- Conduct CPE training to ensure assistants are knowledgeable of tax law changes. (09/2004)
- Ensure the Corporate Filing Season Readiness Process is operational and covers all aspects of the filing season, including the Annual Readiness Certification. (June of each year)
- Conduct pilot and roll out the Remittance Transaction Research (RTR) system. (Early 2004)
- Implement registered user access to enable authorized third parties and practitioners to request and receive transcripts electronically and submit account inquiries, powers of attorney and disclosure authorizations electronically. (09/2003)
- Implement taxpayer identification number (TIN) matching with payers. (04/2003)
- Expand e-filing options by adding and converting additional forms. (09/2004)



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**Management Challenge or High Risk Area: *Complexity of the Tax Law***

According to the FY 2000 Taxpayer Advocate's Annual Report to the Congress, the highest-ranked problem individual and business taxpayers had with IRS was tax law complexity. The problems caused by this complexity range from individual to corporate and international tax issues. Stakeholders from diverse constituencies have informed decision-makers about the problems and recommended solutions. It is unlikely that the Internal Revenue Code will be simplified at one time. Therefore, IRS has the challenge to remove as much complexity as possible as a service to taxpayers. The effect of tax law complexity is compounded as IRS modernizes. Since complexity can be a major factor in the cost of operations, IRS must devote resources to simplifying taxes while at the same time modernizing its systems and processes.

**FY 2002 Accomplishments:**

In FY 2002, IRS completed the following actions:

- Integrated Probe and Response (P&R) methodology into IRS publications and made their use the standard tool for Field Assistance technical employees.
- Trained Customer Service Representatives in one or more technical and account topics, enabling them to be more proficient in assisting customers quickly and accurately.
- Issued a report on tax law complexity that highlighted areas taxpayers find to be particularly difficult.
- Issued regulations changing the thresholds for requiring businesses to use accrued accounting, allowing many taxpayers to use the less complicated cash accounting method.

**Actions Planned or Underway**

The following actions will enhance IRS' ability to reduce the complexity of the tax law:

- The National Taxpayer Advocate's FY2001 Annual Report contains 28 legislative proposals, 19 of which are described in detail as key recommendations. The legislative recommendations, taken as a whole represent, proposals that the NTA believes will reduce complexity of the Code, reduce taxpayer burden in complying with the tax requirements, and reduce IRS' burden in administering the tax system. (09/2004)
- The NTA has also identified potential legislative issues to be developed for the 2002 Annual Report to Congress and continues to work with members of Congress and their staff to increase understanding and support of the key legislative recommendations contained in the 2001 report. The NTA has addressed complex issues such as family status, alternative minimum tax, installment agreements for less than full payment, joint and several liability, penalty and interest, and collection procedures. (09/2004)
- The IRS will deploy a model to estimate the impact on taxpayer burden of changes to tax law or tax administration procedures for individual taxpayers. (09/2003).

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**Management Challenge or High Risk Area: *Providing Quality Customer Service Operations***

Providing top quality service to every taxpayer in every transaction is an integral part of IRS' modernization plans. IRS provides customer service in many ways, including toll-free telephone service, electronic customer service, written communications to taxpayers, walk-in service, and accurate and timely tax refunds. Each of these services affects taxpayers' ability and desire to voluntarily comply with the tax laws.

**FY 2002 Accomplishments:**

In FY 2002, IRS completed the following actions:

- Created a bar-coding system for adjustment notices and refund checks so they can be mailed in the same envelope.
- Developed a formal training plan and schedule to improve employee knowledge of tax law, marketing, communication, and relationship management skills.
- Targeted and built quality relationships with internal and external partners and intermediaries to educate and support taxpayer and practitioner programs.
- Provided employers with access to on-line employment tax and wage information through the Simplified Tax and Wage Reporting System (STAWRS).
- Reconfigured the Practitioner Hotline into a centralized system.
- Trained Customer Service Representatives in one or more technical and account topics, enabling them to be more proficient in assisting customers quickly and accurately.
- Analyzed and trained the volunteer workforce to create subject matter experts both internally and externally.

**Actions Planned or Underway**

IRS will continue to respond to this challenge through the following planned actions:

- Add 7 new forms that can be electronically filed in 2003. (01/2003)
- Implement and continue to improve the availability of on-line services such as Internet Employer Identification Number (EIN), Centralized Authorization File, and Practitioner Priority Services. (09/2003)
- Improve e-services for practitioners. (04/2003)
- Enhance electronic interactions (such as e-filing and e-paying), augment communication with taxpayers through the development of e-government operations and provide employers with access to on-line employment tax and wage information. (09/2003)
- Implement recommendations developed as part of the Service's Multilingual Initiative (MLI). (09/2004)
- Review computer generated notices and correspondence to improve quality and clarity. (09/2004)

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- Configure outward facing Toll-Free numbers to relate directly to taxpayers' inquiries. (01/2003)
  - Provide new and expanded services through Internet Refund/Fact of Filing (IRFOF) to reduce toll-free demand and offer customers alternative methods of service. (09/2003)
  - Provide taxpayers a way to resolve tax problems every day at Taxpayer Assistance Centers (TACs). (09/2004)
  - Provide assistance to US taxpayers working abroad by using Tax Attaches stationed overseas. (09/2004)
  - Rollout embedded quality initiatives. (09/2004)
  - Network a queuing management system to monitor, control and manage customer traffic flow more efficiently. (09/2004)
  - Hire and train a highly skilled workforce. (09/2004)

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**Management Challenge or High Risk Area: *Erroneous Payments***

Both the President and the Congress have expressed concerns with the large amount of erroneous payments made by Federal agencies each year. The risk of improper payments increases in programs with complex criteria for computing payments, a significant volume of transactions or emphasis on expediting payments. Although many IRS programs are susceptible to erroneous payments, the Earned Income Tax Credit (EITC) Program is particularly vulnerable. Each year the IRS spends over \$100 million to help ensure that eligible taxpayers claim the EITC and to reduce over-claims and fraud, waste and abuse. However, IRS does not have a process to identify and stop refunds on many tax returns using non-work social security numbers and erroneously claiming the EITC. IRS also faces erroneous payment issues in other program areas such as vendor over payments and specious tax claims.

**FY 2002 Accomplishments:**

Despite IRS' compliance initiative, which has saved the Government over \$5 billion over five years, the most recent compliance study, Compliance Estimates For Earned Income Tax Credit Claimed on 1999 Returns, released in February 2002, estimates a 31-36% error rate and a 27-32% unrecovered overclaim rate. EITC non-compliance results from three major error sources: (1) taxpayers claiming EITC amounts based on children with whom they do not have the required relationship and/or with whom they did not reside for at least six months of the tax year; (2) taxpayers claiming EITC amounts based on erroneously reporting their filing status and (3) income misreporting. To address the systemic flaws in the current EITC program, and to address the complexity of the EITC law, which was highlighted in a then-recent Taxpayer Advocate Report to Congress, Secretary O'Neill convened an EITC task force. This mission of this joint Treasury-IRS task force was to achieve the objectives of the EITC program while reducing taxpayer confusion and increasing the accuracy of the administration of benefits. The task force was convened in March 2002 and presented final recommendations in July 2002. In August 2002, Secretary O'Neill approved the recommendations and also approved the formation of an IRS implementation team charged with development of an implementation plan. This team began a study of the cost and business process changes necessary for implementation, and is on-going at this time. In FY 2002, IRS completed the following actions:

- Convened a Task Force to thoroughly examine complexity and compliance issues of EITC and recommend fundamental program changes to reduce complexity and improve compliance.
- Expanded use of the Dependent Database (DDb) as an external data source to identify non-compliant taxpayers.
- Expanded examinations of the Duplicate TIN repeater population.
- Began study of data supplied to DDb by the Federal Case Registry of Child Support Orders.
- Created the EITC Executive Advisory Council.
- Realigned EITC Project Office to enhance strategic program development and execution.
- Participated in a government-wide task force on erroneous payments.

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## **Actions Planned or Underway**

IRS will continue to respond to this challenge through the following planned actions:

- Assess overall EITC compliance, identify knowledge gaps and plan additional research. (09/2004)
- Assess marketing/awareness campaigns that target eligible EITC non-claimant population. (09/2004)
- Analyze processing year 2002 audit results to refine existing DDb business rules. (10/2003)
- Identify, investigate, and prosecute promoters of EITC-related refund schemes. (09/2004)
- Finalize EITC preparer cases being actively investigated and prepared for prosecution. (09/2004)
- Assess Federal Case Registry of Child Support Orders study data to determine if using expanded math error authority to deny EITC will improve compliance efforts. (09/2004)
- Continue to address the EITC Task Force recommendations. (09/2004)
- Continue participation in a government-wide task force on erroneous payments. (09/2004)
- Better integrate EITC Program Office into the IRS' established strategic planning process. (09/2004)
- Continue to expand and refine tools used by campus examiners in EITC examinations. (09/2004)

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**Management Challenge or High Risk Area: *Taxpayer Protection and Rights***

The Restructuring and Reform Act of 1998 (RRA 98) contains 71 provisions that increase or help protect taxpayers' rights. RRA 98 included fundamental changes to tax law procedures, and required IRS to change its organizational structure from one that was geographically structured to one that was set up to serve particular groups of taxpayers with similar needs. IRS has made significant progress in complying with RRA 98 and most provisions, including massive training programs for thousands of employees, have been modified or implemented. Significant management attention is still required to ensure that taxpayers' rights are not restricted by any IRS enforcement actions.

**FY 2002 Accomplishments:**

In FY 2002, IRS completed the following actions:

- Implemented a secure transaction-based web site.
- Ensured alternative signature initiatives comply with IRS authentication policy.
- Implemented the next phase of the Checkbox initiative to allow taxpayers to designate an individual preparer to serve as their designee to discuss tax matters and notices with IRS.
- Combined the Centralized Authorization Files into a central repository to eliminate the need for taxpayers to submit multiple third party authorization requests for numerous issues.
- Evaluated performance by deploying balanced measures to the appropriate levels.
- Linked employee Critical Job Elements and performance expectations to organizational quality goals.
- Redesigned examination work processes and assessed legal requirements.
- Redesigned internal Collection processes, policies and procedures, and updated workload selection and inventory delivery systems.

**Actions Planned or Underway**

IRS will continue to respond to this challenge through the following planned actions:

- Continue to administer the credit card contract to ensure protection of taxpayer data and credit card numbers. (09/2004)
- Reduce the volume of paper jurats and expand alternative methods of signature. (09/2004)
- Evaluate computer security to ensure protection of taxpayer information. (09/2004)
- Review and assess implementation of Title VI of the Civil Rights Act of 1964 to certify that all tax preparation sites provide equal access and non-discriminatory services. (09/2004)
- Ensure documentation does not include specific labeling of taxpayers raising frivolous tax arguments. (09/2004)
- Reinforce the requirements to provide a statement to taxpayers at initial meetings that advise them of the Taxpayer Advocate's independence. (09/2004)
- Develop a standard practice for IRC Section 7803 (c) (4) (iv) which states that local taxpayer advocates may choose not to disclose contact with or information provided by a taxpayer. (09/2004)

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**Management Challenge or High Risk Area: *Human Capital***

GAO considers strategic human capital management as a high-risk area for the government, and the President's FY 2001 budget has added human capital to its list of Priority Management Objectives. Inadequate attention to strategic human capital management has created a government-wide risk of eroding the capacity of some agencies to perform their missions. Like many other government agencies, IRS continues to face a range of serious personnel management issues, ranging from recruiting, training, and retaining employees to problems associated with IRS' recent reorganization and modernization efforts. Although IRS initiated actions to incorporate a workforce planning process into its strategic planning process, IRS management has not established a project plan that assigns responsibilities and includes milestones for each step in the process.

**FY 2002 Accomplishments:**

In FY 2002, IRS completed the following actions:

- Used the Senior Manager Pay Band system to more effectively allocate salary resources to promote and encourage individual and organizational excellence.
- Expanded the pay band system to all front-line and mid-level managers.
- Continued to offer an extensive array of web- and computer-based training for employees via the Internet, Intranet, and by CD-ROM covering subjects such as communications, customer service, project management, finance, accounting, and leadership.
- Continued to provide an extensive array of executive development training activities that prepare our participants for top-level leadership positions.
- Continued to encourage executives establish relationships with their alma mater or with schools in their local areas.
- Continued partnerships with employee organizations to help recruiters establish relationships with community-based organizations.
- Continued the state-of-the-art advertising campaign that was established to promote IRS as an employer of choice.
- Established a strategic human capital strategy that consists of four principle elements: Renewal, Training and Development, Performance and Transition.

**Actions Planned or Underway**

IRS will continue to respond to this challenge through the following planned actions:

- Sustain recruitment efforts over the long term with continued entry-level intake in key front-line occupations remaining a high priority. (09/2004)
- Maintain a continued labor market presence through electronic and print advertising. (09/2004)
- Continue to streamline and automate the hiring process. (09/2004)

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- Emphasize a management development pipeline. (09/2004)
  - Implement a mid-career recruiting strategy. (09/2004)
  - Implement an IRS-wide learning strategy. (09/2004)
  - Continue expansion of pay-for-performance system to all remaining front-line managers. (09/2004)
  - Increase bonus and staffing flexibility to strengthen the linkage between executive performance and compensation. (09/2004)
  - Capitalize future transition efforts on past experience and coordinate efforts such as workload realignment to maximize placement of employees while addressing business needs. (09/2004)



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**Management Challenge or High Risk Area: *Collect Unpaid Taxes***

Reliable and timely financial, operational, and compliance data is not available to help target efforts to collect billions of dollars in unpaid taxes. As a result, the Federal government is exposed to significant losses of tax revenue while compliant taxpayers bear an undue burden of financing the government's activities. Certain key collection actions, such as levies and seizures, have declined since 1997 during IRS modernization efforts and because of RRA impacts. These declines may increase the incentives for taxpayers to either not report or underreport their tax obligations. Attempts to identify taxpayers that have not paid the taxes they owe are made through various enforcement programs. IRS inability to fully pursue such cases is attributable to a decrease in staff, reassignment of collection employees to support customer service activities, and additional staff time needed to implement certain taxpayer protections that were included in the IRS Reform and Restructuring Act of 1998. Additionally, inadequate financial and operational information has hindered development of cost-based performance information for tax collection and enforcement programs.

**FY 2002 Accomplishments:**

In FY 2002, IRS completed the following actions:

- Developed a risk-based compliance strategy to use knowledge regarding taxpayer behavior, history, and needs in the collection decision process to ensure that the highest priority cases get worked first and reduce the number of accounts closed as currently not collectible.
- Centralized the processing of Offers in Compromise.
- Used non-Compliance resources during the filing season to minimize impact on Compliance casework.
- Redesigned internal processes, policies, and procedures, and updated the antiquated system of workload selection and inventory delivery.

**Actions Planned or Underway:**

IRS will continue to respond to this challenge through the following planned actions:

- Provide credit card payment option for delinquent taxes (individuals), installment agreement payments and extension-related payments and expand credit card options to BMF returns. (01/2003)
- Develop and implement a comprehensive nonfiler strategy. (09/2003)
- Identify and target noncompliance with employment tax deposit and payment requirements. (09/2003)
- Continue efforts to gain full participation in the State Income Tax Levy Program. (09/2003)
- Align Collection legacy systems. (09/2003)
- Implement a modernized collection system. (09/2004)
- Tailor treatment streams and route cases to appropriate function and employee. (09/2004)
- Develop educational products and a marketing plan to address abusive flow-throughs, abusive tax avoidance transactions, trust filers and their

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practitioners. (09/2003)

- Develop and implement a strategy for High-Income Taxpayers. (09/2003)
- Fully implement the K-1 matching program, reconciling partnership income reporting documents to the beneficiaries of this income on federal income tax returns. (09/2003)
- Provide Collection Contract Support (CCS)
  - Obtain legislative approval to authorize use of private collection agencies on IRS tax debt and permit funding from incremental tax revenue collected. (10/2003)
  - Communicate with key stakeholder groups and incorporate stakeholder feedback into proposal as feasible. (02/2003)
  - Issue Draft RFQ for industry comment. (02/2003)
  - Hold industry briefings. (03/2003)
  - Issue final RFQ, dependent upon legislative approval. (10/2003)
  - Develop inventory selection and technology requirements for cases to be worked through CCS. (06/2003)
  - Develop process and procedures to be used by CCS companies. (10/2003)

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**Management Challenge or High Risk Area: *Revamp Business Practices to Meet Taxpayer Needs***

The ability to balance the goals of helping taxpayers comply with tax laws and improving overall compliance depends on successful modernization of business practices.

**FY 2002 Accomplishments:**

In FY 2002, IRS completed the following actions:

- Completed centralization of all employment tax processing to two Submission Processing sites.
- Tested feasibility of correspondence imaging to allow Customer Service Representatives immediate on-line access to customer correspondence.
- Improved and enhanced employee manuals and tools.
- Improved training to Toll-free/Adjustments workforce by determining skill gaps.
- Integrated business systems such as Automated Offer in Compromise, Automated Lien System, Inventory Delivery System and Automated Trust Fund Recovery System onto a single platform.
- Provided a single-point for electronic filing and test prototype solutions for the combined electronic transmission of federal and state employer quarterly tax and wage reports.
- Prototyped an application to provide employers a quicker method to securely access, apply for, and receive a Federal EIN on-line.
- Reconfigured the Practitioner Hotline to a centralized system.
- Centralized the processing of Offers in Compromise (OIC).
- Continued efforts to ensure that work is allocated to the proper operating division by implementing standardized criteria to reassign compliance cases.
- Responded to taxpayer demand and implemented pre-filing agreement program.
- Restored the IRM as the authoritative source of IRS policies, procedures, guidelines, and delegations. Specific accomplishments include: (1) 82% of the overall IRM has been realigned into a process based structure and all remaining old format 6x9 IRM eliminated; (2) IRM index issued quarterly; and (3) increased accessibility and currency of IRM on the Digital Daily.
- Ensured that employees have access to the source documents upon which the IRS bases is operating procedures.
- Promoted standardized plans and implemented accelerated processing procedures to manage a cyclical spike in Employee Plan determination requests.

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## **Actions Planned or Underway**

IRS will continue to respond to this challenge through the following planned actions:

- Establish customer liaisons for media and publications. (09/2004)
- Continue to work with industry to enable online tax return entry and submission at no cost. (09/2004)
- Improve and enhance employee manuals and tools: Implement streamlined clearance process for the IRM to facilitate more timely updates. (09/2004)
- Engage new electronic research contracts to replace existing contracts that expire in June 2003. Includes enhanced content and capabilities to help employees locate tax and legal research services. (09/2004)
- Work with stakeholders to develop long-term solutions to stabilize the flow of Employee Plan determination receipts. (1/2004)
- Expand electronic tax products. (09/2004)
- Enhance customer experience by routing calls to appropriate assistors. (09/2004)
- Improve and enhance employee manuals and tools. (09/2004)
- Continue to deploy the Integrated Case Processing system. (09/2004)
- Redesign business processes to provide service around an industry rather than geographically to provide better service for each taxpayer. (09/2004)
- Move to an issue-driven examination process for large and midsize businesses. (09/2004)
- Re-engineer the Published Guidance process. (09/2004)

**Cross-Cutting Coordination and Partnering Efforts**

IRS has formed many strategic partnerships with other Federal agencies, state and local governments, and private sector organizations to help achieve its mission, goals, and objectives. The crosscutting coordination efforts outlined below help improve customer service, manage compliance risks, and make tax administration more efficient. The following matrix shows how these efforts are linked to our three primary programs and performance goals: improving pre-filing, filing, and compliance services. Descriptions of the crosscutting actions are provided after the Matrix. Note that the release of Federal tax returns and/or tax information will only take place in compliance with the confidentiality requirements of Title 26, Section 6103 of the Internal Revenue Code of 1986.

<b>Coordination on Cross-Cutting Goals</b>			
<b>Program / Performance Goal</b>	<b>Pre-Filing -- <i>Provide taxpayers with greater access to information, assistance and support before they file their return.</i></b>	<b>Filing -- <i>Improve the quality of the service provided to taxpayers in filing their tax returns.</i></b>	<b>Compliance -- <i>Identify and correct all substantive errors in filed returns, reporting of income and payment of taxes.</i></b>
<b>Title of Cross-Cutting Action</b>			
<b>State and Local Government Partnerships</b>	State Tax Agencies	State Tax Agencies	State Tax Agencies
<b>Criminal Investigation</b>			Department of Treasury Department of Justice Drug Enforcement Agency Federal Bureau of Investigation U.S. Secret Service Department of Transportation Department of Homeland Security
<b>Database Sharing</b>	Immigration Naturalization and Specialization (INS)	Social Security Administration Health & Human Services Department of Education Federal Emergency Mgmt. Agency Small Business Administration Department of Agriculture Department of Veterans Affairs Housing & Urban Development State Tax Agencies Financial Management Service Treasury IG for Tax Administration U. S. Postal Service Department of Transportation Department of Treasury	Social Security Administration Health & Human Services Department of Education Federal Emergency Mgmt. Agency Small Business Administration Department of Agriculture Department of Veterans Affairs Housing & Urban Development State Tax Agencies Financial Management Service Treasury IG for Tax Administration U. S. Postal Service Department of Transportation Department of Treasury

**Coordination on Cross-Cutting Goals**

<b>Program / Performance Goal</b> <b>Title of Cross-Cutting Action</b>	<b>Pre-Filing -- Provide taxpayers with greater access to information, assistance and support before they file their return.</b>	<b>Filing -- Improve the quality of the service provided to taxpayers in filing their tax returns.</b>	<b>Compliance -- Identify and correct all substantive errors in filed returns, reporting of income and payment of taxes.</b>
<b>Document Matching</b>		Social Security Administration Department of Justice	Social Security Administration Department of Justice
<b>President's Management Agenda e-Government Initiatives</b>	Office of Management and Budget Tax Software Professionals Department of the Treasury Department of Education	Department of Labor Social Security Administration General Services Administration Tax Software Professionals	Small Business Administration Social Security Administration
<b>Education and Assistance Programs</b>	Small Business Administration Taxpayer Associations Department of Labor Social Security Administration Department of Education Federal Deposit Insurance Corporation Federal Emergency Management Agency Other Government Entities (including Indian Tribal governments) Military Financial Institutions State Tax Agencies Treasury IG for Tax Administration Volunteer and Community Agencies Large Employers Veterans Administration National Credit Union Administration Practitioner and Preparer Associations Educational Institutions Community-Based Coalitions Low-Income Tax Clinics Department of Health and Human Services State Tax Agencies		
<b>Make Filing Easier</b>	Financial Institutions State Tax Agencies Treasury IG for Tax Administration Department of Education Treasury Department Department of Labor	Social Security Administration Department of Labor Department of Treasury Small Business Administration State Tax Agencies	

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## **State and Local Government Partnerships**

IRS partners with state and local law enforcement and revenue organizations to accomplish the operational priorities of the Pre-Filing Taxpayer Education and Assistance program. IRS is partnering with the states of Illinois, Maryland, Pennsylvania, and Washington to develop a web-based application that would allow small businesses in these states secured access to apply for and receive Employee Identification Numbers on-line. Additional cooperative efforts are underway with state governments such as an effort to streamline the Employer Identification Number assignment process so that new businesses only have to obtain one number for Federal, state, and local government tax purposes. IRS has also partnered with the states of California, Georgia, Iowa, Louisiana, Minnesota, Montana, Nevada, and Texas to study how Federal and state employment tax and wage reporting laws could become more uniform, thus simplifying reporting for small businesses.

IRS also engages in cooperative efforts with the State Vital Statistics offices and with Commercial Off-The-Shelf tax return preparation developers to maintain consistency in software programming with the updated Earned Income Credit tax law requirements. The Volunteer Income Tax Assistance and Tax Counseling for the Elderly Program sometimes works in tandem with state and Federal agencies to provide tax assistance to low income, elderly, and non-English-speaking taxpayers. In some states, equipment and space is provided by the state functions for these sites and in other states, training is provided by IRS entities for the volunteers. IRS partners with state and local governments to provide customers with one-stop service relative to tax responsibilities by engaging in development of non-traditional sites for servicing customers that will result in a more convenient and comprehensive level of service.

The Federal Unemployment Tax Act (FUTA) certification program is the method IRS uses to verify with states / agencies that credits claimed on Form 940 or Schedule H was actually paid into the states' unemployment funds. The 50 states, District of Columbia, Puerto Rico and the Virgin Islands participate in this program.

IRS is exploring partnering opportunities with local and state government taxpayer advocates with a specific focus on activities to ensure the protection of taxpayer rights. Preliminary meetings are being scheduled in FY 2003 to identify goals and objectives and coordinate the joint efforts of the local, state, and federal government.

The IRS is partnering with state tax agencies to develop joint initiatives for dealing with abusive tax avoidance transactions and high-income non-filers and improving the mutual exchange of compliance enforcement data.

## **Criminal Investigation**

In response to the recommendations of the Webster Commission, Criminal Investigation (CI) developed a compliance strategy that increases emphasis on legal source income and other tax related investigations. This strategy, implemented in FY 2000, establishes objectives and priorities

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in support of overall IRS compliance efforts. It divides CI's investigative workload into the three distinct categories of Legal Source Tax Crimes, Illegal Source Financial Crimes and Narcotics Related Financial Crimes. The document also specifies workload guidelines and selection criteria in each category. The strategy also provides field offices with annual guidance on how to develop plans and strategies to meet overall organizational goals. External stakeholders, such as the Department of Treasury, Department of Justice Tax Division and the executive Office of the Organized Crime and Drug Enforcement Task Force, were consulted during the development of the compliance strategy. IRS continues to commit resources to support the National Drug Control Strategy and anticipates a significant increase in the level of reimbursement for the narcotics related financial crimes program.

Criminal Investigation plays a key role in the development and implementation of the National Money Laundering Strategy (NMLS). The NMLS sets forth a series of action items to accomplish goals fundamental to the fight against money laundering. A key action item calls for the designation of High-Risk Money Laundering and Related Financial Crime Areas (HIFCAs). Six HIFCAs have been designated thus far, with more designations expected this fiscal year. The HIFCAs are used to coordinate law enforcement efforts at the federal, state, and local level to combat money laundering, whether based on drug trafficking or other criminal activity. Since September 11, 2001, the HIFCAs are being used to assist in identifying terrorist financing and fundraising activity.

IRS is actively supporting the national effort to combat terrorism through its participation in the Federal Bureau of Investigation's Joint Terrorism Task Forces (JTTFs), the U.S. Attorney's Offices' Anti-Terrorism Task Forces (ATTFs), and "Operation Green Quest", the Treasury Department initiative to identify and disrupt terrorist financing and fundraising. The unique financial investigative skills of CI's special agents have traditionally proved useful in the investigation of domestic extremist elements that espouse anti-government, anti-taxation philosophies or file fictitious financial instruments. These financial skills are equally useful in investigating international terrorist groups and groups that engage in fundraising efforts in support of them. IRS will support the U.S. Secret Service in their efforts to provide security and protection for major presidential and vice presidential candidates during the 2004 national campaign.

CI will be called upon to support the Department of Justice initiatives including Public Corruption, High Technology Crimes, International Commerce and Corporate Fraud. The United States Attorney's Office has traditionally requested CI's assistance in these types of financial investigations. Historically, there has been a nexus with White Collar Crime and Tax Evasion.

### **Database Sharing**

The Social Security Administration provides enhancements to their Social Security Number database, which interfaces with IRS' databases to validate Taxpayer Identification Numbers. IRS continues to coordinate with Health and Human Services to obtain data that can be used as a filter for the purpose of administering those sections of the Internal Revenue Code of 1986 that grant tax benefits to individuals supporting a child and/or providing a residence for a child.

The Electronic Tax Administration office is working with the prime contractor on development of a Transcript Delivery System. The system will be



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deployed in 2003 and provide return and account transcripts, W-2s and Verifications of Non-Filing. Other Federal agencies have contacted IRS seeking an electronic means to verify income for disaster relief programs and federally backed loan, grant or subsidy guarantees. IRS is currently working with the Department of Education to determine their need for income verification for student financial assistance. The Federal Emergency Management Agency and the Small Business Administration for disaster relief programs have contacted IRS. The Departments of Agriculture, Veterans Affairs, and Housing and Urban Development have expressed an interest in this system as well. The Departments of Education and State are some of the customer segments included in the 2003 release.

IRS has interaction with the United States Postal Service on a National Change of Address program to update master file addresses with taxpayer address information listed with the Postal Service. IRS is receiving weekly updates to the database from the Postal Service to reduce redundant mail, mail sent to the same taxpayer at different addresses and undeliverable mail.

A provision of the Tax Reform Act of 1997 authorized the collection of tax debts through continuous levies on Federal payments. As a result, IRS has entered into an interagency agreement with the Financial Management Service (FMS) that allows IRS to provide information on delinquent taxpayers that receive Federal payments to them. The agreement also requires IRS to reimburse FMS for each Federal payment they process for the IRS. IRS has agreed to pay a preset fee amount in FY 2003 of over \$8.8 million dollars. This amount represents the cost to FMS to administer the program. When the preset amount is reached, FMS will discontinue billing for the remainder of the fiscal year. Additionally, an effort by IRS is underway to examine the potential for modifying congressional language to assess the processing fee from the taxpayer. The result of this program funding issue will impact the agreement between these two agencies.

IRS continues to solicit participation with state taxing agencies for the State Income Tax Levy Program. This program issues a levy to the state for potential income tax refunds of individuals who have an unresolved tax debt with the Service. The Service negotiates and enters into an agreement with each participating state regarding the procedures to be used to administer this program.

IRS is currently partnering with Immigration and Naturalization Services (INS), Treasury Inspector General for Tax Administration (TIGTA), Criminal Investigation Division (CID), Small Business and Self Employed (SB/SE), Large and Mid-Size Business (LMSB), and Disclosure to address Individual Tax Identification Number (ITIN) issues as they relate to identify theft. The task force is concentrating on the continued utility of the ITIN program, the restructuring of the program to deter fraudulent use of the ITIN number, employee procedures for proper implementation, resources needed to properly manage the program, methods to effectively curtail fraud, and deliverable(s).

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## **Document Matching**

The Combined Annual Wage Reporting Program is a joint effort between IRS and the Social Security Administration to reconcile employer payroll tax data filed with the IRS and wage data reported for Social Security purposes on forms W-3 and W-2. The result of funding this program through the STABLE Initiative will be a more accurate recordation of employee-employer contributions and enhanced integrity of the Social Security Trust Fund by ensuring that employee earnings are timely and properly posted to Social Security's database. IRS and external stakeholders such as the Department of Justice Tax Division have committed to supporting the Trust Fund Compliance Initiative with legal action when necessary.

### President's Management Agenda e-Government Initiatives

In November of 2001, the Office of the Management and Budget (OMB) established, through its Quicksilver Task Force, 24 e-government initiatives that are part of the President's Management Agenda (PMA). These initiatives are designed to improve Government-to-Government (G2G), Government to Business (G2B), and Government to Citizen (G2C) services while improving the internal efficiency and effectiveness of the Federal Government. Under this umbrella of initiatives, IRS was assigned the managing partner of two: Free Tax Filing and Expanding Electronic Tax Products for Businesses. Both of these initiatives support the goals and requirements set forth in the IRS Restructuring and Reform Act of 1998 (RRA '98) and are aligned with IRS' Strategic Goals and objectives.

The first initiative, Free Tax Filing, is designed to make tax return preparation and filing more accessible by providing free online tax preparation and filing services to a significant portion of individual taxpayers. To accomplish this initiative, IRS is partnering with members of the tax software community. Other key partners for a successful implementation include the Department of Treasury and OMB.

The Expanding Electronic Tax Products for Businesses initiative includes seven projects that will deliver benefits by reducing the number of the business tax forms that must be filed, providing timely and accurate tax information to businesses, increasing the availability of electronic tax filing and modeling simplified federal and state tax employment laws. These projects include Form 94x Series, Form 1120/1120S, Form 8850, Internet Employer Identification Number (EIN), Harmonized Wage Reporting, Single Point of Filing W-2/3 (SPEF) and Standardized EIN.

In addition to managing two of the PMA initiatives, IRS is also supporting other managing partners within the PMA e-government portfolio. Some of these partners and projects include Social Security Administration (e-Authentication and Digital Signature), Small Business Administration (One-Stop Compliance), Department of Labor (GovBenefits), General Services Administration (e-Vital and eTravel), and Department of Education (Online Access for Loans).

### **Education and Assistance Programs**

IRS will be focused on expanding business partnerships with established institutions, including the Small Business Administration and industry/professional organizations to provide specialized education and assistance programs. IRS has already partnered with the Small Business

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Administration to create tax products and services that make it easier to access and understand tax information, services, and products. For example, the Small Business Resource Guide CD-ROM was created and produced by the IRS as a major step to addressing the educational tax needs of the small business community. The development of the CD-ROM was a collaborative effort among IRS, Small Business Administration, the U.S. Department of Labor, and the Social Security Administration subject matter experts.

In addition, IRS continues to leverage partners by building community coalitions that provide tax education, preparation and assistance to reach targeted taxpayer segments. One recently established coalition utilizes the resources of the United Way, the Federal Reserve Bank and state government agencies to develop initiatives to provide education and outreach on the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) to its low-income citizens. This is just one example of many where IRS is expanding its programs to reach EITC and CTC-eligible taxpayers while empowering cities and communities.

#### Make Filing Easier

IRS has entered into an Interagency Agreement with the Department of Labor (DOL) to process Return of Employee Benefit Plan forms (Form 5500) shared by Labor, IRS, and the Pension Benefit Guaranty Corporation (PBGC). IRS and Labor share the costs of Form 5500 processing. The Employee Retirement Income Security Act Filing Acceptance System was created by the agencies working to streamline pension plan reporting and disclosure per a National Performance Review initiative. The Department of Labor fully funded the development and scale-up costs of enhancing the prototype, and requires a commitment of funding from IRS for each processing year. IRS has worked cooperatively for many years with the other agencies charged with enforcing the Employee Retirement Income Security Act of 1974 (ERISA). Employee Plans, DOL and PBGC work together to continuously improve the annual reporting and disclosure requirements of Titles I and II of ERISA, as well as administer compliance programs and develop and issue guidance to the employee benefit community.

IRS created a Permanent Disaster Response Team, which, in coordination with the Federal Emergency Management Agency, is to assist taxpayers in clarifying and resolving tax matters associated with a Presidentially declared disaster. One of the duties of the Disaster Response Team is to postpone certain tax-related deadlines for up to 120 days for taxpayers determined to be affected by a presidentially declared disaster.

The Simplified Tax and Wage Reporting System is a partnership among the Department of Labor, Social Security Administration, IRS, Small Business Administration, and Department of Treasury. IRS seeks to partner with federal government agencies and businesses to simplify the employment tax and wage reporting process. This effort has three major components designed to provide taxpayers with alternative and less burdensome filing options: single-point filing, streamlined customer service, and simplified requirements. IRS will be working with these agencies to develop a multi-jurisdictional authentication for electronic interaction with government and to improve electronic filing allowing the disclosure of taxpayer information to non-tax agencies for other than tax-related purposes.

IRS and the Department of Labor are partnering to implement the recent Trade Act of 2002 legislation. Form 1040 will be revised to reflect legislation changes to ensure eligible taxpayers receive the refundable tax credit for defraying the cost of health insurance for displaced workers.

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## **Validation and Verification Methodology**

The Balanced Measurement System provides a means for collecting and reporting data about the levels of customer satisfaction, employee satisfaction and business results for the organization. It is critical that this information be accurate and reliable because it is used across the organization and by stakeholders and oversight bodies to make informed business decisions on the future direction and course of the IRS.

The IRS follows departmental guidance in the preparation of templates about the verification and validation of data and definitions for performance measures and other terms. Consistent with this guidance, measures for which a process or system is in place to verify and validate the data collected are denoted as “reasonably accurate.” Measures for which there is not a system in place to verify and validate the data collected are denoted as “questionable or unknown accuracy” and a statement is included about the steps being taken to address the accuracy issue in these cases.

Internal Revenue Manual policy on the IRS Balanced Measurement System (IRM 105.4) also requires the completion of detailed templates for performance measures. The templates facilitate a common understanding across the organization of a measurement’s definition, formula, reliability, reporting frequency, and other criteria. The verification and validation of data quality for each measure is the primary responsibility of the respective Business owners. For example, in compiling measurement results for the Annual Program Performance Report, the Business owners provide a Performance Indicator Worksheet that is completed as part of the process and which calls for identification of any limitations to the data provided. These templates for IRS performance measures culminate in the Data Dictionary, which is available on the IRS website at [http://www.irs.gov/pub/irs-utl/data\\_dictionary.pdf](http://www.irs.gov/pub/irs-utl/data_dictionary.pdf).

## Program Performance Resources, Annual Performance Goals, Measures, Indicators, and Informational Table

**Measures Coding:** IRS Operational Measures that for Treasury-wide GPRA reporting purposes will be utilized as “Treasury Strategic Measures” until IRS finalized development of its: Strategic Measures (S), Operational Measures (O), Workload Indicators (W), and Customer Service Standard (CS)

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
<b>Strategic Measures</b>						
Payment Compliance (S)	N/A	N/A	N/A	N/A	Baseline	TBD
Filing Compliance (S)	N/A	N/A	N/A	N/A	Baseline	TBD
Reporting Compliance (S)	N/A	N/A	N/A	N/A	Baseline	TBD
Potentially Collectable Inventory (S) <sup>7</sup>	N/A	N/A	N/A	N/A	Baseline	TBD
Percent of individual returns filed electronically (S) <sup>7</sup>	28%	31%	35%	36%	41%	44%
Agency-wide employee satisfaction (S) <sup>7</sup>	59%	51%	54%	55%	58%	62%
Employee health and safety – lost workday case rate (S) <sup>7</sup>	N/A	N/A	0.49%	0.98%	0.49%	TBD
<b>Pre-Filing Taxpayer Assistance and Education</b>						
<b>Budget Authority (\$000s)</b>		\$570,401	\$610,969	\$581,465	\$628,440	\$646,500
<b>Direct FTE</b>		3,280	4,179	3,724	4,061	4,065
<b>Performance Goal:</b> <i>The IRS will provide taxpayers with greater access to information, assistance and support before they file their tax return.</i>						
1. Number of taxpayers assisted (direct) (W)	4,662,935	3,693,309	3,817,000	19,772,101	7,000,000	6,000,000
2. EP/EO determination letters (O)	109,461	109,326	190,800	129,680	189,000	128,000
3. APAs and Negotiated Positions (W)	N/A	N/A	104	176	140	160

<sup>7</sup> This measure also appears under related Budget Activity.

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
4. Number of taxpayers assisted (indirect) (W)	N/A	N/A	13,400,000	100,602,546 <sup>8</sup>	17,000,000	23,000,000
5. Education and outreach staff-years (W)	1,099	1,105	1,457	1,415	1,600	1,700
6. Total published guidance items published (O)	N/A	249	N/A	367	330	400
<b>Filing and Account Services</b>						
<b>Budget Authority (\$000s)</b>		\$1,598,832	\$1,657,342	\$1,587,477	\$1,612,326	\$1,656,745
<b>Direct FTE</b>		31,140	31,123	32,039	31,137	30,543
<b>Performance Goal:</b> <i>Improve the quality of the service provided to taxpayers in filing their tax returns.</i>						
7. Individual 1040 returns (paper) (thousands) (W)	92,319	90,586	86,000	84,740	79,000	75,000
8. Business returns (paper) (thousands) (W)	36,690	33,883	34,080	37,126	34,000	33,000
9. Individual 1040 returns (electronic) (thousands) (W)	35,365	40,222	46,000	46,785	54,000	60,000
10. Total primary electronic returns (thousands) (W)	38,585	46,483	52,251	53,026	61,000	67,600
11. Total primary returns filed (thousands) (W)	167,594	170,952	172,331	174,892	174,000	175,600
12. Percent of individual returns filed electronically (S)	28%	31%	35%	36%	41%	44%
13. Information returns filed electronically (thousands) (W)	219,739	330,239	474,700	376,063	TBD	TBD
14. Information returns filed electronically (%) (W)	17%	22%	34%	26%	TBD	TBD
15. IRS Digital Daily hits (billions) (W)	1.56	2.60	3.00	3.11	4.00	4.70
16. Customer account correspondence (O)	16,749,967	19,184,321	18,386,660	22,525,594	22,600,000	23,200,000
17. Teletax and toll-free automated calls (thousands) (W)	49,700	76,117	75,000	63,796	50,000	50,000

<sup>8</sup> FY2002 count includes media contacts.

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
18. Assistor calls answered (thousands) (O)	32,300	32,091	33,750	30,525	33,700	35,000
19. Toll-free customer satisfaction (% satisfied) (O)	58%	59%	N/A	56%	56%	57%
(% dissatisfied) (W)	2%	2%	N/A	2%	2%	2%
20. Toll-free level of service (O)	59.0%	56.4%	71.5%	68.0%	72.0%	73.0%
21. Toll-free tax law quality (O)	73%	76%	78%	81%	86% <sup>9</sup>	88% <sup>9</sup>
22. Toll-free account quality (O)	60%	70%	72%	74%	77%	TBD
23. Customer satisfaction (walk-in) (% satisfied) (O)	91%	90%	N/A	86%	88%	88%
(% dissatisfied) (W)	6%	6%	N/A	8%	7%	7%
24. Total returns prepared (W)	1,092,691	1,009,390	984,000	886,797	737,000	589,000
25. Payment received electronically (thousands) (O)	63,380	64,366	67,438	66,029	66,200	67,100
26. IRS Digital Daily downloads (millions) (W)	149	317	473	438	496	579
27. Tax law contacts (W)	N/A	1,787,338	N/A	1,843,000	1,900,000	2,000,000
28. Customer accounts correspondence quality (O)	78%	79%	85%	75%	79%	TBD
29. Accounts contacts (W)	N/A	3,000,000 <sup>10</sup>	N/A	3,110,000	3,300,000	3,600,000
30. Toll-free tax law accuracy (O)	N/A	N/A	N/A	N/A	87%	89%
31. Toll-free accounts accuracy (O)	N/A	N/A	N/A	N/A	91%	93%
<b>Compliance Services</b>						
<b>Budget Authority (\$000s)</b>		\$3,561,147	\$3,684,170	\$3,476,217	\$3,638,924	\$3,883,544
<b>Direct FTE</b>		44,852	45,362	44,331	44,646	45,776
<b>Performance Goal:</b> <i>Identify and correct all substantive errors in filed tax returns, reporting of income, and payment of taxes.</i>						

<sup>9</sup> Represents W&I performance. Previous years include SB/SE performance.

<sup>10</sup> Estimate.

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
32. Telephone customer satisfaction (ACS) (% satisfied) (W)	54%	56%	N/A	53%	45%	48%
(% dissatisfied) (W)	2%	2%	N/A	3%	7%	6%
33. ACS closures – Taxpayer delinquent accounts (O)	1,052,221	1,006,600	1,012,628	950,696	1,050,000	1,138,000
34. ACS closures – Taxpayer delinquent investigations (O)	412,150	297,791	317,906	190,411	202,000	220,500
35. Automated collection system (ACS) level of service (O)	79%	78%	80%	69%	74%	80%
36. Customer satisfaction – collection field (% satisfied) (O)	47%	53%	N/A	51%	50%	51%
(% dissatisfied) (W)	29%	22%	N/A	23%	15%	14%
37. Field collection – number of cases closed (TDA) (O)	771,455	757,392	804,085	724,430	714,000	769,000
38. Field collection – number of cases closed (TDI) (O)	144,764	119,451	107,119	140,737	113,000	122,000
39. Field collection quality (O)	84%	84%	85%	84%	87%	89%
40. Offers in compromised processed (W)	69,514	97,013	185,000	110,205	124,000 <sup>11</sup>	125,000
41. Automated underreporter cases (O)	2,888,900	2,511,424	2,879,980	2,922,182	2,900,000	3,100,000
42. Automated underreporter quality (O)	93%	95%	97%	95%	95%	TBD
43. Correspondence examination customer satisfaction (% satisfied) (O)	34%	34%	N/A	33%	33%	34%
% dissatisfied) (W)	38%	30%	N/A	41%	35%	33%
44. Correspondence returns examined (EITC) (O)	N/A	479,983	N/A	367,799	349,000	364,000
(non-EITC) (O)	N/A	146,621	N/A	177,447	246,000	227,000

<sup>11</sup> Due to typographical error, the FY2003 OIC target is incorrectly shown as 100,000 closures in the President's Budget.



Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
45. Correspondence examination quality (O)	70%	71%	74%	71%	73%	TBD
46. Field exam customer satisfaction (% satisfied) (O)	44%	47%	N/A	47%	52%	53%
% dissatisfied) (W)	29%	26%	N/A	27%	17%	17%
47. Individual return examinations (> \$100,000) (O)	N/A	55,761 <sup>12</sup>	N/A	64,911	62,000	82,000
48. Individual return examinations (< \$100,000) (O)	N/A	146,790 <sup>12</sup>	N/A	140,350	121,000	148,000
49. Field exam quality (SB/SE) (Office) (O)	58%	70%	73%	74%	73%	74%
(Field) (O)	58%	70%	71%	71%	76%	78%
50. Field exam quality (LMSB) (industry cases) (O)	N/A	70% <sup>12</sup>	N/A	69%	75%	77%
(coordinated industry cases) (O)	N/A	80% <sup>12</sup>	N/A	78%	85%	85%
51. Business returns examined (O)	N/A	23,163	N/A	21,159	18,000	18,000
52. Corporate cases examined (large case) (O)	369	417	566	528	486	486
53. Number of returns closed (large case) (O)	3,578	3,734	3,453	4,851	4,100	4,100
54. EP & EO exam customer satisfaction (% satisfied) (O)	67%	68%	N/A	70%	71%	71%
(% dissatisfied) (W)	11%	10%	N/A	8%	7%	7%
55. EP / EO examinations closed (O)	19,080	15,988	11,900	13,549	15,000	20,400
56. EP / EP examination quality (O)	83%	73%	81%	75%	79%	82%
57. Innocent spouse determinations made & claimant notified (W)	55,698	61,011	65,000	60,730	52,000	51,000
58. Appeals cases closed (disposals) (O)	54,986	54,748	67,560	68,015	77,000	77,000
59. Criminal investigations completed (O)	3,499	3,340	3,280	3,201	3,250	3,400

<sup>12</sup> Official computation of measure began in 2003.

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
60. Total Tax Court cases (beginning inventory & receipts) (W)	35,962	31,883	34,100	36,141	30,000	31,000
61. Taxpayer Advocate closure to receipt ratio (O)	N/A	97.6% <sup>13</sup>	N/A	108%	105%	105%
62. Taxpayer Advocate casework quality index (O)	65%	72%	80%	78.5%	90%	90%
63. Total enforcement revenue (billions) (W)	\$33.8	\$33.8	\$34.8	\$34.1	\$33.9	\$34.5
64. Agency-wide employee satisfaction (S)	59%	51%	54%	55%	58%	62%
65. Servicewide FTE (including EITC) (W)	97,074	97,938	99,901	99,181	99,155	100,043
66. Individual return examinations (O)	N/A	202,551	N/A	205,261	183,000	230,000
67. Number of Tax Court receipts (W)	13,478	14,766	13,500	17,371	18,000	18,500
68. Taxpayer contact FTE positions (with EITC) (W)	65,415	65,730	68,306	68,243	67,534	69,290
69. FTE positions per billion dollars of real GDP (W)	10.57	10.26	10.11	10.17	9.98	TBD
<b>Research and SOI</b>						
<b>Budget Authority (\$000s)</b>		\$87,291	\$102,631	\$80,951	\$90,147	\$93,097
<b>Direct FTE</b>		831	913	843	885	880
<b>Performance Goal:</b> <i>Perform strategic and tactical research to anticipate and identify compliance and tax administration problems.</i>						
<b>Information Services</b>						
<b>Budget Authority (\$000s)</b>		\$1,584,682	\$1,581,041	\$1,530,888	\$1,582,579	\$1,620,174
<b>Direct FTE</b>		7,441	7,499	7,674	8,025	7,986
<b>Performance Goal:</b> <i>Provide the information systems services required by IRS activities to effectively administer the nation's tax law.</i>						
70. Ticket Activity – Open (W)	N/A	N/A	N/A	656,000	660,000	720,000

<sup>13</sup> Official computation of measure began in 2003.

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
71. Ticket Activity – Closed (W)	N/A	N/A	N/A	649,000	660,000	720,000
72. Percent Resolution at First Contact (W)	N/A	N/A	N/A	47%	60%	70%
73. Percent Resolved on Time (W)	N/A	N/A	N/A	71%	80%	85%
74. Mean Queue Time (minutes) (W)	N/A	N/A	N/A	1	1	1
<b>Information Systems Improvement Programs</b>						
<b>Budget Authority (\$000s)</b>		\$33,786	\$39,864	\$38,665	\$49,865	\$49,865
<b>Direct FTE</b>		0	0	0	0	0
<i>Performance Goal: Develop and implement system projects that respond to the specific requirements of the taxpayer groups served by IRS Operating Divisions.</i>						
<b>Business Systems Modernization</b>						
<b>Budget Authority (\$000s)</b>		\$93,616	\$391,593	\$243,892	\$380,000	\$429,000
<b>Direct FTE</b>		0	0	0	0	0
<i>Performance Goal: Effectively manage the contract resources that support capital asset acquisition of business systems modernization.</i>						
<b>Earned Income Tax Credit</b>						
<b>Budget Authority (\$000s)</b>		\$149,308	\$153,940	\$146,000	\$146,000	\$251,167
<b>Direct FTE</b>		2,196	2,353	2,467	2,353	2,994
<i>Performance Goal: Expand customer service and enforcement activities to reduce erroneous filings and payments associated with the Earned Income Tax Credit.</i>						
<b>Shared Services Support</b>						
<b>Budget Authority (\$000s)</b>		\$1,175,700	\$1,101,209	\$1,190,879	\$1,196,875	\$1,230,970
<b>Direct FTE</b>		4,640	4,968	4,917	4,837	4,604
<i>Performance Goal: Effectively provides the logistical services required by IRS activities to administer the nation's tax laws.</i>						

Performance Measures	FY 2000	FY 2001	FY 2002		FY 2003	FY 2004
	Performance	Performance	Target	Performance	Target	Proposed
75. Employee health and safety – lost workday case rate (S)	N/A	N/A	0.49%	0.98%	0.49%	TBD
<b>General Management and Administration</b>						
<b>Budget Authority (\$000s)</b>		\$548,435	\$613,451	\$461,637	\$520,696	\$540,479
<b>Direct FTE</b>		3,327	3,504	3,186	3,211	3,196
<b>Performance Goal:</b> <i>Provide effective leadership and direction in the administration of the nation's tax laws.</i>						
<b>Health Insurance Tax Credit Administration (HITCA)</b>						
<b>Budget Authority (\$000s)</b>		N/A	N/A	N/A	\$70,000	\$35,000
<b>Direct FTE</b>		N/A	N/A	N/A	0	0
<b>Performance Goal:</b> <i>Establish a program to pay a refundable tax credit for the cost of health insurance for eligible individuals.</i>						