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Report to Congressional Committees

February 2024

IRS REFORM

Following Leading Practices and Improving Cost Estimation Policies Could Benefit Agency Efforts

Accessible Version

GAO-24-106091

GAO Highlights

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Highlights of GAO-24-106091, a report to Congressional Committees

February 2024

IRS REFORM

Following Leading Practices and Improving Cost Estimation Policies Could Benefit Agency Efforts

Why GAO Did This Study

The IRA included funding for IRS to bolster taxpayer services and enforcement of the tax code, among other purposes. Enforcement of tax laws has remained on GAO's High-Risk List since 1990.

The IRA also includes a provision for GAO to oversee the distribution and use of IRA funds. In this report GAO (1) analyzes IRS's resource levels over the past 10 years; (2) describes IRS's plans for using IRA appropriations; (3) determines whether IRS had developed plans to apply agency reform practices; and (4) assesses the extent to which IRS policies for estimating the costs of IRA-funded projects and initiatives align with best practices in GAO's Cost Guide.

GAO reviewed IRS budget data from FYs 2012 through 2023 and staffing data through FY2022. GAO also reviewed IRS's SOP and GAO's prior work on practices for agency reforms. GAO compared IRS cost estimation policies with the 12 steps in GAO's Cost Guide. GAO also interviewed IRS officials about budget data, the SOP and other plans, and cost estimation.

What GAO Recommends

GAO is making five recommendations. Specifically, IRS should demonstrate that it is following leading agency reform practices and that its policies for estimating both non-IT and IT costs should reflect GAO's cost estimating steps and be included in the Internal Revenue Manual. IRS agreed with the recommendations.

What GAO Found

After years of significant declines in Internal Revenue Service (IRS) funding, COVID-19 relief funding in fiscal years (FY) 2020 and 2021 and the Inflation Reduction Act (IRA) of 2022 reversed this trend. Specifically, annual appropriations, adjusted for inflation, declined about 15 percent from $15.6 billion in FY 2012 to $13.2 billion in 2019. Supplemental funding for COVID-19 relief—appropriated in FYs 2020 and 2021, with portions available through FY 2023—was about $3.1 billion. IRS also experienced a 12 percent decline in staff between FY 2012 and 2022 with attrition outpacing new hires. IRS's hiring of enforcement staff has been a particular challenge during this period.

IRA provided tens of billions in funding for IRS through FY 2031. In April 2023, IRS released its IRA Strategic Operating Plan (SOP), which describes a high-level vision and leadership structure for IRA implementation. It also articulates five transformation objectives with specific initiatives and projects.

Figure: Internal Revenue Service's Inflation Reduction Act Transformation Objectives

Source: GAO analysis of Internal Revenue Service information. GAO illustrations. | GAO-24-106091

Accessible Text for Figure: Internal Revenue Service's Inflation Reduction Act Transformation Objectives

Objective number	Objective title
Objective 1	Taxpayer services
Objective 2	Quickly resolve taxpayer issues
Objective 3	Enforcement on complex tax filings and high-dollar noncompliance
Objective 4	Technology, data, and analytics
Objective 5	Workforce and culture

Source: GAO analysis of Internal Revenue Service information. GAO illustrations. I GAO-24-106091

In prior work, GAO identified leading practices for agency reforms, such as those that IRS is undertaking. IRS officials indicated they have, or plan to, implement the practices but did not provide supporting evidence. These practices can help IRS operationalize the vison outlined in the SOP and achieve its stated objectives. For example, one of the practices focuses on establishing outcomes and performance measures.

To estimate costs in its SOP and spend plans, IRS used different processes for non-IT projects, which consist primarily of labor, and IT projects. IRS does not have a comprehensive policy for non-IT cost estimation. Instead, for the SOP and spend plans, it relied on processes and tools used for annual budget estimates and an estimation template for projects. IRS used existing policies for estimating IT initiatives in the SOP. These policies met or substantially met, four of the 12 steps outlined in GAO's cost estimation best practices. For example, these policies met Step 1 by requiring that estimates define a purpose. However, these IT cost estimation policies partially or minimally met the other eight steps, for example the policies did not require sensitivity analysis. The policies are also not included in the

Internal Revenue Manual, IRS's official guidance compendium. Aligning these policies with best practices can help ensure that cost estimates are reliable. Given the size of the IRA investment in IRS and the importance of an effective and efficient tax system, reliable estimates are important to the success of IRS's reform efforts.

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Abbreviations

BSM	Business Systems Modernization
Cost Guide	Cost Estimating and Assessment Guide
EBS	estimate breakdown structure
EHRI	Enterprise Human Resources Integration
FTE	full-time equivalent
FY	fiscal year
IRA	Inflation Reduction Act
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
OCFO	Office of the Chief Financial Officer
SOP	Strategic Operating Plan
TSO	Transformation and Strategy Office

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Congressional Committees

In August 2022, Congress passed, and the President signed the Inflation Reduction Act (IRA), which included tens of billions of dollars to bolster taxpayer services and enforcement of the tax code, among other purposes.[1] The IRA funding is available through fiscal year (FY) 2031 and will supplement the Internal Revenue Service's (IRS) annual appropriations. In recent years, IRS has experienced challenges providing taxpayer services, processing tax filings, and replacing legacy IT systems.[2] Additionally, enforcement of tax laws has been on our High-Risk List since its inception in 1990.[3] IRS has worked to address these challenges as its annual appropriations have declined over the past 10 years, when adjusted for inflation. Further, the IRS workforce was roughly the same size in FY 2022 that it was in the 1970s. However, tax filings increased almost 11 percent from 2012 to 2022.

In April 2023, IRS released what the agency called the IRA Strategic Operating Plan (SOP). The SOP is a high-level vision for the agency, which includes transformation objectives, related initiatives and early cost estimates of efforts under the plan that are intended to improve tax administration.[4] Congress included a provision in the IRA for us to

[1]Pub. L. No. 117-169, tit. I, subtit. A, pt. 3, § 10301, 136 Stat. 1818, 1831-1833 (2022). In June 2023, the Fiscal Responsibility Act of 2023 rescinded about $1.4 billion of amounts appropriated for IRS by IRA. See Pub. L. No. 118-5, div, B, tit. II, § 251, 137 Stat. 10, 30-31 (2023).

[2]GAO, *Tax Administration: IRS Has Opportunities to Address Longstanding Challenges,* GAO-24-107129 (Washington, D.C.: Oct. 24, 2023).

[3]GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas,* GAO-23-106203 (Washington, D.C.: Apr. 20, 2023). This high-risk area comprises two pressing challenges for IRS—addressing the tax gap and combatting identity theft refund fraud.

[4]IRS, *Inflation Reduction Act Strategic Operating Plan FY 2023-2031*, https://www.irs.gov/about-irs/irs-inflation-reduction-act-strategic-operating-plan (Washington, D.C. Apr. 6, 2023).

oversee the distribution and use of funds appropriated by the act.[5] This report is part of a body of work in response to that provision.

In this report we (1) analyze IRS's spending trends over the past 10 years; (2) describe IRS's plans for using IRA appropriations; (3) determine whether IRS had developed plans to apply leading agency reform practices in implementing its reform efforts; and, (4) assess the extent to which IRS policies for estimating the costs of IRA-funded projects and initiatives align with best practices in our Cost Estimating and Assessment Guide (Cost Guide).

To address the first objective, we analyzed data from several sources and interviewed IRS officials about budget and staffing data. Specifically, to analyze enacted appropriations, including supplemental funding, and rescissions for IRS, we reviewed selected statutes covering FYs 2012 through 2023 that were the source of funding and rescissions for IRS.[6] We analyzed spending and transfer data from FYs 2012 to 2023 from IRS's administrative accounting system. To identify trends in IRS's full-time equivalent staff, including attrition and employment type, we analyzed the Office of Personnel Management's Enterprise Human Resources Integration (EHRI) database and the IRS Data Book.[7] We assessed the reliability of these data by reviewing agency documentation and conducting electronic testing. We determined that the data used from these systems were sufficiently reliable for our purposes.

To describe IRS's plans for using IRA appropriations, we analyzed the SOP and related documents, such as organizational charts and evidence of stakeholder outreach. We interviewed IRS and Treasury officials to discuss the SOP, leadership, oversight, and the planning process.

[5]Pub. L. No. 117-169, tit. VII, § 70004, 136 Stat. 1818, 2087 (2022).

[6]We reviewed: the Department of the Treasury's annual appropriations statutes from FYs 2012 to 2023; the IRA; the Fiscal Responsibility Act of 2023, the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021); Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. N, 134 Stat. 1182 (2020); CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020); and Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020).

[7]IRS Data Book data cover FYs 2012 through 2022 and EHRI data cover FYs 2012 through 2022. EHRI is an Office of Personnel Management database used to analyze the federal workforce and support decision-making on human resources issues across the federal government. It contains data on federal employees' occupation series, pay, hiring and separation dates, and other characteristics. Agencies are responsible for regularly submitting their data files to the Office of Personnel Management.

To determine whether IRS had developed plans to apply leading practices, we reviewed our prior work and other sources of practices in this area.[8] We examined the SOP for discussions of leadership, and other agency reform practices and to see if IRS mentioned any practices they plan to follow. We interviewed officials in IRS's Transformation and Strategy Office (TSO)—which is leading the IRA implementation—and the Office of the Chief Financial Officer, which helped develop the SOP.

To examine the extent to which IRS's cost estimating policies for IRA initiatives align with best practices in our Cost Guide, we analyzed IRS's policy and related documents used for estimating costs of IT initiatives and non-IT initiatives.[9] We compared these documents against the best practices in the 12 steps for cost estimating described in our Cost Guide and discussed our results with IRS officials. For more details on our scope and methodology, see appendix I.

We conducted this performance audit from June 2022 to February 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

In August 2022, following enactment of the IRA, the Secretary of the Treasury directed IRS to deliver, within 6 months, an operational plan on how IRA resources will be used. The plan was to include details on how resources would be spent over the 10-year horizon on technology, service improvement, and personnel.[10] The Secretary stated the plan

[8]For more details on how we identified and selected the leading practices and key questions, see GAO, *Government Reorganization: Key Questions to Assess Agency Reform Efforts*, GAO-18-427, (Washington, D.C.: June 13, 2018).

[9]GAO, *Cost Estimating and Assessment Guide*, GAO-20-195G (Washington, D.C: March 2020).

[10]Department of the Treasury, Secretary of the Treasury, *Memorandum for Commissioner Rettig: IRS Operational Plan* (Washington, D.C.: Aug. 17, 2022).

must include metrics for areas of focus and targets the agency would strive to achieve.

On April 6, 2023, IRS released the IRA SOP.[11] The SOP presents a “transformation vision” with five transformation objectives—each of which include initiatives, key projects, and major milestones. According to the SOP, it is to serve as a guide for decision-making by IRS leadership and project managers, with the agency’s newly established TSO coordinating planning and execution efforts.

IRS Annual Inflation-Adjusted Appropriations Generally Declined from FYs 2012 to 2023; Staffing Levels Followed Similar Trend Through FY 2022

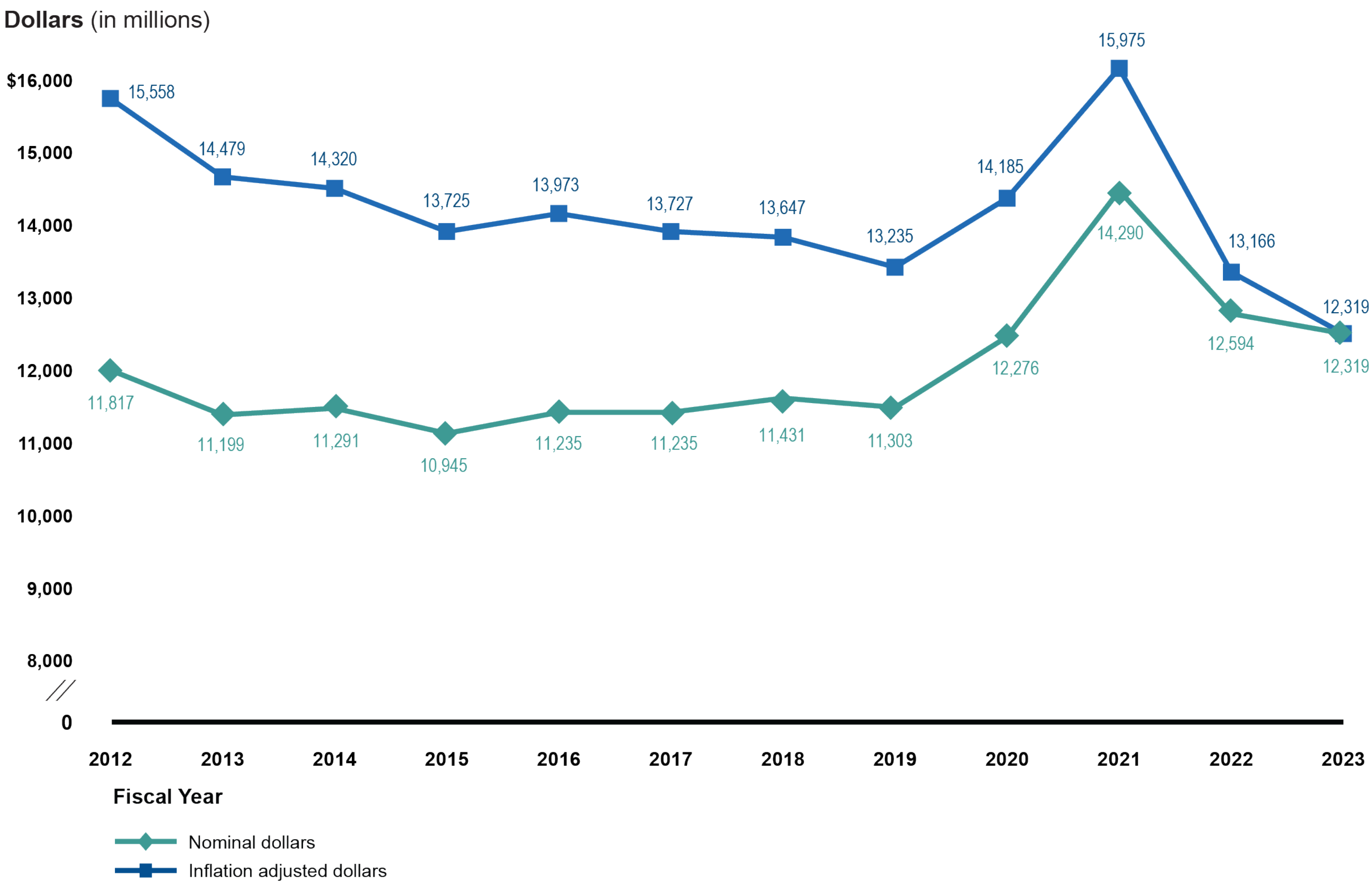
Supplemental Appropriations Partially Offset Declines in Annual Appropriations in FYs 2020 to 2023

IRS’s annual appropriations, adjusted for inflation in 2023 dollars, declined from about $15.6 billion for FY 2012 to $13.2 billion for FY 2019, a decline of about 15 percent in real terms (see fig. 1). An increase in annual appropriations and funding from COVID-19 legislation contributed to an increase in IRS’s total appropriations for FYs 2020 and 2021.[12]

[11]Treasury and IRS officials said the SOP was delivered to Treasury by the February 2023 deadline, but revisions were necessary before its public release.

[12]In FY 2020, IRS received $765.7 million, in part, to issue economic impact payments and support filing season operations. In FY 2021, IRS received $2.371 billion to issue a third round of economic impact payments and to issue monthly advance Child Tax Credit payments, among other things. According to IRS officials, $584 million from the American Rescue Plan Act of 2021 was used to augment IRS’ base appropriations, as the bulk of the supplemental funding was to be used for specific purposes from the legislation.

Figure 1: IRS Appropriations for Fiscal Years 2012 to 2023



Sources: GAO analysis of Internal Revenue Service Operating Plan for fiscal year 2012 and Congressional Research Service reports. | GAO-24-106091

Accessible Data for Figure 1: IRS Appropriations for Fiscal Years 2012 to 2023

Fiscal year	Nominal dollars	Inflation adjusted dollars
2012	$11,817	$15,558
2013	$11,199	$14,479
2014	$11,291	$14,320
2015	$10,945	$13,725
2016	$11,235	$13,973
2017	$11,235	$13,727
2018	$11,431	$13,647
2019	$11,303	$13,235
2020	$12,276	$14,185

Fiscal year	Nominal dollars	Inflation adjusted dollars
2021	$14,290	$15,975
2022	$12,594	$13,166
2023	$12,319	$12,319

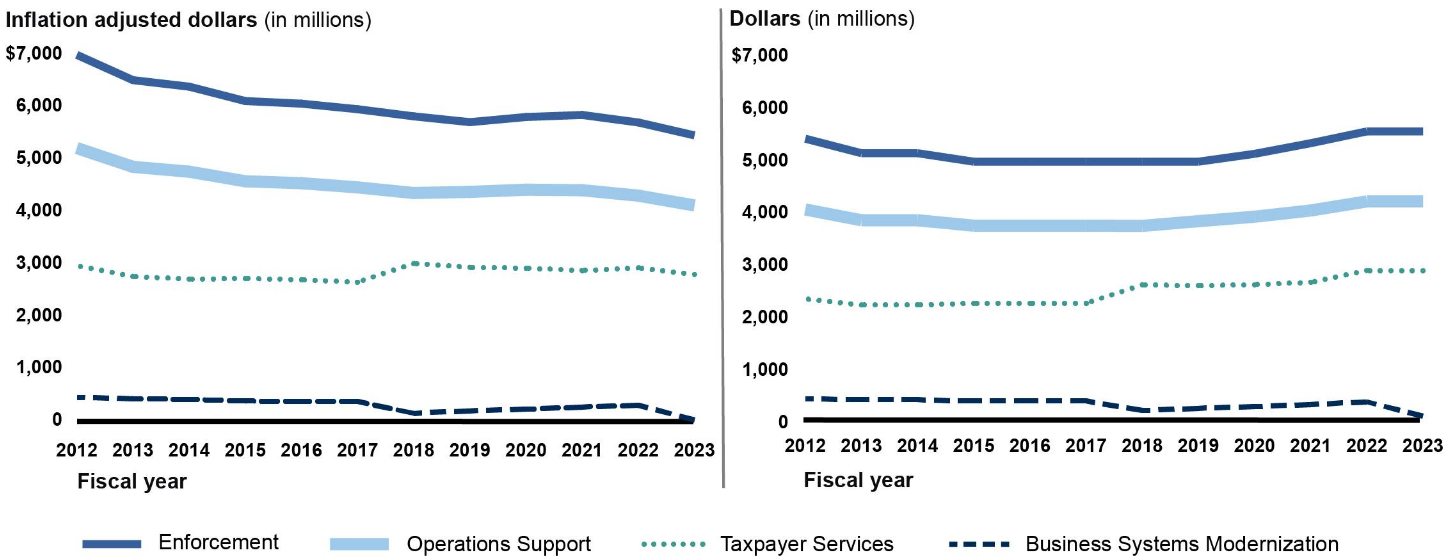
Sources: GAO analysis of Internal Revenue Service Operating Plan for fiscal year 2012 and Congressional Research Service reports. I GAO-24-106091

Notes: Fiscal year 2020 includes an additional $765.7 million in appropriations from the Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020) and the CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020). Fiscal year 2021 includes an additional $1.862 billion from the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021), and $509 million from the Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. N, Tit. II, subtit. B, § 272(f), 134 Stat. 1182, 1975 (2020). Fiscal year 2022 does not include the $79.4 billion in appropriations from the Inflation Reduction Act, Pub. L. No. 117-169 (2022), nor does fiscal year 2023 include the approximately $1.4 billion rescission under the Fiscal Responsibility Act of 2023, Pub. L. 118-5, 137 Stat. 10 (2023). Amounts in the figure do not include user fees or other funds transferred to IRS from other sources. Inflation adjustments were made using Fiscal Year Gross Domestic Product Price Index data from the Bureau of Economic Analysis for 2012 through 2022 and Congressional Budget Office projections for this index for 2023.

IRS's annual appropriation decreased slightly from $14.3 billion ($16 billion adjusted for inflation) in FY 2021 to FY 2022, down to $12.6 billion ($13.2 billion adjusted for inflation). The FY 2023 annual appropriation, $12.3 billion, was a decrease compared with FY 2022. Compared with FY 2012, it was a decrease of almost 21 percent (in 2023 dollars).

Correspondingly, enacted appropriations for each of IRS's appropriation accounts decreased when comparing FY 2012 to 2023, with inflation adjustments (see fig. 2). Historically, IRS appropriations are distributed to four accounts: (1) Taxpayer Services, (2) Enforcement, (3) Operations Support, and (4) Business Systems Modernization (BSM). For a description of the accounts, see appendix II.

Figure 2: Internal Revenue Service Enacted Annual Appropriations, by Account, FYs 2012 to 2023



Source: GAO analysis of Internal Revenue Service Operating Plan for fiscal year 2012 and Congressional Research Service reports for fiscal years 2013-2023. | GAO-24-106091

Accessible Data for Figure 2: Internal Revenue Service Enacted Annual Appropriations, by Account, FYs 2012 to 2023

na	Inflation Adjusted Dollars (in millions)			
Fiscal Year	Taxpayer Services	Enforcement	Operations Support	Business Systems Modernization
2012	2,949	6,976	5,196	434
2013	2,745	6,493	4,837	405
2014	2,693	6,369	4,745	397
2015	2,705	6,094	4,562	364
2016	2,681	6,044	4,525	361
2017	2,636	5,938	4,445	354
2018	2,993	5,802	4,338	131
2019	2,918	5,691	4,359	176
2020	2,903	5,789	4,401	208
2021	2,857	5,828	4,391	249
2022	2,907	5,685	4,287	287
2023	2,781	5,438	4,101	

na	Dollars (in millions)			
Fiscal Year	Taxpayer Services	Enforcement	Operations Support	Business Systems Modernization
2012	2,240	5,299	3,947	330
2013	2,123	5,022	3,741	313
2014	2,123	,5022	3,741	313
2015	2,157	4,860	3,638	290
2016	2,156	4,860	3,638	290
2017	2,157	4,860	3,638	290
2018	2,507	4,860	3,634	110
2019	2,492	4,860	3,724	150
2020	2,512	5,010	3,809	180
2021	2,556	5,213	3,928	223
2022	2,781	5,438	4,101	275
2023	2,781	5,438	4,101	0

Source: GAO analysis of Internal Revenue Service Operating Plan for fiscal year 2012 and Congressional Research Service reports for fiscal years 2013-2023. I GAO-24-106091

Note: This figure does not include transfers among accounts. This figure does not include supplemental appropriations, such as the Inflation Reduction Act and COVID-19-related laws. Inflation adjustments were made using Fiscal Year Gross Domestic Product Price Index data from the Bureau of Economic Analysis for 2012 through 2022 and Congressional Budget Office projections for this index for 2023.

The BSM account did not receive a FY 2023 appropriation. IRS officials said they supplemented those funds with alternate funds, including IRA and an account transfer of $50 million from the Enforcement account.

The IRA provided $3.2 billion for Taxpayer Services, $25.3 billion for Operations Support, $45.6 billion for Enforcement, and $4.8 billion for BSM through FY 2031.[13] In June 2023, the Fiscal Responsibility Act of 2023 rescinded about $1.4 billion of amounts appropriated for IRS by the IRA.

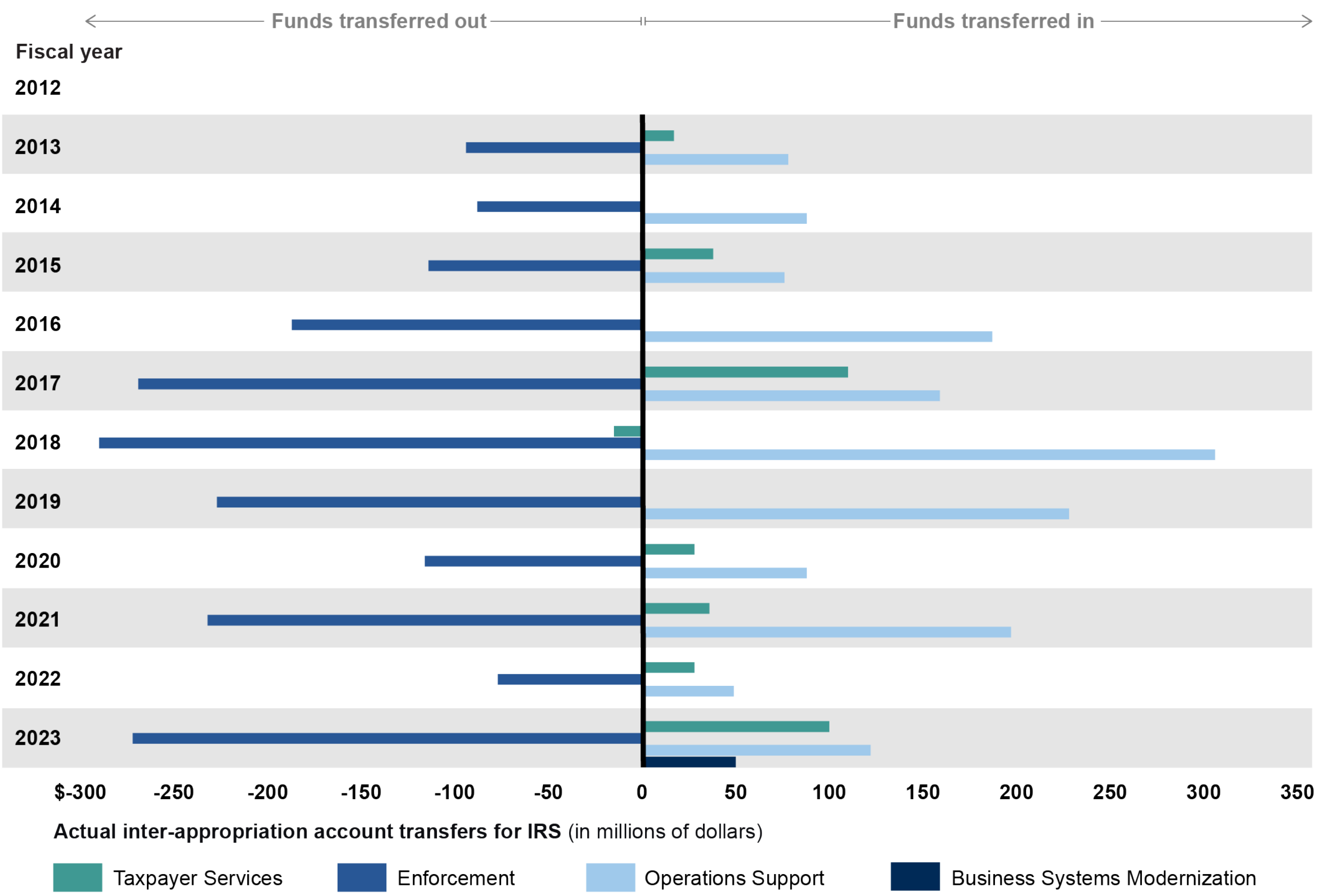
IRS Transferred Funds Out of the Enforcement Account in Most Fiscal Years

With the exception of FY 2012, for all of the years we analyzed, IRS transferred funds among its appropriation accounts, subject to certain

[13]IRA also appropriated $15 million, available through the end of FY 2023, for IRS to report to Congress on the costs and views on a direct e-file tax return system. An additional $0.5 billion was appropriated to carry out provisions related to energy security.

limitations and approvals. (see fig. 3).[14] Almost all of the funds were transferred from the Enforcement account.

Figure 3: Actual Transfers of Funds Out of Internal Revenue Service (IRS) Enforcement to Other Accounts, Fiscal Years 2012 to 2023



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106091

[14]Under previous appropriations acts, Congress has provided IRS with the authority to make inter-appropriations transfers, which are subject to limitations on the amount transferred and to advance approval from the appropriate congressional committees. Following the enactment of annual appropriations, IRS provides an operating plan to Congress to establish the baseline for the application of reprogramming and transfer authorities for the current fiscal year.

Accessible Data for Figure 3: Actual Transfers of Funds Out of Internal Revenue Service (IRS) Enforcement to Other Accounts, Fiscal Years 2012 to 2023

Fiscal Year	Taxpayer Services	Enforcement	Operations Support	Business Systems Modernization
FY 2012	na	na	na	na
FY 2013	16	-94	77	na
FY 2014	0	-87	87	na
FY 2015	37	-114	76	na
FY 2016	0	-186	186	na
FY 2017	109	-268	158	na
FY 2018	-15	-290	305	na
FY 2019	0	-227	227	na
FY 2020	27	-116	88	na
FY 2021	35	-232	196	na
FY 2022	28	-77	49	na
FY 2023	100	-271	121	50

Source: GAO analysis of Internal Revenue Service data. I GAO-24-106091

Note: There were no transfers reported for fiscal year 2012. Dollars are adjusted for inflation to 2023 dollars. Inflation adjustments were made using Fiscal Year Gross Domestic Product Price Index data from the Bureau of Economic Analysis for 2012 through 2022 and Congressional Budget Office projections for this index for 2023.

IRS's justification for transfers varied by year. In 6 of the years, IRS sought to use Operations Support transfers for IT needs. IRS also used transfers to Taxpayer Services to improve telephone level of service and correspondence work. Most recently, for FY 2023, IRS's operations plan states that it planned to use Enforcement account transfers for customer service representatives under the Taxpayer Services account and for IT under the BSM and Operations Support accounts.

IRS Spent $106 Million of IRA Appropriations in FY 2022 and Spent About $3.4 Billion in FY 2023

Since the IRA's enactment in August 2022, IRS spent about $3.5 billion of IRA funding, as of September 30, 2023. Specifically, in FY 2022, IRS spent $106 million, of which $61 million was for Operations Support and used principally for IT investments, according to IRS officials. IRS spent nearly $3.4 billion in FY 2023, with the highest amount (about $1.5 billion) for the Operations Support account (see table 1).

Table 1: Internal Revenue Service (IRS) Spending of Inflation Reduction Act (IRA) Funds, Fiscal Years (FY) 2022 and 2023

n/a	Spending (dollars in millions)	Spending (dollars in millions)	Spending (dollars in millions)
Budget activity	**FY 2022**	**FY 2023**	**Total**
Prefiling Taxpayer Assistance and Education		$16.8	$16.8
Filing and Account Services	$1.1	$871.8	$871.8
Taxpayer Services subtotal	$1.1	$888.5	$889.6
Investigations		$34.5	$34.5
Exams and Collections		$261.3	$261.3
Regulatory		$3.1	$3.1
Enforcement subtotal		$299.0	$299.0
Infrastructure		$100.4	$100.4
Shared Services and Support	$12.3	$106.9	$119.1
Information Services	$48.7	$1,266.6	$1,315.3
Operations Support subtotal	$61.0	$1,473.8	$1,534.8
Business Systems Modernization subtotal	$43.9	$723.2	$767.1
Direct E-File Taskforcea		$11.6	$11.6
Total	$106	$3,396.1	$3,502.1

Source: Internal Revenue Service Integrated Financial System. | GAO-24-106091

Notes: Totals may not add exactly due to rounding.

[a]The Direct E-file Taskforce was a specific appropriation in the IRA, separate from IRS's regular appropriations accounts.

For IT programs in FY 2023, IRS spent about $822 million of the approximately $1 billion planned spending for the year. IRS reported that several IT programs underspent due to implementation delays—such as program changes, hiring, and onboarding delays—some of which will push funding into FY 2024, and contractor efficiencies, among other things. See appendix III for a list of IRA funded IT programs.

For FY 2023, IRS used the IRA funding to partially offset funding shortages. According to IRS officials, the annual appropriation level for FY 2023 resulted in a base shortfall, compared with the budget request. They told us IRA funding helped to ensure progress on IT investments in the absence of a FY 2023 BSM appropriation. Further, IRS's SOP states that an insufficient FY 2023 appropriation for the Operation Support account necessitated the use of IRA funding to supplement IT funding from that account. IRA funding was also used to replace $65.5 million of

COVID-19 funding that was rescinded as a result of the Fiscal Responsibility Act of 2023, according to IRS officials.[15]

As of Sept. 30, 2023, IRA funded nearly 14,000 full-time equivalent (FTE) staff, of which 10,514 were for filing and account services (see table 2).

Table 2: Internal Revenue Service Full-Time Equivalents (FTEs) Hired with Inflation Reduction Act (IRA) Funds, Fiscal Year (FY) 2023

Budget activity	FY 2023 (FTEs)
Prefiling Taxpayer Assistance and Education	3.6
Filing and Account Services	10,514.1
Taxpayer Services subtotal	10,517.7
Investigations	2.3
Exams and Collections	480.9
Regulatory	11.9
Enforcement subtotal	495.1
Infrastructure	0
Shared Services and Support	123.3
Information Services	2,194.2
Operations Support subtotal	2,317.5
Business Systems Modernization subtotal	326.6
Direct File	3.7
Total	13,660.7

Source: Internal Revenue Service Integrated Financial System. | GAO-24-106091

Note: There were no IRA-funded FTEs in FY 2022.

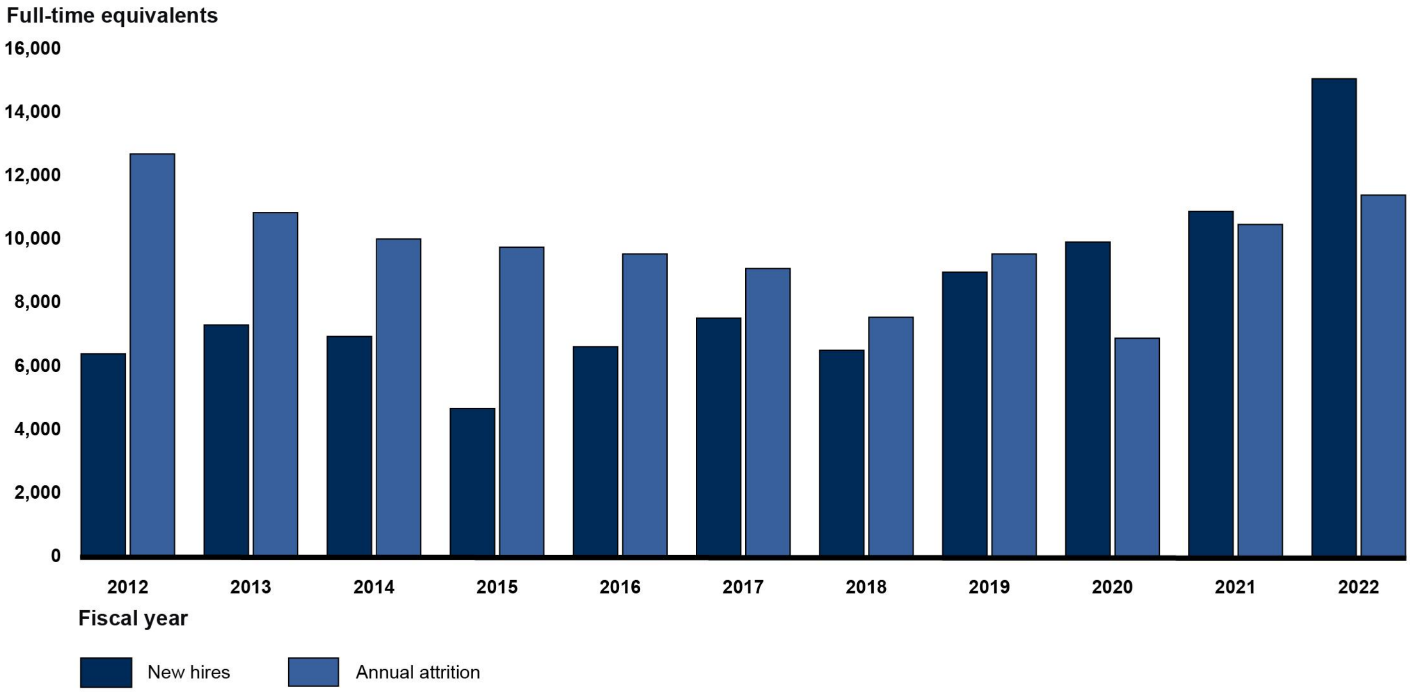
IRS Staffing Generally Decreased between FYs 2012 and 2022, but Customer Service Staffing Began to Increase in FY 2020

IRS reported a 12 percent decrease in FTEs from FYs 2012 to 2022. Decreases in annual appropriations were not sufficient to replace all attrition and pay for inflationary increases, such as mandatory pay raises, according to IRS officials. Our analysis of Office of Personnel Management data showed that attrition exceeded the number of new

[15]See Pub. L. No. 118-5, div. B, tit. I, § 37, 137 Stat. 10, 27 (2023). The Fiscal Responsibility Act rescinded unobligated funds, as of June 3, 2023, previously appropriated to the IRS under Section 9601(d)(1) of the American Rescue Plan Act of 2021 for administration of recovery rebates.

hires through FY 2019.[16] The number of new hires generally increased year over year (see fig. 4). However, cumulative attrition, since 2012 has outpaced new hires by about 17,000 FTEs. [17]

Figure 4: Annual New Hires and Attrition at the Internal Revenue Service, FYs 2012 to 2022



Source: GAO analysis of Office of Personnel Management data. | GAO-24-106091

Accessible Data for Figure 4: Annual New Hires and Attrition at the Internal Revenue Service, FYs 2012 to 2022

Fiscal Year	Full-time Equivalents- New Hires	Full-time Equivalents- Annual Attrition
2012	6,423	12,721
2013	7,335	10,869
2014	6,970	10,037
2015	4,704	9,780
2016	6,649	9,571

[16]In FY 2020, IRS had its lowest attrition of the 10-year period. Attrition increased again in FY 2021, but IRS still had a net gain of employees.

[17]New hires decreased compared with the previous year in FYs 2014, 2015, and 2018.

Fiscal Year	Full-time Equivalents- New Hires	Full-time Equivalents- Annual Attrition
2017	7,547	9,113
2018	6,536	7,576
2019	8,995	9,570
2020	9,944	6,915
2021	10,912	10,498
2022	15,089	11,423

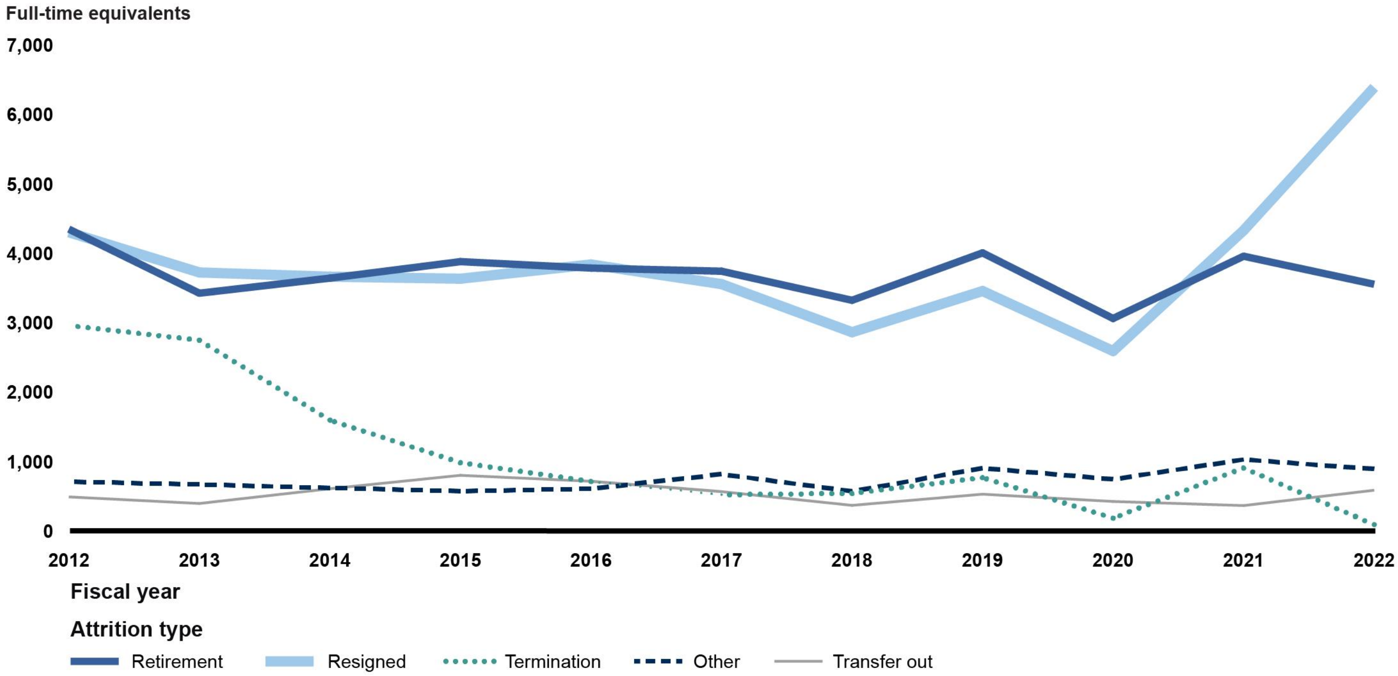
Source: GAO analysis of Office of Personnel Management data. I GAO-24-106091

Note: A small number—less than 11—of certain annual attrition FTEs are excluded from these counts in two years because they belong to a category that was too small to report for privacy reasons, per our agreement with the Office of Personnel Management.

Resignation and retirement were the most common types of attrition at IRS from FYs 2012 to 2022 (see fig. 5). The number of retirements in a year has generally remained stable, an average of about 3,700 FTEs per year. The number of employees who resigned generally decreased from FYs 2012 to 2020, but increased in 2021 and 2022, according to our analysis of Office of Personnel Management data.[18]

[18]The increase in resignations for FY 2022 is likely driven by high turnover among certain filing season staff. See GAO, *2023 Tax Filing: IRS Improved Customer Service, but Could Further Improve Processing and Evaluate Expedited Hiring*, GAO-24-106581, (Washington, D.C.: Jan. 25, 2024).

Figure 5: Types of Attrition at the Internal Revenue Service, Fiscal Years 2012 to 2022



Source: GAO analysis of Office of Personnel Management data. | GAO-24-106091

Accessible Data for Figure 5: Types of Attrition at the Internal Revenue Service, Fiscal Years 2012 to 2022

Fiscal Year	Retirement	Resigned	Termination	Other	Transfer Out
2012	4,330	4,285	2,942	692	472
2013	3,407	3,706	2,729	650	377
2014	3,624	3,645	1,577	601	590
2015	3,862	3,616	965	554	783
2016	3,769	3,821	694	590	697
2017	3,724	3,538	504	799	548
2018	3,305	2,845	522	554	350
2019	3,988	3,438	749	884	511
2020	3,043	2,574	166	726	406
2021	3,940	4,312	889	1,010	347
2022	3,536	6,372	72	875	568

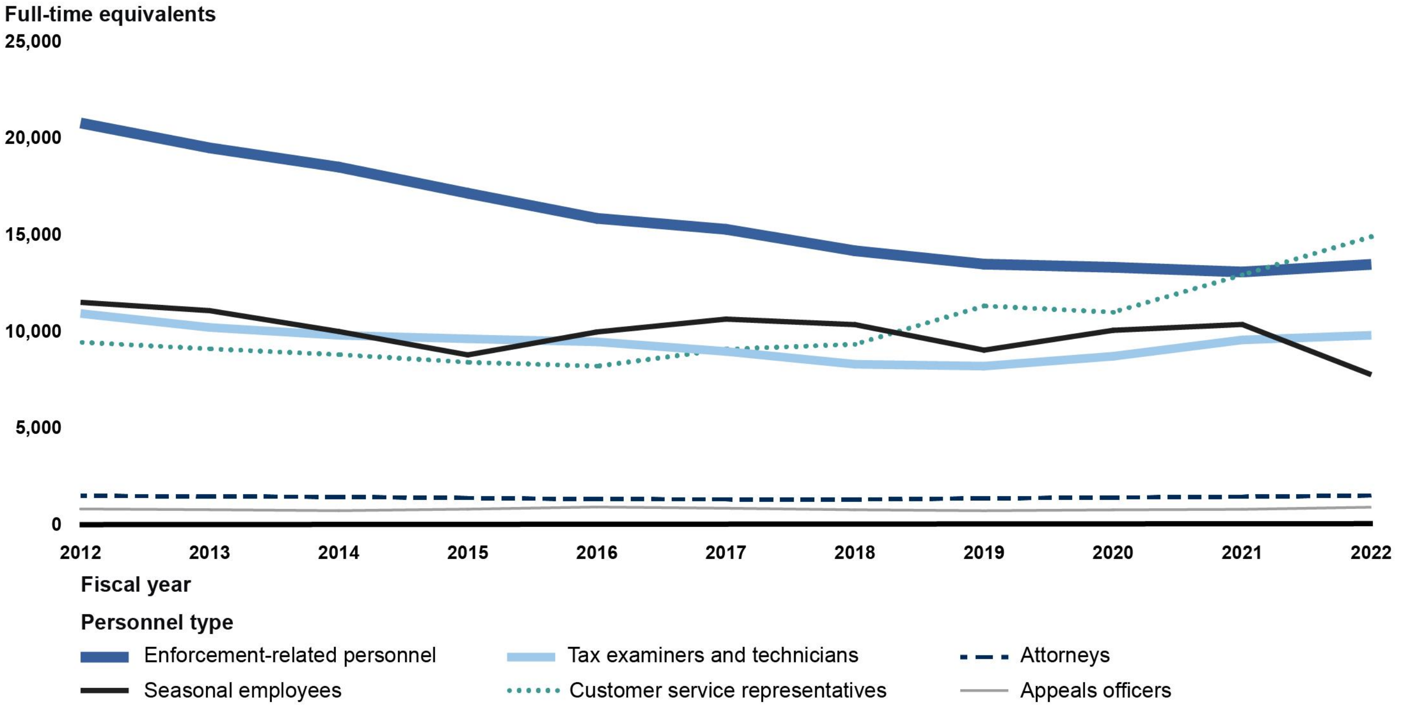
Source: GAO analysis of Office of Personnel Management data. I GAO-24-106091

Note: Other includes death, reduction in force, and discharge. A small number—less than 11—of certain "other" FTEs are excluded from these counts in two years because they belong to a category that was too small to report for privacy reasons, per our agreement with the Office of Personnel Management. Transfer out refers to employees moving to another agency. The resignation count includes voluntary separations, abandoning one's post, and failure to return from military furlough, among other things. The retirement count includes separations entitling an employee to immediate annuity.

Enforcement and Seasonal FTEs Dropped while Customer Service FTEs Increased

IRS reported that FTEs decreased for enforcement-related positions, while customer service representatives increased from FYs 2012 to 2022 (see fig. 6).[19] IRS said that during several of these years it faced challenges with hiring and retaining enforcement staff. During these periods, transfers from the Enforcement account funded customer service staff.

Figure 6: Internal Revenue Service Full-Time Equivalents, by Personnel Type, Fiscal Years 2012 to 2022



Source: Analysis of Internal Revenue Service Data Book. | GAO-24-106091

[19]IRS reported data for eight positions and seasonal employees, which represent about 61 percent of fiscal year 2022 FTEs. We grouped special agents, revenue officers, and revenue agents in an "Enforcement-related personnel" group. Seasonal employees include customer service representatives, tax examiners, and other positions whose seasonal staff are reported separately from non-seasonal positions. The personnel types are all mutually exclusive.

Accessible Data for Figure 6: Internal Revenue Service Full-Time Equivalents, by Personnel Type, Fiscal Years 2012 to 2022

Fiscal Year	Enforcement-related personnel	Customer Service Representative	Tax examiners & technicians	Attorneys	Appeals officers
2012	20,778	9,472	10,961	1,529	851
2013	19,527	9,131	10,239	1,497	811
2014	18,535	8,837	9,834	1,473	761
2015	17,182	8,441	9,651	1,415	841
2016	15,883	8,235	9,494	1,361	949
2017	15,317	9,113	8,998	1,346	888
2018	14,204	9,367	8,336	1,342	807
2019	13,515	11,351	8,238	1,397	760
2020	13,351	11,027	8,749	1,442	803
2021	13,108	12,957	9,595	1,484	831
2022	13,502	14,933	9,834	1,548	940

Source: Analysis of Internal Revenue Service Data Book. I GAO-24-106091

Notes: Enforcement-related personnel includes revenue agents, revenue officers, and special agents. Tax examiners typically review tax returns for accuracy and completeness, and code returns for computer processing, and correspond with taxpayers about missing information. Tax technicians analyze and initiate actions on returns, adjust accounts, and respond to taxpayer inquiries, among other things. Seasonal employees include customer service representatives, miscellaneous clerks/assistance, tax examiners, computer clerks, financial administration, and other positions that have some employees on a seasonal schedule, according to Internal Revenue Service officials.

The number of IRS employees with seasonal schedules decreased about 29 percent from FYs 2012 to 2022. Seasonal employees typically assist with tax filing season duties, such as document submission processing. In 2019, we reported that IRS expected the number of seasonal employees would increase.[20] However, for the 2021 filing season, IRS converted seasonal employees to permanent hires to help address the tax filing backlog.[21]

[20] GAO, *Internal Revenue Service: Strategic Human Capital Management is Needed to Address Serious Risks to IRS's Mission*, GAO-19-176 (Washington, D.C.: Mar. 26, 2019).

[21] GAO-22-104938.

IRA SOP Outlines a Vision and Initiatives to Use IRA Funding to Transform the Agency

Plans for Implementing Initiatives Are Under Development

The IRA SOP, released in April 2023, outlines how IRS will deploy IRA investments and describes a high-level vision for the agency, transformation objectives, and related initiatives intended to improve tax administration. The SOP provides estimated funding allocations through FY 2031 by appropriations account and for each of the five transformation objectives. IRS also provided estimated budget information for IRA spending for FYs 2023 and 2024 in its 2024 Congressional Justification.

To guide implementation of the SOP, IRS established the Transformation and Strategy Office (TSO) led by the Chief Transformation and Strategy Officer who reports to the Commissioner. The TSO has several responsibilities, according to the SOP, including:

- **Governance and accountability.** The TSO plans to update the SOP annually based on lessons learned, progress, and the changing environment. As of August 2023, IRS had selected the Chief Transformation and Strategy Officer and was finalizing the structure of the office and filling positions.
- **Real time and transparent prioritization, monitoring, and risk management.** The TSO is responsible for setting key performance indicators, facilitating risk identification and response, and making decisions based on performance and risk information.
- **Supporting execution planning and project management.** The TSO is responsible for general support to initiative and project owners on project management, planning, implementation, and integration with other initiatives.
- **Capability building, change management, and culture change.** The TSO is also tasked with supporting initiatives on organizational structures and assuring these efforts are integrated while building a culture of service and continuous improvement.

IRS also established a Commissioner's Advisory Committee to serve as the primary governance forum for cross-agency coordination and decision-making as it relates to SOP planning and implementation. A larger governance design effort is underway across the IRS to enable decision-making at various levels of the organization, as appropriate, according to IRS officials.

IRS states in the SOP that it will regularly report to Congress and stakeholders on implementation progress and any changes that are needed as the agency determines which efforts are working and as the operating environment changes over time. In October 2023, IRS provided spending information to Congress. IRS has also participated in IRA implementation discussions with stakeholder groups, including at the 2023 IRS Nationwide Tax Forums. In FY 2024, IRS plans to launch a reporting tool with project summaries, business cases and implementation plans by initiative and project, according to IRS officials.

To support IRS's implementation of the SOP, Treasury created an IRA Program Office, which is led by the Chief Implementation Officer. This officer reports directly to the Deputy Treasury Secretary. According to an April 2023 draft organizational chart, at least 26 new roles at Treasury are planned, with eight of those designated as priority hires to be filled.[22] A Treasury official said its Program Office is working in four areas: 1) modernization, which includes SOP implementation; 2) implementation of tax credits for clean energy, 3) internal and external stakeholder engagement, and 4) data and metrics for understanding and monitoring IRA implementation.[23] The Program Office works with TSO on initiative implementation and also performs oversight and has been helping to establish milestones and goals.

In August 2023, IRS officials said they are developing plans for communication and stakeholder outreach. They are also finalizing performance measures that will track to specific capabilities to be delivered for the 2024 and 2025 filing seasons.

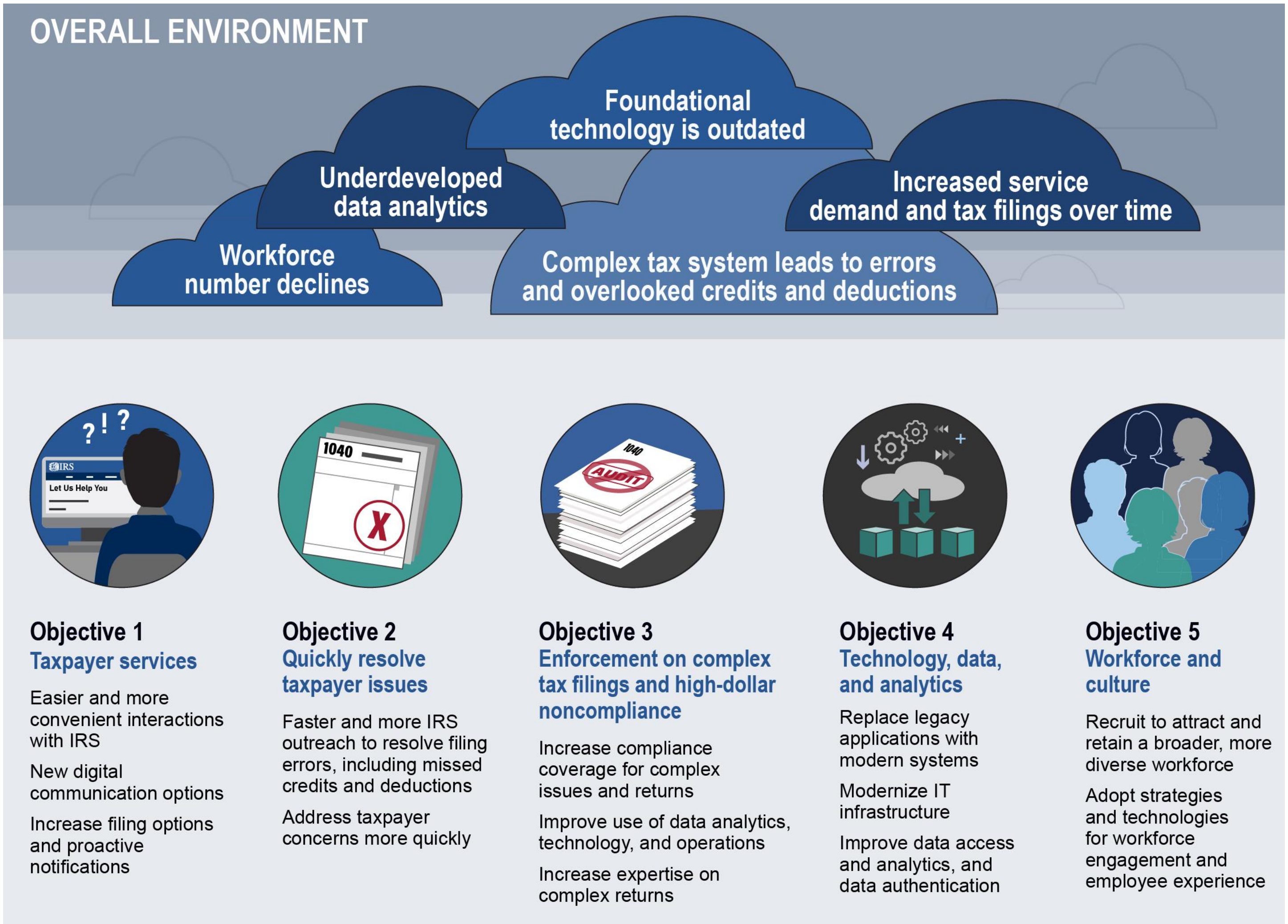
[22]As of September 2023, Treasury officials said they have hired or on-boarded 19 employees.

[23]IRS is implementing several tax credits enacted as part of IRA—such as tax credits for clean energy production and investment—to support deployment of commercially-available and innovative clean energy technologies.

Transformation Objectives Focus on Customer Service, Taxpayer Issue Resolution, Enforcement, IT, and Workforce

The SOP presents five IRA transformation objectives that are aligned with goals in the Treasury Strategic Plan (see fig. 7). The SOP also provides data and discussion of IRS's operating environment.

Figure 7: Overall Operating Environment and Summary of Internal Revenue Service's (IRS) Transformation Objectives



Source: GAO analysis of Internal Revenue Service information. GAO illustrations. | GAO-24-106091

Accessible Text for Figure 7: Overall Operating Environment and Summary of Internal Revenue Service's (IRS) Transformation Objectives

Overall environment
Fundamental technology is outdated
Underdeveloped data analytics
Increased service demand and tax filings over time
Workforce number declines
Complex tax systems leads to errors and overlooked credits and deductions

Objective number	Objective title	Objective description
Objective 1	Taxpayer services	Easier and more convenient interactions with IRS New digital communication options Increase filing options and proactive notifications
Objective 2	Quickly resolve taxpayer issues	Faster and more IRS outreach to resolve filing errors, including missed credits and deductions Address taxpayer concerns more quickly
Objective 3	Enforcement on complex tax filings and high-dollar noncompliance	Increase compliance coverage for complex issues and returns Improve use of data analytics, technology, and operations Increase expertise on complex returns
Objective 4	Technology, data, and analytics	Replace legacy applications with modern systems Modernize IT infrastructure Improve data access and analytics, and data authentication
Objective 5	Workforce and culture	Recruit to attract and retain a broader, more diverse workforce Adopt strategies and technologies for workforce engagement and employee experience

Source: GAO analysis of Internal Revenue Service information. GAO illustrations. I GAO-24-106091

To develop the five transformation objectives, IRS reviewed the tax administration environment and challenges, according to the SOP. The IRS workforce has significantly declined due to limited funding, and many of its most experienced enforcement staff have retired or left for other opportunities, according to the SOP. In addition to IRS's limited ability to backfill, less money has been available to IRS for training, according to the SOP. At the same time, many more returns are being filed each year, and the returns being filed are often more complex. While improved technology and better methods can be used to identify at risk returns, funding constraints have limited the ability of IRS to improve its technology to become more efficient and deliver better customer service, according to the SOP.

IRS believes achieving these objectives should lead to high levels of customer satisfaction, allow more communication options for taxpayers, and better inform taxpayers of their eligibility for tax incentives, according to the SOP. Implementation could also reduce the tax gap— the difference between tax amounts that taxpayers should have paid and what they actually paid voluntarily and on time—by making voluntary compliance easier and providing more effective enforcement, according to the SOP.

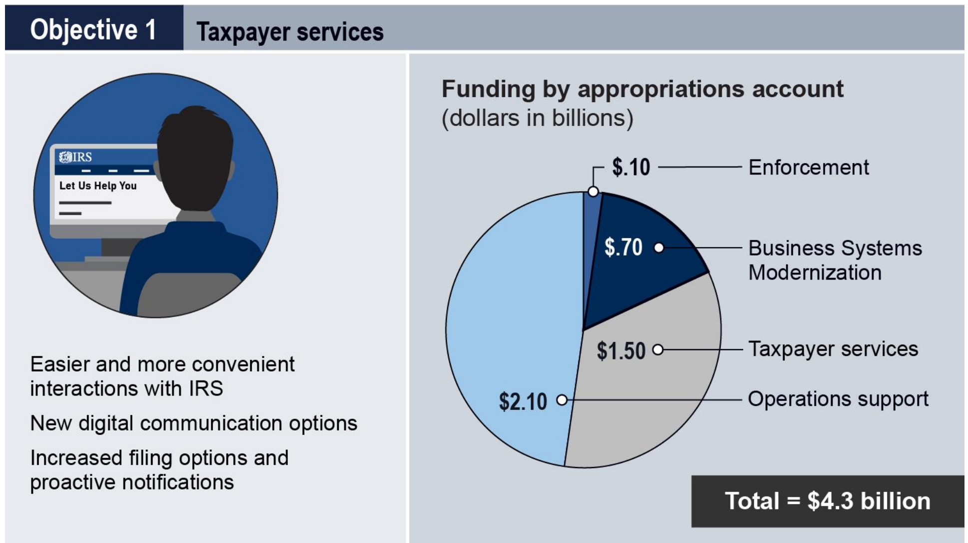
The SOP identifies initiatives to help achieve the five objectives. For each initiative, the SOP provides an initial list of projects and indicators of success. IRS also describes actions through FY 2025 and interdependencies with other initiatives or projects. As of August 2023, IRS officials said they are working to prioritize initiatives. The five objectives are described below.

Objective 1: Dramatically Improve Services to Help Taxpayers Meet Their Obligations and Receive the Tax Incentives for Which They Are Eligible

Objective 1 has 12 proposed initiatives with an estimated allocation of $4.3 billion through 2031 (see fig. 8).[24] According to IRS, taxpayers want a more seamless filing process, such as online services. Under this objective, IRS planned initiatives will provide taxpayers and tax professionals with tools, information, and assistance to make it easier to comply with tax laws.

[24]The SOP was released prior to the approximately $1.4 billion rescission made in the Fiscal Responsibility Act of 2023. Therefore, the allocations do not reflect those changes. According to the SOP, estimates reflect IRS's plans at the time of its release, which was limited to what IRS has been appropriated—not what IRS estimates could be needed to fully transform IRS as described in the SOP. The SOP states that IRS assumed that IRA funds will support transformation efforts but would not have to be used to support current "steady-state" IRS operations.

Figure 8: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 1 (Taxpayer Services)



Source: GAO analysis of Internal Revenue Service information. GAO illustration. | GAO-24-106091

Accessible Data for Figure 8: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 1 (Taxpayer Services)

Objective 1: Taxpayer services
• Easier and more convenient interactions with IRS
• New digital communication options
• Increase filing options and proactive notifications

Appropriations account	$ in billions
Taxpayer services	$ 1.50
Enforcement	$ 0.10
Operations support	$ 2.10
Business Systems Modernization	$ 0.70
Total	$ 4.3

Source: GAO analysis of Internal Revenue Service information. GAO illustration. I GAO-24-106091

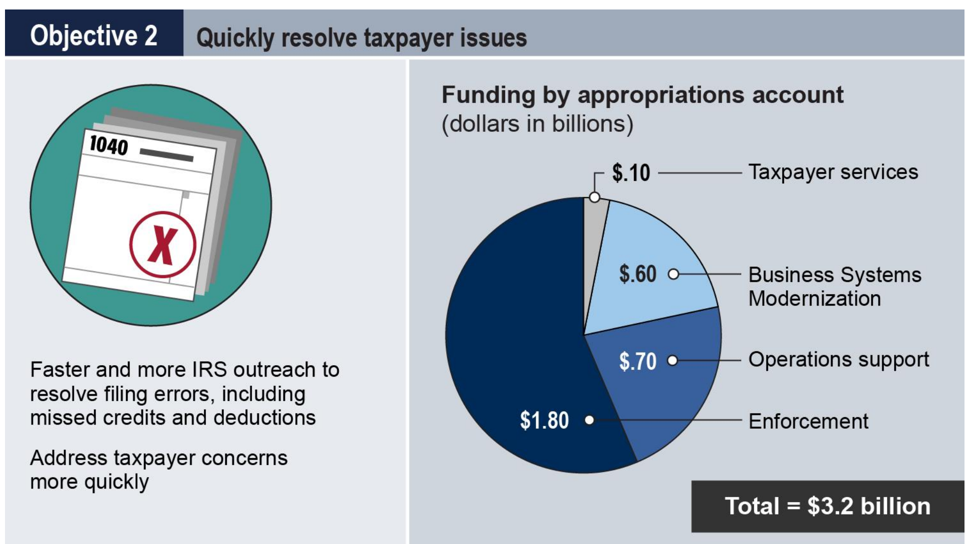
Note: These allocations reflect estimates from the Strategic Operating Plan, which do not account for the rescission provided under the Fiscal Responsibility Act of 2023.

In the SOP, IRS envisions that the initiatives in this objective will help taxpayers and tax professionals interact with IRS staff more effectively and efficiently through multiple service channels, including expanded digital, phone, and in-person assistance options. For example, IRS aims for taxpayers to be able to create secure online accounts to specify their communication preferences and to view and update account information. Similarly, IRS plans to increase staffing levels, which will improve taxpayer access to customer service and better access to customer service sites.

Objective 2: Quickly Resolve Taxpayer Issues When They Arise

Objective 2 has seven proposed initiatives with an estimated allocation of $3.2 billion through 2031 (see fig. 9). According to the SOP, millions of taxpayers make simple mistakes when completing their returns or fail to properly claim tax incentives for which they are eligible. IRS acknowledges that resolving these issues can be a prolonged process and that IRS notices can be difficult to understand. Through investments in data management and taxpayer communication tools, IRS intends to resolve these issues more quickly and prevent their recurrence.

Figure 9: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 2 (Resolve Taxpayer Issues)



Source: GAO analysis of Internal Revenue Service information. GAO illustration. | GAO-24-106091

Accessible Data for Figure 9: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 2 (Resolve Taxpayer Issues)

Objective 2: Quickly resolve taxpayer issues
• Faster and more IRS outreach to resolve filing errors, including missed credits and deductions • Address taxpayer concerns more quickly

Appropriations account	$ in billions
Taxpayer services	$ 0.10
Enforcement	$ 1.80
Operations support	$ 0.70
Business Systems Modernization	$ 0.60
Total	$ 3.2

Source : GAO analysis of Inte rnal Revenue Service information. GAO illustration. I GAO-24-1 06091

Note: These allocations reflect estimates from the Strategic Operating Plan, which do not account for the rescission provided under the Fiscal Responsibility Act of 2023.

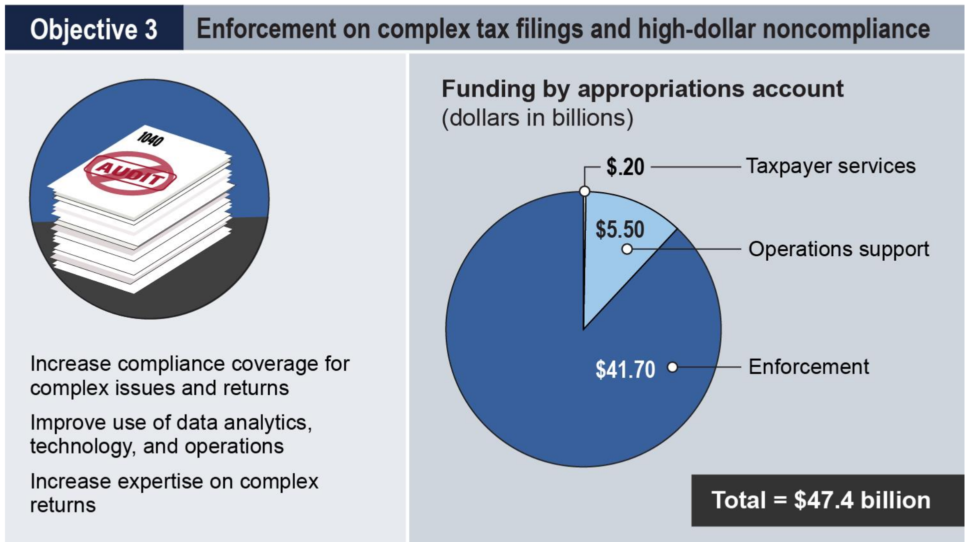
IRS plans to send taxpayers notifications about potential issues as they file returns to help them correct errors and claim credits and deductions sooner. By FY 2025, the agency expects to expand notifications of potential filing issues, such as missed or erroneous credits and deductions. These efforts could reduce the number of amended returns, according to the SOP.

IRS plans to continue efforts to send notices that taxpayers can understand and to provide a clear explanation on what next steps are required. The agency is exploring whether they can deliver notices electronically online. For taxpayers who have not filed returns but should, IRS expects to provide early, tailored outreach.

Objective 3: Focus Expanded Enforcement on Taxpayers with Complex Tax Filings and High-Dollar Noncompliance to Address the Tax Gap

Objective 3 has seven proposed initiatives with an estimated allocation of $47.4 billion through 2031, which is more than half of the IRA supplemental funding (see fig. 10). According to the SOP, the rising breadth and complexity of tax administration—coupled with the sophisticated ways that some taxpayers attempt to evade tax—have outpaced IRS's resources and ability to monitor compliance.

Figure 10: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 3 (Enforcement on Complex Tax Filings and High-Dollar Noncompliance)



Source: GAO analysis of Internal Revenue Service information. GAO illustration. | GAO-24-106091

Accessible Data for Figure 10: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 3 (Enforcement on Complex Tax Filings and High-Dollar Noncompliance)

Objective 3: Enforcement on complex tax filings and high-dollar noncompliance
• Increase compliance coverage for complex issues and returns
• Improve use of data analytics, technology, and operations
• Increase expertise on complex returns

Appropriations account	$ in billions
Taxpayer services	$ 0.20
Enforcement	$ 41.70
Operations support	$ 5.50
Business Systems Modernization	$ 0
Total	$ 47.40

Source : GAO analysis of Internal Revenue Service information. GAO illustration. I GAO-24-1 06091

Note: These allocations reflect estimates from the Strategic Operating Plan, which do not account for the rescission provided under the Fiscal Responsibility Act of 2023.

IRS's initiatives in this objective are intended to increase compliance coverage, improve enforcement and risk identification, and increase the expertise and capacity necessary to examine highly complex returns and issues more effectively. IRS plans to increase its focus on segments of taxpayers with complex issues and returns, such as those related to large, complex partnerships, large corporations, and high-income and high-wealth individuals. [25] Other areas for increased attention include digital assets, international issues, employment taxes, excise taxes, and estate taxes.

In pursuit of these initiatives, IRS is hiring specialists—such as data scientists, auditors, counsel, and international and financial products specialists— with expertise in complex returns. Additionally, to enhance agency enforcement capabilities, by FY 2024, IRS plans to establish and manage case selection through a centralized compliance planning office and, in FY 2026, to use new analytics systems to identify taxpayer compliance risks, according to the SOP.

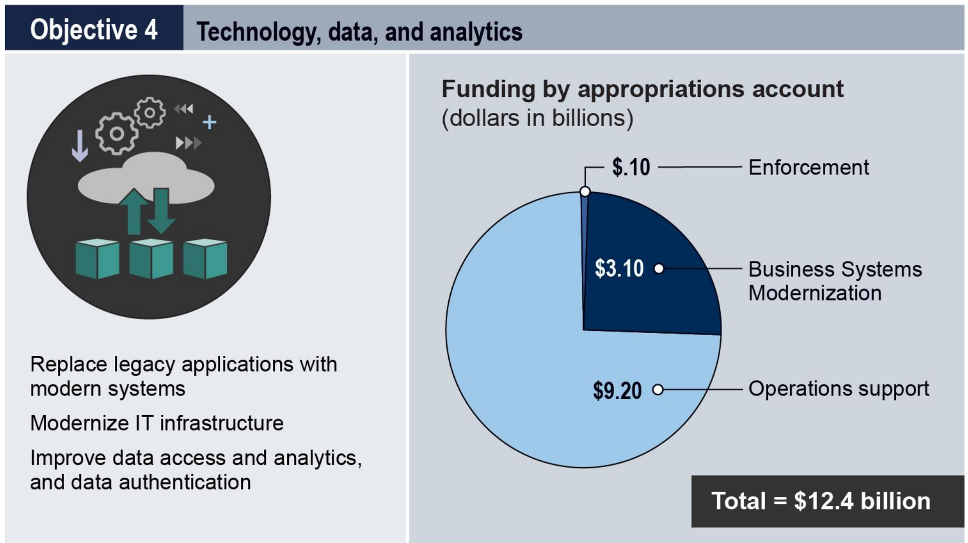
Objective 4: Deliver Cutting-Edge Technology, Data, and Analytics to Operate More Effectively

Objective 4 has eight proposed initiatives with an estimated allocation of $12.4 billion through 2031 (see fig. 11). IRS employees and taxpayers use more than 600 IT applications, many of which are over 20 years old, according to the SOP. Further, IRS updates accounts in batches rather than in real time and still relies on legacy programming languages to input and manage incoming paper returns.[26] Many of the planned improvements in the SOP—such as initiatives under the taxpayer services and enforcement transformation objectives—are dependent on IT systems modernization initiatives and projects presented under this objective.

[25]In accordance with a Treasury directive, the SOP states that small businesses and households earning $400,000 or less will not see audit rates increase relative to historical levels. Secretary of the Treasury, Letter to IRS Commissioner Charles P. Rettig (Washington, D.C., Aug. 10, 2022).

[26]IRS defines a legacy IT system as a system that may be based on outdated technologies but is still critical to day-to-day operations. This includes applications that are 25 years old or older, or written in an obsolete programming language such as assembly language code or Common Business Oriented Language.

Figure 11: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 4 (Technology, Data, and Analytics)



Source: GAO analysis of Internal Revenue Service information. GAO illustration. | GAO-24-106091

Accessible Data for Figure 11: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 4 (Technology, Data, and Analytics)

Objective 4: Technology, data, and analytics

- Replace legacy applications with modern systems
- Modernize IT infrastructure
- Improve data access and analytics, and data authentication

Appropriations account	$ in billions
Taxpayer services	$ 0
Enforcement	$ .10
Operations support	$ 9.20
Business Systems Modernization	$ 3.10
Total	$ 12.4

Source : GAO analysis of Internal Revenue Service information. GAO illustration. I GAO-24-106091

Note: These allocations reflect estimates from the Strategic Operating Plan, which do not account for the rescission provided under the Fiscal Responsibility Act of 2023.

IRS plans to retire and replace legacy applications and update programming languages. IRS also plans to give taxpayers tools to access their data and use online services. To modernize its IT infrastructure, IRS plans to implement new systems architecture, software, and networks.

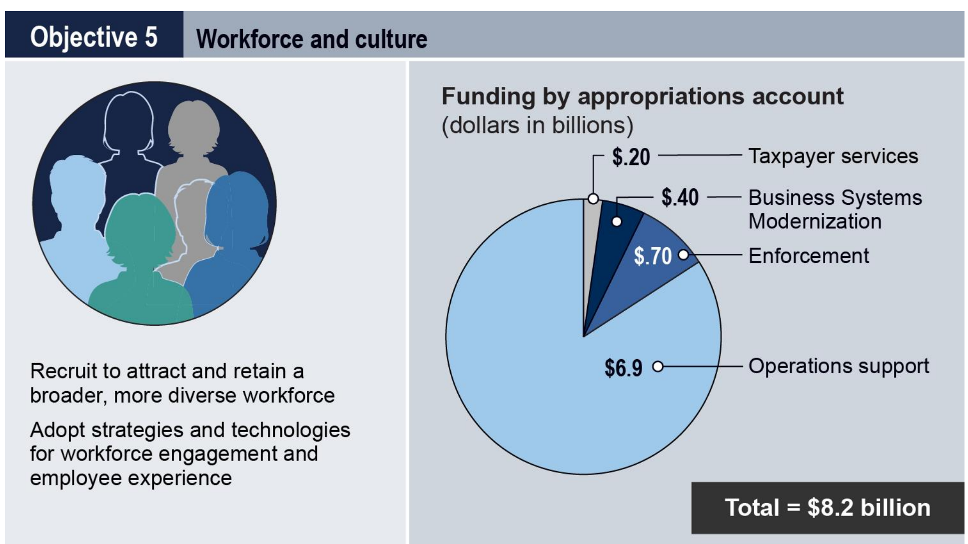
For example, there are initiatives to migrate more data to a cloud architecture and upgrade the IRS network to accommodate a larger IRS workforce.

To prioritize privacy and security during these reforms, the SOP states that IRS will consolidate dozens of applications into secure, commercial, cloud-based platforms. At the same time, IRS intends to develop policies to enhance compliance with privacy and security standards. For example, IRS plans to require multifactor authentication for IRS systems containing taxpayer information.

Objective 5: Attract, Retain, and Empower a Highly Skilled, Diverse Workforce and Develop a Culture That Is Better Equipped to Deliver Results for Taxpayers

Objective 5 has eight proposed initiatives with an estimated allocation of $8.2 billion through 2031 (see fig. 12). The SOP emphasizes the importance of growing the IRS workforce. For example, in Objective 3 of the SOP, IRS states the agency requires experienced professionals to address enforcement challenges. IRS also plans to streamline the hiring process for new employees by reducing the time to hire and improving applicant experiences and talent matching in FY 2024.

Figure 12: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 5 (Workforce and Culture)



Source: GAO analysis of Internal Revenue Service information. GAO illustration. | GAO-24-106091

Accessible Data for Figure 12: Description and Estimated Funding Allocation for Internal Revenue Service Transformation Objective 5 (Workforce and Culture)

Objective 5: Workforce or culture
• Recruit to attract and retain a broader, more diverse workforce • Adopt strategies and technologies for workforce engagement and employee experience

Appropriations account	$ in billions
Taxpayer services	$ .20
Enforcement	$ .70
Operations support	$ 6.90
Business Systems Modernization	$ 0.40
Total	$ 8.20

Source : GAO analysis of Internal Revenue Service information. GAO illustration. I GAO-24-106091

Note: These allocations reflect estimates from the Strategic Operating Plan, which do not account for the rescission provided under the Fiscal Responsibility Act of 2023.

According to the SOP, strategies and technologies are needed for employees to work effectively and deliver a better taxpayer experience. In addition, hiring more statisticians, economists and researchers is needed to build data and analytics expertise so employees can make data-driven decisions. IRS plans to combine more than 100 legacy personnel systems into one platform by FY 2025.

IRS also plans to build a new pipeline to recruit talent and to retain a broader and more diverse workforce. For example, IRS intends to launch recruiting programs at a number of schools for onboarding in FY 2024. Additionally, the agency has plans to increase recruitment among underrepresented communities.

The SOP describes the importance of flexible development opportunities and a workplace experience that fosters inclusion and professional growth. To provide such a workplace, IRS intends to enhance employee career planning, performance management, and learning and mentorship opportunities.

IRS Should Follow Leading Practices for Agency Reform as Appropriate in Implementing its SOP

In prior work, we identified leading practices for agency reforms such as those that IRS is undertaking.[27] Funding for IRA implementation—which includes the primary resources for investing in IRS' agency reforms—is available through FY 2031 and IRS officials told us that they are establishing implementation plans and processes. IRS officials we met with were not familiar with the practices but expressed interest in learning more about them. In responding to a draft of this product, agency officials indicated that they have implemented or are planning to implement these agency reform practices. However, no evidence of these efforts was provided.

The practices could be a resource for IRS as it continues its planning and implementation efforts. As such, we will continue to monitor and provide oversight of IRS's SOP implementation.

Figure 13 below provides the four leading practice categories and examples of the key questions that can be used to inform and assess agency reform efforts. Our prior report on agency reforms incorporates leading practices on organizational mergers and transformations, collaboration, government streamlining and efficiency.[28]

[27]GAO, *Government Reorganization: Key Questions to Assess Agency Reforms*, GAO-18-427 (Washington, D.C.: June 13, 2018).

[28]See appendix I in GAO-18-427.

Figure 13: Leading Agency Reform Practices and Examples of Key Questions

Leading practice category	Examples of key questions to assess agency reforms
Goals and Outcomes	To what extent has the agency established clear outcome-oriented goals and performance measures for the proposed reforms?
Process for Developing Reforms	How specifically has the agency considered high-risk issues, agency Inspector General's major management challenges, and other external and internal reviews in developing its reform efforts?
Implementing the Reforms	Has the agency developed an implementation plan with key milestones and deliverables to track implementation progress?
Strategically Managing the Federal Workforce	To what extent has the agency conducted strategic workforce planning to determine whether it will have the needed resources and capacity, including the skills and competencies, in place for the proposed reforms or reorganization?

Source: GAO analysis and illustrations. | GAO-24-106091

Accessible Text for Figure 13: Leading Agency Reform Practices and Examples of Key Questions

Leading practice category	Examples of key questions to assess agency reforms
Goals and outcomes	To what extent has the agency established clear outcome-oriented goals and performance measures for the proposed reforms?
Process for developing reforms	How specifically has the agency considered high-risk issues, agency Inspector General's major management challenges, and other external and internal reviews in developing its reform efforts?
Implementing the reforms	Has the agency developed an implementation plan with key milestones and deliverables to track implementation progress?

Leading practice category	Examples of key questions to assess agency reforms
Strategically managing the federal workforce	To what extent has the agency conducted strategic workforce planning to determine whether it will have the needed resources and capacity, including the skills and competencies, in place for the proposed reforms or reorganization?

Source: GAO analysis and illustrations. I GAO-24-106091

One of the key questions under the leading practice category "Process for Developing Reforms" involves asking how agencies have considered high-risk issues. In April 2023, our High-Risk List update included an assessment of the Enforcement of Tax Laws area.[29] Working toward implementing our open recommendations—particularly those that the agency previously said it lacked resources to implement—would help IRS prioritize IRA funding as it refines and carries out its SOP.[30] In June 2023, IRS officials told us they are working to map the SOP's objectives and initiatives to our recommendations they have not yet implemented. As of October 2023, IRS has not provided this information for those recommendations we have highlighted as being of the highest priority.

Further, the SOP states that as IRS implements its reforms it will monitor and report on their progress. IRS developed a high-level milestone roadmap for the SOP through FY 2028. As IRS continues its SOP reform planning efforts, these leading agency reform practices could be used to establish reporting timelines, content, and a communications strategy.

Improvements to IRS Cost Estimation Policies Could Help Ensure Future Cost Estimates Are Reliable

IRS would benefit from developing comprehensive cost estimation policies for agency reform initiatives that incorporate best practices from

[29]Our High-Risk List identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or in need of transformation to address economy, efficiency, or effectiveness challenges. We designated the Enforcement of Tax Laws as a high-risk area in 1990. GAO, *High- Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas,* GAO-23-106203 (Washington, D.C.: Apr. 20, 2023).

[30]GAO, Priority Open Recommendations: Internal Revenue Service, GAO-23-106470 (Washington, D.C.: July 31, 2023).

our Cost Estimating and Assessment Guide (Cost Guide).[31] Our Cost Guide outlines best practices for cost estimating and presents 12 steps that, when incorporated into an agency's cost estimating guidance, should result in reliable and valid cost estimates that management can use to make informed decisions. A reliable cost estimate provides the basis for informed decision-making, realistic budget formulation and program resourcing, and accountability for results.[32]

In the SOP, IRS provided estimated allocation of funds by appropriations account and transformation objective. The SOP describes these estimates as preliminary allocations. Separately, IRS developed near-term spend plans, by account, for FYs 2023 and 2024, which were included in IRS's FY 2024 Congressional Justification. IRS plans to use an iterative process for estimating costs as projects are developed and deployed going forward.

IRS also has different processes for estimating costs, depending on the type of initiative.

- The Office of the Chief Financial Officer (OCFO) led the development of the non-IT labor, contracts, and non-labor estimates presented in the SOP and the spend plans. As agency reform implementation unfolds, project teams will be responsible for estimating project costs, according to preliminary IRS guidance.
- IRS's Estimation Program Office, part of the IT organization, developed the IT initiative project cost estimates. Estimates for in-progress IT investments that are a part of agency reform initiatives were completed prior to the SOP estimation process, according to IRS officials.

IRS Provided Tools and Instructions but Lacks a Comprehensive Cost Estimating Policy for Non-IT Initiatives

As IRS continues to refine estimated costs for the agency reforms proposed in its SOP initiatives, it would benefit from developing a

[31]GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs,* GAO-20-195G (Washington, D.C.: March 2020).

[32]The Office of Management and Budget's *Capital Programming Guide,* part of *Circular A-11, Preparation, Submission, and Execution of the Budget*, refers to our Cost Guide to help agencies meet most cost estimating requirements.

comprehensive cost estimating policy for non-IT initiatives and projects that integrates cost estimating best practices. According to IRS officials, there is no organization responsible for centralized cost estimation policy. Labor, contracts, and non-labor are components of non-IT costs. OCFO provided the following information on the development of the various agency reform estimates. The discussion that follows is based on documentation of IRS's process and is not a critique of the estimates in IRS's SOP or spend plans.[33]

- **SOP estimates.** OCFO used spreadsheet tools with information from project teams to develop the estimated cost allocations in the SOP. Specifically, OCFO provided a template, with instructions, for teams to input IRA initiative cost estimate information. However, OCFO did not provide teams with policy on its use or documentation on how template information would be combined into SOP estimates.

  For example, its Unit Cost Rate Calculator is a spreadsheet with built-in costs and economic information for estimating labor and non-labor and other costs. The calculator provides estimates for annual budget requests and was adapted to provide estimates for agency reforms, according to OCFO officials. IRS uses the calculator to generate fully costed labor estimates, which include new hire supports (i.e. IT, travel, training) and other calculations, according to OCFO officials. IRS has documentation on the Unit Cost Rate Calculator, such as a user guide, and a procedure for updating and testing it annually. OCFO also provided us with a written description of how it adapted the calculator for agency reform estimates. However, the Unit Cost Rate Calculator is not covered in the Internal Revenue Manual (IRM), IRS's official policy compendium and, IRS did not provide policies about how the calculator should be used, how output should be compiled, and how it could be adapted for special situations such as the size and duration of IRA funding.
- **Spend plan estimates.** Prior budget requests informed some of the FY 2023 IRA spend plan estimates, according to IRS officials. OCFO officials said their annual budget process informed the spend plan development. However, developing annual budget estimates is not the same as estimating agency reform initiative costs, which involve larger dollar amounts and cover a longer time frame.

[33]We assessed IRS's cost estimation policy against the best practices. We focused on policy because of the number of IRA-funded projects and the fact that estimates will continue to be developed and refined for many years under the SOP.

OCFO officials also noted that the Office of Management and Budget and Treasury approve spend plans prior to apportioning for IRA funding. However, an apportionment is intended to prevent deficiency of funds within an appropriation account and to achieve economical use of funds, which is different than validating a cost estimate for a multi-year project.[34]

- **Ongoing project estimates.** In April 2023, IRS provided preliminary guidance on IRA project development and validation steps, which included high-level steps related to cost estimation. For example, just prior to project deployment, costs and resourcing calculations should be based on rigorous analysis and supported by sound and detailed assumptions. They should also be validated by subject matter experts. The guidance does not offer any specific criteria, processes, or procedures to ensure proper implementation.

A lack of formal cost estimating policy at agencies can lead, in certain circumstances, to cost estimates of poor quality. Agency policy serves as a mechanism for providing a standard cost-estimating process and establishes roles and responsibilities for those preparing, reviewing, and updating all types of cost estimates. Additionally, IRS policy states that information belongs in the IRM if it details actions required by one or more employees as part of their duties.[35] Publishing policies in the IRM helps ensure that employees are using up-to-date instructions that were subject to annual and formal review and transparency standards, according to the IRM.

IRS has an interim guidance process for new situations—for example, policies to address newly enacted legislation, such as agency reform projects—to quickly communicate new or revised instructions to

[34]An apportionment is the action by which the Office of Management and Budget distributes amounts available for obligation, including budgetary reserves established pursuant to law, in an appropriation or fund account. An apportionment divides amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof. See GAO, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP (Washington, D.C.: Sept. 1, 2005).

[35]IRM section 1.11.2, *Internal Revenue Manual Process* (Sept. 13, 2023). The IRM states that it enables IRS to meet certain federal requirements to document, publish and maintain records of policies, authorities, procedures and organizational operations. The IRM allows for supplemental guidance outside of the IRM if the primary guidance is in the IRM.

employees before business units can update the affected IRM or to convey temporary procedures.[36]

IRS officials said they would consider developing guidance that would cover estimates outside of labor and IT. Aside from IT, OCFO officials estimate about 96 percent of IRA spending for Taxpayer Services and Enforcement will be labor related.[37] They said they did not think that our Cost Guide should apply to labor estimates which the Unit Cost Rate Calculator generates. However, without a comprehensive non-IT cost estimation policy, it is unclear how the calculator should be used to derive costs for the initiatives, many of which are multi-year investments.

Without a formal source of cost estimating policy, there is potential for a cost estimator to overlook vital information that may lead to unreliable cost estimates. Further, without establishing estimating policy that addresses best practices, IRS may not have reliable cost estimating information that can help reduce the risk of cost overruns, missed deadlines, and performance shortfalls as the agency moves forward with agency reforms as laid out in the SOP. Relatedly, in October 2023, the Treasury Inspector General for Tax Administration reported that IRS could not provide documentation for its cost estimate for the IRA-funded Direct Electronic Filing program, which included labor costs.[38] Having a policy could help ensure that agency reform estimates are developed with consistent standards and are documented for oversight and to allow for refinements as the project evolves.

IRS Policies for IT Investments Address but Do Not Fully Meet All Best Practices

IRS has a specific cost estimation policy for IT investments, and several accompanying workbooks and tools, but together these documents did not fully meet all 12 steps of a reliable cost estimating process (see fig.

[36]IRM 1.11.10, *Interim Guidance Process* (March 30, 2022).

[37]Of IRS's four appropriation accounts, BSM funding is entirely for IT and Operations Support is for some IT and non-IT costs. Enforcement has a much smaller IT component and Taxpayer Services has no IT costs.

[38]Treasury Inspector General for Tax Administration, *Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System*, 2024-408-002, (Washington, D.C.: Oct. 2, 2023). IRA includes an appropriation of $15 million, available through September 30, 2023, to establish a task force and estimate a cost to design an IRS-run free direct electronic filing tax return system.

14).[39] Appendix IV summarizes our assessment for each step in more detail.

Figure 14: Summary Assessment of Internal Revenue Service (IRS) IT Cost Estimation Policies

12 Steps for Cost Estimating	IT Score
1. Define the estimate's purpose	●
2. Develop the estimating plan	◑
3. Define the program	◕
4. Determine the estimating structure	◑
5. Identify ground rules and assumptions	◕
6. Obtain the data	◑
7. Develop the point estimate	◑
8. Conduct sensitivity analysis	◔
9. Conduct risk and uncertainty analysis	◔
10. Document the estimate	◑
11. Present the estimate to management for approval	◑
12. Update the estimate to reflect actual costs and changes	◕

● **Met** – IRS provided complete evidence that satisfies the elements of the step
◕ **Substantially met** – IRS provided evidence that satisfies a large portion of the elements of the step
◑ **Partially met** – IRS provided evidence that satisfies about half of the elements of the step
◔ **Minimally met** – IRS provided evidence that satisfies a small portion of the elements of the step
○ **Not met** – IRS provided no evidence that satisfies any of the elements of the step

Source: GAO analysis of Internal Revenue Service documents. | GAO-24-106091

[39] GAO-20-195G.

Accessible Text for Figure 14: Summary Assessment of Internal Revenue Service (IRS) IT Cost Estimation Policies

Step number	Twelve steps for cost estimating	IT score
One	Define the estimate's purpose	Met
Two	Develop the estimating plan	Partially met
Three	Define the program	Substantially met
Four	Determine the estimating structure	Partially met
Five	Identify ground rules and assumptions	Substantially met
Six	Obtain the data	Partially met
Seven	Develop the point estimate	Partially met
Eight	Conduct sensitivity analysis	Minimally met
Nine	Conduct risk and uncertainty analysis	Minimally met
Ten	Document the estimate	Partially met
Eleven	Present the estimate to management for approval	Partially met
Twelve	Update the estimate to reflect actual costs and changes	Substantially met

Source: GAO analysis of Internal Revenue Service documents. I GAO-24-106091

Appendix IV summarizes our assessment for each step in more detail. For example, IRS partially met Step 6 (obtain the data). The IT Estimation Procedure references various project source data and includes a step to store the estimate and actual results to support future IT estimation efforts. However, it is not evident that IRS requires a data collection plan, normalization of the data, analysis for cost drivers, trends, and outliers, or a documented assessment of data reliability and accuracy, which best practices call for in this step. The IT Estimation Procedure minimally met Step 8 (conduct sensitivity analysis) because a sensitivity analysis is not required for each estimate and the IT Estimation Procedure does not describe how to conduct a sensitivity analysis in accordance with best practices described in our Cost Guide.

After reviewing our initial assessment, IRS officials provided reasons behind their policies for some of the steps. Specifically, for Step 2 (develop the estimating plan), IRS officials said resource constraints prevent them from having estimators with experience assigned to all estimates. For Step 4 (determine the estimating structure), IRS officials said that they did not have resources to develop a detailed work breakdown schedule, as mentioned in the Cost Guide. For Steps 7 through 10 and Step 12, IRS cited tools that it believes address the practices. However, the tools did not incorporate all of our best practices.[40]

Lastly, IRS's IT Estimation Procedure is not incorporated in the IRM. IRS's IT Estimation Procedure was last updated in 2018. IT officials said IRS is updating the IT Estimation Procedure document to reflect current practices and better align with the Cost Guide, where appropriate, with the goal of incorporating it into the IRM. As previously stated, the IRM helps ensure that IRS policy is consistent and meets transparency and review standards. Further, a formal source of agency-wide cost estimating policy helps ensure that vital cost information is not overlooked which could potentially lead to unreliable cost estimates.

Conclusions

IRS was appropriated tens of billions of dollars in funding, with the goal of addressing long-standing tax administration challenges, such as staffing declines and outdated technology. Achieving the five transformation objectives in the SOP is no easy task and will take years to fully implement. Following leading agency reform practices, drawn from effective government reforms and reorganization initiatives, can help ensure IRS is successful in making the transformational tax administration reforms described in the SOP.

To implement the reforms on schedule and without cost overruns, it is important that IRS establish policies that follow best practices for cost estimation, as described in our Cost Guide. At present, IRS does not have a comprehensive policy for non-IT initiatives. For IT initiatives, IRS policies are more fully developed and at least minimally meet all 12 steps and reflect some associated best practices.

Following cost estimation best practices will help IRS reduce the risk of cost overruns or implementation delays as the agency seeks to meet funding needs and milestones for the objectives through FY 2031.

[40]IRS provided responses for seven steps (Steps 2 and 7-12). It did not provide comments on Steps 1, 5, and 6. The remaining two steps (Steps 3 and 4) were scored as "Met" or "Substantially Met."

Placement of the policies in the IRM will help ensure that employees conducting cost estimates have current instructions—reviewed annually—and promote consistency among the estimates for the SOP's 42 initiatives.

Recommendations for Executive Action

We are making the following five recommendations to IRS:

As IRS implements its agency reform efforts, the Commissioner of Internal Revenue should ensure that IRS can demonstrate that it is following relevant leading agency reform practices. (Recommendation 1)

The Commissioner of Internal Revenue should establish a cost estimating policy for estimating costs of non-IT initiatives that addresses the 12 steps and associated best practices found in our Cost Guide. (Recommendation 2)

The Commissioner of Internal Revenue should include IRS's policy for estimating costs of non-IT initiatives in the IRM and issue interim guidance while the IRM section is being developed. (Recommendation 3)

The Commissioner of Internal Revenue should incorporate all 12 steps and associated best practices found in our Cost Guide into IRS's IT cost estimation procedures. (Recommendation 4)

The Commissioner of Internal Revenue should include IRS's IT cost estimation procedures in the IRM and issue interim guidance while the IRM section is being developed. (Recommendation 5)

Agency Comments

We provided a draft of this report to the Department of the Treasury and the IRS for review and comment. In its comments, which are summarized below and reproduced in appendix V, IRS agreed with our recommendations. Regarding recommendation 1, IRS said it is in the process of implementing leading agency reform practices. Regarding recommendations 2 and 3, IRS said it has processes that addresses most of the 12 steps from our Cost Guide and it will document a policy in the IRM that covers its application depending on the situation or type of estimate. Regarding recommendations 4 and 5, IRS said it will incorporate, into its procedures and IRM, the steps from the Cost Guide that are applicable to IRS IT operational requirements.

IRS and Treasury provided technical comments on our draft report, which we incorporated as appropriate.

We are sending copies of this report to the Commissioner of Internal Revenue, the Secretary of the Treasury, and the appropriate congressional committees. In addition, the report is available at no charge on the GAO website at http://www.gao.gov. If you or your staff have any questions about this report, please contact me at (202) 512-6806 or McTigueJ@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.

James R. McTigue, Jr.
Director, Tax Policy and Administration
Strategic Issues Team

List of Committees

The Honorable Patty Murray
Chair
The Honorable Susan Collins
Vice Chair
Committee on Appropriations
United States Senate

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Ranking Member
Committee on Oversight and Accountability
House of Representatives

The Honorable Jason Smith
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The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: Objectives, Scope and Methodology

In this report we (1) analyze the Internal Revenue Service's (IRS spending trends for the past 10 years; (2) describe IRS's plans for using Inflation Reduction Act (IRA) appropriations; (3) determine whether IRS had developed plans to apply leading agency reform practices in implementing its reform efforts; and, (4) assess the extent to which IRS policies for estimating the costs of IRA-funded projects and initiatives align with best practices in our Cost Estimating and Assessment Guide.

To address the first objective, describe IRS's spending trends from the past 10 fiscal years, we interviewed IRS officials about budget and staffing data and analyzed several data sources. Specifically, to analyze enacted appropriations, including supplemental funding, and rescissions, for IRS, we reviewed: the Department of the Treasury's annual appropriations statutes for fiscal years (FYs) 2012 through 2023; four COVID-19 relief laws enacted in 2020 and 2021; the IRA; and the Fiscal Responsibility Act of 2023.[1]

- To analyze the IRA spending and transfers, we analyzed data from IRS's administrative accounting system, the Integrated Financial System for FY's 2012 to 2023. IRA spending data are through the end of FY 2023.
- To identify trends in IRS's full-time equivalent (FTE) staff through FY 2022, including attrition and work schedule, we interviewed IRS officials and analyzed the Office of Personnel Management's Enterprise Human Resources Integration (EHRI) database.[2] An FTE is defined as the total number of regular straight-time hours worked (that is, not including overtime or holiday hours worked) by employees divided by the number of compensable hours applicable to each fiscal

[1]The four COVID-19 relief laws are the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021); Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. N, 134 Stat. 1182 (2020); CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020); and Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020).

[2]EHRI is an Office of Personnel Management database used to analyze the federal workforce and support decision-making on human resources issues across the federal government. It contains data on federal employees' occupation series, pay, hiring and separation dates, and other characteristics. Agencies are responsible for regularly submitting their data files to the Office of Personnel Management.

year. Hiring and attrition information are from personnel codes—including retirements, transfers, and terminations—with associated action dates. Work schedule variables identify full-time, part-time, seasonal and intermittent schedules.[3] For specific data on IRS positions, we used data from IRS's Integrated Financial System published in the IRS Data Book.[4] IRS reported data for eight positions and seasonal employees, which represent about 61 percent of FY 2022 FTEs. We grouped special agents, revenue officers, and revenue agents in an "Enforcement-related personnel" group. Due to limitations in IRS's data system, FTEs for seasonal employees in certain positions—such as customer service representatives and tax examiners—are counted separately as "seasonal employees" and are not included in the other position totals, according to IRS officials.

To adjust for inflation we used averages of quarterly indexes from the fiscal year chain-weighted gross domestic product price index from the U.S. Department of Commerce, Bureau of Economic Analysis, as of February 23, 2023 and Congressional Budget Office projections for this index for 2023.[5] We assessed the reliability of EHRI and IRS Integrated Financial System data by reviewing documentation about data systems and conducting electronic testing to evaluate the accuracy and completeness of the data used in our analyses. We determined the data used from these systems to be sufficiently reliable for our purposes. Spending data from IRS's Integrated Financial System are audited under our financial statement audits. For the data in our report, through fiscal year 2022, our audits provide a clean opinion and reasonable assurance that financials are presented fairly in all material aspects.[6]

[3]A full-time schedule usually requires an employee to work 40 hours per administrative work week. A part-time schedule requires an employee to work less than fulltime, usually between 16 and 32 hours, on a prearranged schedule. A seasonal schedule requires an employee to work less than 12 months each year on an annually recurring basis. An intermittent schedule requires an employee to work an irregular number of hours or days with no prearranged schedule.

[4]IRS Data Book data cover FYs 2012 through 2022. Prior years data are available at https://www.irs.gov/statistics/irs-budget-and-workforce (accessed August 15, 2023).

[5]U.S. Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts, Table 1.1.4, https://apps.bea.gov/iTable/?reqid=19&step=2&isuri=1&categories=survey* (Suitland, MD: Feb. 23, 2023).

[6]GAO, *Financial Audit: IRS's FY 2022 and FY 2021 Financial Statements*, GAO-23-105564 (Washington D.C.: Nov. 10, 2022).

To describe IRS's and Treasury's plans for using IRA appropriations, we examined and summarized IRS's IRA Strategic Operating Plan (SOP) and related documents, such as organizational charts and evidence of stakeholder outreach.[7] We also reviewed the SOP's summaries for each of the five transformation objectives, estimated cost allocations, and the SOP section on tax administration context and trends. We interviewed IRS and Treasury officials to discuss the SOP, leadership, and the planning process.

To determine whether IRS had developed plans to apply leading agency reform practices, we reviewed our prior work, and other sources of practices in this area. Our prior work identifies leading practices and key questions that Congress, the Office of Management and Budget and agencies should consider for the development and implementation of agency reforms.[8] While these questions are directed toward Congress and executive branch agencies for the broad purpose of providing the tools and information to help evaluate agencies' reform proposals and ensure they are effectively implemented, we have leveraged them in past evaluations to assess agency reforms, including reforms that IRS has undertaken.[9] We examined the SOP for discussions of leadership and other agency reform practices and to see if the SOP mentioned any practices IRS plans to follow. We interviewed officials that helped develop the SOP, including the Office of the Chief Financial Officer, and the Transformation and Strategy Office, which is leading the IRA implementation.

To examine the extent to which IRS's cost estimating policies for IRA initiatives align with best practices in our Cost Estimating and Assessment Guide (Cost Guide), we interviewed IRS officials and requested descriptions and copies of IRS's cost estimation policy, procedures, instructions, or other guidance.[10] We also reviewed the

[7]IRS, *Inflation Reduction Act Strategic Operating Plan FY 2023-2031*, https://www.irs.gov/about-irs/irs-inflation-reduction-act-strategic-operating-plan (Washington, D.C.: Apr. 9, 2023).

[8]GAO, *Government Reorganization: Key Questions to Assess Agency Reform Efforts*, GAO-18-427, (Washington, D.C.: June 13, 2018).

[9]For example, see GAO, *IRS Reorganization: Planning Addressed Key Reform Efforts, but Goals and Measures for the Plan Have Not Been Finalized*, GAO-21-18, (Washington, D.C.: Oct. 19, 2020).

[10]GAO, *Cost Estimating and Assessment Guide*, GAO-20-195G (Washington, D.C.: March 2020).

Internal Revenue Manual, IRS's official guidance compendium. IRS officials stated IT and non-IT initiatives follow different cost estimating processes. IRS's Office of Chief Financial Officer lead the estimation for the non-IT cost allocations present in the SOP and IRA spend plans, according to IRS officials. Initiatives that are primarily IT fall under IRS's IT Organization and are to follow the Estimation Program Office's Estimation Procedure.

We compared the IT policy against the best practices in the 12 steps for cost estimating described in our Cost Guide, which we developed to establish a consistent methodology that can be used across the federal government to develop, manage, and evaluate cost estimates.[11] We used a five-point scale for our assessment:

- Met. IRS provided evidence that satisfies all of the elements of the step.
- Substantially met. IRS provided evidence that satisfies a large portion of the elements of the step.
- Partially met. IRS provided evidence that satisfies about half of the elements of the step.
- Minimally met. IRS provided evidence that satisfies a small portion of the elements of the step.
- Not met. IRS provided no evidence that satisfies any of the elements of the step.

We shared our Cost Guide, the criteria against which we evaluated IRS's cost policies, as well as our preliminary findings with IRS officials. We received written responses, and discussed the preliminary assessment results on non-IT policy with IRS officials. When warranted, we updated our analyses based on IRS's response and additional documentation provided to us.

We conducted this performance audit from June 2022 to February 2024 in accordance with generally accepted government auditing standards.

[11] GAO-20-195G. The 12-step process includes defining the program's purpose, developing the estimating plan, defining the program's characteristics, determining the estimating approach, identifying ground rules and assumptions, obtaining data, developing the point estimate, conducting sensitivity analysis, performing a risk or uncertainty analysis, documenting the estimate, presenting it to management for approval, and updating it to reflect actual costs and changes. Following these steps ensures that realistic cost estimates are developed and presented to management, enabling it to make informed decisions.

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Internal Revenue Service Appropriations Accounts

The Internal Revenue Service (IRS) received $12.3 billion in appropriations for fiscal year (FY) 2023. IRS's annual appropriations generally include four appropriations accounts and their purposes are:

- Taxpayer Services: funds expenses to provide taxpayer services, such as pre-filing assistance and education, filing and account services, and taxpayer advocacy services.
- Operations Support: funds expenses to operate IRS, such as rent, printing, postage, IRS-wide administrative activities, and IT development, enhancement, and maintenance.
- Enforcement: funds tax enforcement activities, such as determining and collecting owed taxes, providing legal and litigation support, and enforcing certain criminal statutes.
- Business Systems Modernization: funds expenses for IT systems assets, including management and related contractual costs and IRS labor costs.

Appendix III: Inflation Reduction Act Funding for IT Programs

One of the objectives in the Internal Revenue Service (IRS) Inflation Reduction Act (IRA) Strategic Operating Plan is to deliver cutting-edge technology. The table below shows the IT investments that received IRA funding for fiscal year (FY) 2022 and 2023. Seven investments, which began prior to the IRA, were either initially or partially funded in FY 2022 using IRA funding. For some of the programs, there were also other sources of funding in addition to IRA money. These include IRS's regular Business Systems Modernization and COVID-19 related legislation funding. For example, American Rescue Plan Act of 2021 funds were available through the end of FY 2023.

Table 3: Inflation Reduction Act Funding for IT Programs

n/a	Spending (dollars in millions)	Spending (dollars in millions)
IT Program	**FY 2022**	**FY 2023**
Web Applicationsa	2.7	0
Live Assistance	8.2	27.6
Taxpayer Accessibility	0	0.3
Customer Account Data Engine 2 Individual Tax Processing Engine	5.4	111.8
Enterprise Case Management	1.1	67.3
Information Returns Modernization	0	38.7
Cloud Execution	0.6	.2
Information Technology Service Management	0	16.90
Digitalization	0	75.7
Enterprise Data Platform	0	53.2
Vulnerability and Threat Management	0	43.8
Identity and Access Management	13.3	99.1
Security Operations and Management	2.3	14.8
Authentication, Authorization and Access (formerly named Secure Access Digital Identity)	0	32.2
Network Modernization (formerly Network expansion)	0	80.2
Online Tools/Self Service	N/A	4.9

n/a	Spending (dollars in millions)	Spending (dollars in millions)
IT Program	**FY 2022**	**FY 2023**
Individual Online Account	N/A	55.5
Customer Account Data Entire 2 Tax Account Management Individual	N/A	9.5
Tax Account Management Services	N/A	21.9
Individual Master File Retirement Acceleration Self-Service Reporting and Analytics – Individual	N/A	4.9
Business Online Account	N/A	33.0
Tax Pro Online Account	N/A	19.5
Business Mater File Modernizations	N/A	5.7
Legacy Systems changes for New Unified Compliance Organization	N/A	5.2
Total	33.6	821.9

Source: GAO Analysis of Internal Revenue Service Data. | GAO-24-106091

Note: FY 2023 amounts are based on a draft report.

[a]In FY 2023, IRS split the Web Applications Program into the Individual Online Account, Business Online Account and Tax Pro Online Account, which we report separately in this table.

Appendix IV: Summary of Our Assessment of Internal Revenue Service Cost Estimation Policies

Our Cost Estimating and Assessment Guide (Cost Guide) outlines best practices for cost estimating. The Cost Guide presents 12 steps that, when incorporated into an agency's cost estimating guidance, should result in reliable and valid cost estimates.[1] A reliable cost estimate provides the basis for informed decision making, realistic budget formulation and program resourcing, and accountability for results, which can contribute to the success of Inflation Reduction Act (IRA) implementation.

The Internal Revenue Service's (IRS) Estimation Program Office, part of the IT organization, developed the IT initiative project cost estimates. IRS's Office of the Chief Financial Officer led development of the non-IT labor, contracts, and non-labor estimates presented in the Strategic Operating Plan (SOP) and spend plans. The IRA Transformation Strategy Office oversees IRA initiatives and significant projects. IRS did not have a comprehensive policy for estimating costs for non-IT agency reform initiatives.

We compared IRS's policies for developing IT cost estimates against the 12 steps and associated best practices described in our Cost Guide. We assessed the extent to which these documents aligned with the best practices on a five-point scale (see appendix I for details). Taken together, IRS's IT documents provided cost estimating information that either substantially met or met four of the 12 cost estimating steps (see table 4).

[1]GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs,* GAO-20-195G, (Washington, D.C.: March 2020). The Office of Management and Budget's *Capital Programming Guide,* part of *Circular A-11 (2022), Preparation, Submission, and Execution of the Budget*, refers to our Cost Guide to help agencies meet most cost estimating requirements.

Table 4: Assessment of Internal Revenue Service Cost Estimation Policies for IT Initiatives

Step	Score	Alignment with practices
Define the estimate’s purpose	Met	The IT Procedure describes the estimate’s purpose and requires the estimation team to coordinate efforts of project stakeholders to define the functional scope.
Develop the estimating plan	Partially Met	The IT Procedure includes steps to assemble the estimating team, which includes a lead estimator and subject matter experts. The procedure also contains requirements to determine the estimating approach and schedule. The IT Procedure does not indicate whether the team should be made up of people qualified in estimating all elements of the program or be trained, or created from a centralized team. It also lacks guidance on allotting sufficient time to develop an estimate or and on how to compress an estimation schedule if needed, such as reducing scope or documenting the constraint.
Define the program	Substantially Met	The IT Procedure requires the estimation team to coordinate with project stakeholders to clarify the technical solution that will be the basis of the estimate.[a] Documentation defining project/proposal scope and solution includes: technical drawings, capabilities descriptions, work requests, and other reports. It is implied the technical solution be updated upon updating an estimate. It is not clear the IT Procedure requires a comprehensive program description that is in line with our best practices, such as identifying relationships to other systems including similar legacy systems or including specific technical or program risks. It also does not clarify whether the technical description must be approved by management.
Determine the estimating structure	Partially Met	The IT procedure requires an estimate breakdown structure (EBS).[b] It implies a standardized and product-oriented structure through recommended use of a template or other format and including elements such as software development and infrastructure. The EBS is to be updated in conjunction with an estimate update. However, the IT Procedure does not require an EBS dictionary or that the cost estimate EBS match the schedule EBS.
Identify ground rules and assumptions	Substantially Met	The IT Procedure requires the estimation team to document all assumptions and references our Cost Estimating and Assessment Guide (Cost Guide) for guidelines on a well-documented estimate. It lists various forms of documentation, depending on the type of estimates. The IT Procedure does not require documentation of the rationale and historical data supporting ground rules and assumptions. It also does not discuss using assumptions as inputs to the cost-risk analysis.
Obtain the data	Partially Met	The IT Procedure references various project source data, including the Estimation Program Office Estimation Guidelines and the Applications Development Cost Library data repositories. It includes a step to store the estimate, actual results, and cost, effort, and schedule data in these repositories to support future IT estimation efforts. The IT Procedure does not require the creation of a data collection plan, the data to be normalized prior to using, the data to be analyzed for cost drivers, trends, and outliers, or an assessment of data reliability and accuracy be documented.

Step	Score	Alignment with practices
Develop the point estimate	Partially Met	The IT Procedure requires that the estimation team determine the estimation approach and tools to develop the estimate. It also requires that the estimation team consolidate individual component estimates (e.g., software infrastructure, deployment, program management support) into a complete estimate for the effort. Preliminary estimates must undergo a peer review process with subject matter experts. The IT Procedure does not describe best practices related to validating the estimate, such as cross-checks, independent cost estimates, or looking for errors within the cost models. It also does not require costs to be expressed in constant year dollars or results to be time-phased according to program schedule. Only some of the tools that support estimate development report costs in constant year dollars, time-phase results, or total costs.
Conduct sensitivity analysis	Minimally Met	The IT Procedure includes the conduct of a sensitivity analysis on identified factors, as appropriate. However, the IT Procedure does not explain why only some estimates undergo a sensitivity analysis. It also does not define a sensitivity analysis, nor provide guidance for how to conduct one in accordance with best practices.
Conduct risk and uncertainty analysis	Minimally Met	The IT Procedure requires the cost estimation team to use a risk assessment technique to identify likely project risks and the likely effects on project cost, effort, and schedule estimates. It also requires updated risk information to be presented at each investment management decision point to help inform funding and project continuation decisions. The IT Procedure does not define or provide guidance for risk assessment techniques in accordance with best practices.
Document the estimate	Partially Met	The IT Procedure requires the estimation team document and deliver final estimate results, scope, assumptions, analysis, and results for the estimate. The procedure stated that documentation should include all estimated cost, effort, and schedule details, and assumptions and analysis results needed to recreate the estimate. Documentation should follow the guidelines for well-documented estimates, as specified in our Cost Guide. However, different documents are required depending on the office developing the estimate and method used and not all artifacts incorporate best practices. Examples of missing best practices include: not documenting estimate approval, schedule, results of a risk and uncertainty analysis, or contingency amounts.
Present the estimate to management for approval	Partially Met	The IT Procedure requires the estimation team to review estimate results with the project manager or proposal sponsor and other leadership, as appropriate. The review process is used to validate all assumptions and analysis and facilitate a common understanding regarding cost estimating results. The IT Procedure does not require sufficient information, as identified in our Cost Guide, to allow management to understand how the estimate was developed. It also does not clarify that management must accept or approve the estimate.

Step	Score	Alignment with practices
Update the estimate to reflect actual costs and changes	Substantially Met	The IT Procedure states that estimates are to be updated at milestone decisions, if scope changes, if thresholds are exceeded, on a recurring basis for in-progress major projects, or as needed. It requires estimated and actual project cost data to be compared and analyzed to define and document standard cost estimating relationships as well as to measure and evaluate performance for improvement over time. The IT Procedure does not require estimates to be updated with actual costs. It also does not require changes to the program to be documented nor how those changes affect the cost estimate.

Source: GAO. | GAO-24-106091

[a]A technical baseline description is a document or set of documents that describes the program or project's purpose, system, performance characteristics, and system configuration.

[b]A work breakdown structure is a framework for planning and assigning responsibility for work necessary to accomplish a program's objectives. It deconstructs a program's end product into smaller specific elements that are suitable for management control.

Appendix V: Comments from the Internal Revenue Service

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

DEPUTY COMMISSIONER

January 24, 2024

Mr. James R. McTigue, Jr.
Director, Tax Policy and Administration
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. McTigue:

I have reviewed the draft report entitled IRS Reform: Following Leading Practices and Improving Cost Estimation Policies Could Benefit Agency Efforts (GAO-24-106091) and appreciate the opportunity to provide comments.

The Internal Revenue Service, as you have noted, has mature cost estimation processes for its labor and IT programs. These processes already follow most of the 12 best practices identified in GAO's cost estimation guide. With Inflation Reduction Act funding, the IRS is reforming to ensure taxpayers have the services they want when they want them, equitable enforcement activities that minimally burden taxpayers, and effective prevention of tax schemes, scams and fraud.

While the IRS used its current estimation processes to provide the high-level costs provided in the Strategic Operating Plan (SOP), the IRS will be doing more detailed analysis and planning as it seeks to achieve the goals outlined in the SOP. Over 96% of the non-IT reform costs will be labor costs which uses our long-established Unit Cost Rate Model to provide accurate multi-year, fully burdened labor costs including the supporting costs needed to make the hiring productive and downstream organizational costs driven by the hiring. CFO updates their model annually based on the latest data, conducts trainings, and is confident they have the skilled personnel to provide the cost estimation IRS leadership needs to make informed decisions. IT's estimation office also has a structured methodology that estimates the full IT lifecycle program cost.

IRS agrees that it can formalize its existing non-IT and IT estimation guidance used by practitioners across the Service by including it as policy in the Internal Revenue Manual. IRS has already established a team to formalize its guidance as interim policy by later this year. Additionally, IRS has met with other agency estimation officials to understand how other agencies' best practices and processes are formally documented as policy.

2

IRS always appreciates GAO's role in helping improve the federal government.

Our responses to your specific recommendations are enclosed. If you have any questions, please contact me, or a member of your staff my contact Associate Chief Financial Officer for Corporate Budget Todd Egaas at 202-317-3987.

Sincerely,

Melanie R. Krause

Digitally signed by Melanie R. Krause
Date: 2024.01.24 15:25:05 -05'00'

Melanie R. Krause
Acting Deputy Commissioner
for Operations Support

Enclosure

Enclosure

Recommendations for Executive Action

RECOMMENDATION 1
As IRS implements its agency reform efforts, the Commissioner of Internal Revenue should ensure that IRS can demonstrate that it is following relevant leading agency reform practices.

COMMENT
We agree with this recommendation and have implemented or are in the process of implementing the leading agency reform practices outlined by GAO. We will assess how to best demonstrate that these best practices are built into our transformation efforts.

RECOMMENDATION 2
The Commissioner of Internal Revenue should establish a cost estimating policy for estimating costs of non-IT initiatives that addresses the 12 steps and associated best practices found in GAO's *Cost Estimating and Assessment Guide*.

COMMENT
Agree in Principle. We agree with formalizing our existing guidance by including it in the IRM. Our existing processes address most of the 12 steps in GAO's *Cost Estimating and Assessment Guide*, but will document a policy that allows IRS to tailor whether all the steps are needed in an estimate depending on the situation or type of estimate.

RECOMMENDATION 3
The Commissioner of Internal Revenue should include IRS's policy for estimating costs of non-IT initiatives in the Internal Revenue Manual (IRM) and issue interim guidance while the IRM section is being developed.

COMMENT
We agree that we should publish our existing cost estimation guidance for non-IT initiatives to the IRM. This activity is already in process and will be a part of the corrective action.

RECOMMENDATION 4
The Commissioner of Internal Revenue should incorporate all 12 steps and associated best practices found in GAO's *Cost Estimating and Assessment Guide* into IRS's IT cost estimation procedures.

COMMENT
Agree in Principle. IRS will incorporate the GAO steps that are applicable to IRS IT operational requirements. That assessment of identifying which GAO steps and associated best practices will be included in the IRS IT cost estimation procedure will be part of the corrective action.

RECOMMENDATION 5
The Commissioner of Internal Revenue should include IRS's IT cost estimation procedures in the Internal Revenue Manual (IRM) and issue interim guidance while the IRM section is being developed.

COMMENT
We agree that we should publish our existing cost estimation guidance for IT initiatives to the IRM. This activity is already in process and will be a part of the corrective action.

Accessible Text for Appendix V: Comments from the Internal Revenue Service

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U.S. Government Accountability Office
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Washington, DC 20548

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Sincerely,

Melanie R. Krause

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Melanie R. Krause
Acting Deputy Commissioner for Operations Support

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Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

James R. McTigue Jr., (202) 512-9668 or McTigueJ@gao.gov

Staff Acknowledgments

In addition to the contact named above, Brian K. James (Assistant Director), Lindsay Swenson (Analyst-in-Charge), Arpita Chattopadhyay, Caitlin Cusati, Sara Daleski, Suellen Foth, George Guttman, Nicholas Jones, Amalia Konstas, Jason Lee, Nira Marte, Lori Martinez, John Mingus, Edward Nannenhorn, Sabine Paul, Sarah Veale, Alicia White, Mary Weiland, and Clarette Yen made major contributions to this report. Jennifer Echard, Steven Flint, Robert Gebhardt, and Meredith Moles provided key assistance.

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