
VIII. Planning, Priorities and Risks

This paper sets forth major changes that the IRS is undertaking to achieve a restated mission and strategic goals that closely follow the expectations of Congress and the American people. Recapped earlier in the chart on page 3, these changes are comprehensive and are made up of business practices and strategies, organization and management, information technology and performance measures. This process, referred to as “modernization,” represents a fundamental redesign of the way the agency works, a challenging process for any organization. These changes must take place while current, large-scale operations continue uninterrupted, including ongoing changes to implement new tax laws.

Risks

The amount of change required for modernization, coupled with current complex operations, means that there is significant risk that unanticipated problems will arise, particular plans or milestones may have to be changed, and operational errors will occur. When these events occur, time and money will be needed to address them.

Given the current situation at the IRS, there is no low-risk plan. Any attempt to retain the status quo or make modest incremental changes would increase the gap between the IRS’ ability to deliver required services and what the public and Congress expect, while imposing increasing direct and indirect costs on the public for administering the tax system. In addition, the information technology on which the IRS critically depends is fragile and deficient and cannot be fixed short of a near total replacement. Yet, success in modernization of technology can only be achieved with the appropriate management and organization structure and a program to modernize business practices.

Although there are inherent risks in the modernization process, knowing that they exist means that they can be managed and mitigated so that no setback is

fatal, and we can be reasonably confident of ultimate success. In this regard, two items are critical:

- Setting overall priorities in light of the limited organizational capacity; and
- Establishing effective management over each major change process.

Organizational capacity and priorities

The IRS, like any organization, has limited capacity to manage and absorb change. These limitations arise from such things as the capacity of the top managers to understand, plan and make correct decisions about the many complex issues that arise; the capacity of managers and employees throughout the organization to learn many new ways of doing business, new practices and technology; limitations on the number of subject-matter experts in highly specialized areas, ranging from tax law to technology; time required to consult outside and inside stakeholders; and time required to resolve disagreements. Because the IRS is a public agency that provides an essential service, capacity to make change rapidly is further limited by the need to ensure that essential services, such as the filing season, are never jeopardized and the financial integrity of the revenue stream is maintained. The inherent limitations of organizational capacity and the need to manage risk make it essential to set overall priorities in light of the overall goals.

Even before the redefined mission and modernization program were undertaken, the IRS organizational capacity was stressed to the maximum in an attempt to respond to thousands of individual recommendations from studies and proposals, as well as legislative mandates and tax law changes. This reactive process used up all available capacity without addressing the fundamental problems.

In order to deal with this issue, a set of programs was established to manage activities and priorities in an orderly way in each major area of change with an overall sequence that attempts to maximize the use of available organizational capacity, while gradually expanding it. This sequence aims at delivering on essential near-term operational requirements and improvements in service delivery while carefully planning and implementing longer-term changes. At a very high level, the strategy for each major change program is as follows:

- Century date change and essential filing season-sensitive changes have been top priorities and were managed as one program. This program was completed in early FY 2000.
- Near-term taxpayer treatment and service improvements are rigorously prioritized based on those that are either mandated or deliver maximum benefit to the taxpayer in 12-18 months, and are subject to the limitations of the existing operations and information services organization capacity. As the new operating divisions become operational, they will assume responsibility for ongoing improvements in service. This process will be managed through a new strategic planning and budgeting process.
- By the end of 1999, the design of the new organizational structure at the detailed level was nearly complete and the new organizational units were beginning to assume responsibility for operations.
 - On October 1, 1999, an interim step was implemented in which management of all 25 customer service sites was unified under a Customer Service Field Organization. This organization will eventually become part of the Wage and Investment and Small Business and Self-Employed Divisions.
 - As of early FY 2000, the Tax Exempt and Government Entities Division, Agency Wide Shared Services, Information Systems and the reorganized Taxpayer Advocate Service were operational and the Large and Mid-size Business Division, Appeals and Criminal Investigation were planned to be operational in the first half of 2000.
 - The remaining units, the Wage and Investment Division, the Small Business and

Self-Employed Division and Counsel are scheduled to become operational by the end of calendar 2000. If all goes as planned, by the end of 2000, the existing districts, regions and operational components of the national office will cease to exist and the major elements of the new organizational structure will be in place, although further internal reorganizations and workload reassignments will continue through the 2002 filing season.

- As the new organization is implemented, organizational capacity to manage business process and technology change will increase. There will be four management teams, each with full responsibility for a major part of the operation, as well as a new information systems organization.
- As the new organizational structure is implemented, new balanced strategic measures will be developed while the newly-introduced operational measures continue.
- The Information Systems Modernization program, which was mainly engaged in planning in 1999, will ramp up substantially in 2000 with the goal of delivering the first major projects by 2001. Thereafter, major releases supporting improved business processes and strategies, as outlined in Chapter VI of this document, will be delivered regularly, usually at least once-a-year.

Risks and schedules

An essential aspect of managing risk in this change program is properly managing and communicating the schedules and dates for accomplishing particular change events.

In this huge change process, there will be hundreds of specific changes implemented on particular dates. For example, an organizational change occurred when customer service sites began reporting to a single customer service field organization headquarters instead of a district or service center; a new business system and process implementation occurred when the centralized call-routing software began to route incoming telephone calls to call sites around the country; and a technology change occurred when the

mainframe computer programs for the Andover Service Center began executing on a consolidated computer in Martinsburg rather than on local computers in Andover.

Every change of this kind carries with it risk, and the decision as to when and how to proceed must be carefully evaluated and reevaluated in light of all information available at each point in time. Every specific project that composes the overall change program should be recognized as a learning experience in which more detailed and complete information becomes available over time. Proper risk management depends on constantly using this information to set and reset schedules. Failure to manage risks and schedules in this flexible way enormously increases the likelihood of failures and frequently ends up delaying, rather than accelerating, actual progress.

The role of high-level planning and the presentation of overall milestones, such as those presented in this paper, are to allow for the setting of priorities and the initiation of more detailed planning and implementation projects.

Given the nature of this change process, it is extremely important for management to keep all key stakeholders informed on a regular basis and to explain the intent of presenting various milestones and schedules. It is important for stakeholders to understand the nature of this process, and to evaluate the program based on overall progress towards the strategic goals, rather than placing undue significance on the date on which particular events occur.

Management process

Since the IRS is undergoing extensive change in each of the dimensions described above while current operations continue uninterrupted, an appropriate management process must be established. Each of the dimensions of change affects various parts of the existing operations and requires both high-level leadership and decision making to address major issues and intensive daily management of massive levels of detail and analysis. Finally, each dimension of change requires special expertise and knowledge of best practices used in other private and public sector organizations around the country.

To manage these changes, the IRS established a tailored management process for each area of change. In each change area, an executive steering committee acts as the top-level governing body. The executive steering committee consists of the Commissioner and the senior executives responsible for all the major areas affected by the change. In addition, the Assistant Secretary of the Treasury for Management and the President of the NTEU are members of each committee.

The purpose of these executive steering committees is to provide consistent direction and prompt decision making on all major issues that affect progress in the change areas. Under the general direction of the executive steering committee, there is a program office headed by a senior executive that manages the on-going program and also provides staff support to the committee. The program office maintains plans, performs analyses and provides detailed management and guidance to whatever organizational components within the IRS are necessary for implementation of changes. In most of the change areas, organizational capacity is augmented and knowledge of best practices is provided by an experienced lead contractor.

Since the Commissioner, the two Deputy Commissioners, Chief Information Officer and other top executives are common members of these executive steering committees and also supervise all ongoing operations, high-level communications and coordination are facilitated.

An essential aspect of this change program is very active, ongoing, two-way communications within the organization at all levels and with outside stakeholders, including Congress, Treasury and numerous outside groups with an interest in IRS matters. In each change program, an important function of the program office and of the top executives is developing communications materials and personally meeting with many individuals and groups. This activity is coordinated through an overall modernization communications program managed by the Chief, Communications and Liaison.

Top-level change processes in effect in 2000

Executive Steering Committee	Top Executive	Program Office	Lead Contractor
Taxpayer Treatment & Service Improvements	Deputy Commissioner Operations-Wenzel	TTSI-Tomaso	None
Organization Modernization	Deputy Commissioner Modernization-LaFaver	Modernization Program Management-Stocker	Booz-Allen
Measures	Deputy Commissioner Operations-Wenzel	Measures Organizational Performance Management Executive-Cables	Booz-Allen
Core Business System	Modernization Executive Chief Information Officer Cosgrave	EPMO Mazei	CSC & PRIME Alliance
Financial Management and Control	Deputy Commissioner Operations-Wenzel	FMC Tomaso	None