



Report to the Subcommittee on  
Financial Services and General  
Government, Committee on  
Appropriations, U.S. Senate

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July 2016

# IRS 2017 BUDGET

## IRS Could Improve Presentation of Budget Data in Its Congressional Justification

# GAO Highlights

Highlights of [GAO-16-695](#), a report to the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate.

## Why GAO Did This Study

Funding the federal government depends largely upon IRS's ability to collect taxes, including providing taxpayer services that make voluntary compliance easier and enforcing tax laws to ensure compliance with tax responsibilities. For fiscal year 2017, the President requested \$12.3 billion in appropriations for IRS; the request is almost \$1 billion (9 percent) more than IRS's fiscal year 2016 appropriation.

Because of the size of IRS's budget and the importance of its service and compliance programs for all taxpayers, GAO was asked to review the fiscal year 2017 budget request for IRS. In March 2016, GAO reported interim information on IRS's budget. This report assesses (1) the extent to which IRS's fiscal year 2017 CJ presents data on requested funding levels by appropriation accounts and in alignment with agency priorities, (2) IRS's management and allocation of user fees, and (3) the costs and reporting of IRS's IT investments. GAO reviewed the fiscal year 2017 CJ, documentation on IRS's vision for the future state, IRS budget plans, IT investment reports, and IRS budget data for fiscal years 2011 to 2017, interviewed IRS officials, and met with congressional appropriations staff to discuss the information they want included in the CJ.

## What GAO Recommends

GAO recommends that IRS ensure the CJ includes data on the amount of funding requested to maintain current services for each future state theme, and that Treasury ensure the accuracy of Treasury-generated IRS IT investment reports. IRS and Treasury agreed with the recommendations.

View [GAO-16-695](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or [mctiguej@gao.gov](mailto:mctiguej@gao.gov).

July 2016

## IRS 2017 BUDGET

# IRS Could Improve Presentation of Budget Data in Its Congressional Justification

## What GAO Found

**Congressional justification data.** The Internal Revenue Service (IRS) has taken steps to manage its budget more strategically but did not make linkages between priorities and appropriations accounts. IRS prioritized a subset of its 19 strategic objectives for action and established six themes that represent its "future state" vision for tax administration. In the fiscal year 2017 congressional justification (CJ), IRS linked requests for increased funding to themes and included details on how much would be funded by each appropriation account. However, IRS did not provide data on how much it spends in support of each theme or the amount of funding needed to maintain current levels by theme. IRS is working to develop such data, but officials cited challenges with data availability and tracking spending by themes. Such information would provide transparency on the current funding levels which assist Congress in making informed budget decisions.

**User fee spending.** IRS has permanent, indefinite authority to obligate and spend user fee collections, which it obligates as part of its budget execution process. IRS's user fee spend plan must be approved by both the Department of the Treasury (Treasury) and the Office of Management and Budget. IRS was directed to wait 30 days following the submission of the user fee spend plan to Congress before obligating funds. As seen in the table, planned user fee spending increased more than \$220 million (79 percent) between fiscal years 2011 and 2016. Of the \$509 million planned user fee obligations in fiscal year 2016, the largest amounts are for the Patient Protection and Affordable Care Act (\$204 million) and the Foreign Account Tax Compliance Act (\$62 million).

**User Fee Funding Obligated by IRS Appropriation Account, Fiscal Year 2011 through 2015 Actuals, and 2016 Planned (Dollars in Millions)**

Appropriation account	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 (planned)
Taxpayer Services	\$129	\$175	\$191	\$183	\$45	\$103
Operations Support	54	132	184	222	393	396
Business Systems Modernization	89	-	-	-	-	-
Enforcement	13	19	20	15	21	10
<b>Total obligated</b>	<b>\$285</b>	<b>\$326</b>	<b>\$395</b>	<b>\$420</b>	<b>\$459</b>	<b>\$509</b>

Source: GAO analysis of IRS data. | [GAO-16-695](#)

Notes: FY=fiscal year.

**Information technology data.** The President's budget requested \$2.8 billion for IRS's information technology (IT) investments which accounted for 21 percent of IRS's budget request for fiscal year 2017. Instead of presenting its IT investment data in its CJ, IRS moved them to a Treasury website. This is consistent with other Treasury bureaus and was intended to provide time for an enhanced data review process. However, despite the review process, Treasury did not detect an error which resulted in IRS underreporting its total IT investments by about \$4 million. According to federal internal control standards, ongoing monitoring should occur in the course of normal operations. Data errors could negatively affect Congress's ability to make budget decisions and provide oversight.

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## Abbreviations

CJ	congressional justification
FTE	full-time equivalent
IRS	Internal Revenue Service
IT	information technology
OMB	Office of Management and Budget
PPACA	Patient Protection and Affordable Care Act
SPIKE	SharePoint Investment Knowledge Exchange
Treasury	Department of the Treasury

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July 21, 2016

The Honorable John Boozman  
Chairman  
The Honorable Christopher A. Coons  
Ranking Member  
Subcommittee on Financial Services  
and General Government  
Committee on Appropriations  
United States Senate

Funding the federal government depends largely upon the Internal Revenue Service's (IRS) ability to collect taxes—in fiscal year 2015, IRS collected about \$3.3 trillion (before tax refunds of \$403 billion), or 93 percent of total federal government receipts. IRS's mission is to provide taxpayers top-quality services by helping them understand and meet their tax responsibilities, and to enforce the law with integrity and fairness. For fiscal year 2017, the President requested \$12.3 billion in annual appropriations for IRS, about \$1 billion (9 percent) more than fiscal year 2016 enacted levels.<sup>1</sup> In March 2016, we reported that IRS's fiscal year 2016 appropriation increased by \$290 million to \$11.2 billion over fiscal year 2015 levels, with the increases being targeted to improve taxpayer service, combat identity theft, and improve cybersecurity.<sup>2</sup> In that report, we also reported that IRS appropriations remain about 7 percent below fiscal year 2011 levels. Full-time equivalent staff members funded by annual appropriations declined by 12,000 between fiscal year 2011 and fiscal year 2016, a 13 percent reduction. We also reported that these declines have contributed to fluctuations in taxpayer service and longer wait times on the phones than taxpayers have historically experienced.

Because of the size of IRS's budget and the importance of its service and compliance programs for all taxpayers, you asked us to review the fiscal year 2017 budget request for IRS. In this report, we assess (1) the extent

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<sup>1</sup>For IRS budget and full-time equivalent data, see appendix I.

<sup>2</sup>GAO, *Internal Revenue Service: Preliminary Observations on the Fiscal Year 2017 Budget Request and 2016 Filing Season Performance*, [GAO-16-459R](#) (Washington, D.C.: Mar. 8, 2016).

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to which IRS's fiscal year 2017 congressional justification (CJ) presents data on requested funding levels by appropriation accounts and in alignment with agency priorities, (2) IRS's management and allocation of user fees, and (3) the costs and reporting of IRS's information technology investments.

To assess the extent to which the CJ provides data on funding levels by appropriation accounts and agency priorities, we reviewed IRS documentation on the implementation of the future state vision and on the process used to prioritize requested program increases—the future state is IRS's vision for the future of tax administration to help IRS more efficiently and effectively implement its mission. We reviewed the CJs from fiscal years 2013 through 2017 for spending and staffing data, and for changes to the budget presentation. During a meeting with appropriations staff from both the majority and the minority, we discussed their needs for obtaining information to make appropriations decisions as IRS makes changes in its budget presentation. To describe IRS's user fee funding, we reviewed IRS's authority to collect and obligate user fees, the President's budget requests from fiscal years 2013 through 2017, and IRS budget and planning documents.<sup>3</sup> To assess the costs of IRS's information technology (IT) investments, we reviewed congressional justifications, capital investment plans and summaries, and IRS data for fiscal years 2011 to 2017. We analyzed reported cost and schedule data for major IT investments and interviewed Department of the Treasury (Treasury) officials to assess the accuracy of these data and the procedures used to report information to Congress. We compared data reported in the fiscal year 2016 CJ and the fiscal year 2017 capital investment plan and summary, and assessed the extent to which IRS reporting complied with federal internal control standards.<sup>4</sup> As applicable for each objective, we interviewed IRS Corporate Budget and IT officials, and reviewed data collection procedures. We determined that the data used in this report were sufficiently reliable for our purposes.

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<sup>3</sup>The President's budget request for fiscal year 2013 contains actual data from fiscal year 2011. The President's budget request for fiscal year 2014 contains actual data for fiscal year 2012.

<sup>4</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

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We conducted this performance audit from December 2015 to July 2016 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.

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## Background

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### IRS Budget Structures

Funding requests for IRS are organized by appropriation account, which aligns broadly with its strategic goals to (1) deliver high-quality and timely service to reduce taxpayer burden, and encourage voluntary compliance; and (2) effectively enforce the law to ensure compliance with tax responsibilities and combat fraud. IRS funds its IT investments from its Operations Support and Business Systems Modernization appropriation accounts. IRS's four appropriation accounts and the fiscal year 2016 appropriations are as follows:<sup>5</sup>

- *Enforcement (\$4.86 billion)*: Funds activities such as determining and collecting owed taxes, providing legal and litigation support, and conducting criminal investigations.
- *Operations Support (\$3.75 billion)*: Funds activities including rent and facilities expenses, IRS-wide administration activities, and IT maintenance and security.
- *Taxpayer Services (\$2.33 billion)*: Funds taxpayer service activities and programs, including prefilling assistance and education, filing and account services, and taxpayer advocacy services.

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<sup>5</sup>In addition to the amount appropriated to these four accounts, IRS supplements its budgetary resources through collections, such as user fees, which are not appropriated annually. Also, in addition to the appropriations for these four accounts, \$290 million was appropriated for "measurable improvements in the customer service representative level of service rate, to improve the identification and prevention of refund fraud and identity theft, and to enhance cybersecurity to safeguard taxpayer data" to be transferred to the Enforcement, Operations Support, or Taxpayer Services accounts. Pub. L. No. 114-113, div. E, § 113, 129 Stat. 2242, 2430 (Dec. 18, 2015). The amounts listed here reflect those transfers.



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- *Business Systems Modernization (\$290 million)*: Funds the planning and capital asset acquisition of IT to modernize IRS business systems.

In support of the President's budget request, agencies submit CJs to Congress to explain the request by outlining agency goals and objectives for the coming fiscal year, and providing detailed descriptions of activities at the program, project, and activity level. Agencies are to prepare the justifications in accordance with the Office of Management and Budget's (OMB) Circular A-11 which provides guidance on materials required for the agency's request and reflects the needs of the Congress for providing effective oversight.<sup>6</sup>

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## Future State

Since 2014, IRS has undertaken a multiyear effort to develop a vision for the future state of tax administration to fulfill its mission more efficiently and effectively. To focus this effort, IRS narrowed 19 existing objectives to a core set of objectives that were used to develop six future state themes:

1. Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support.
2. Understand noncompliant taxpayer behavior and develop approaches to deter and change it.
3. Leverage and collaborate with external stakeholders.
4. Cultivate a well-equipped, diverse, skilled, and flexible workforce.
5. Select highest value work, using data analytics and a robust feedback loop.
6. Drive more agility, efficiency, and effectiveness in IRS operations.

These future state themes are in addition to Treasury's department-wide focus on strengthening cybersecurity and eliminating identity theft. IRS reported that it adopted a new, more strategic approach to identify and select budget program priorities based on the future state themes.

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<sup>6</sup>Office of Management and Budget, *Circular No. A-11, Preparation, Submission, and Execution of the Budget*, (Washington, D.C.: June 2015).

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## User Fees

A user fee is charged to beneficiaries of certain goods or services provided by the federal government.<sup>7</sup> In general, a user fee is related to a voluntary transaction or request for government goods or services above and beyond what is normally provided to the public. Although IRS services and operations are primarily funded through annual appropriations, IRS has the authority to supplement its appropriations with other resources, such as user fees. Until 1995, IRS user fee collections were deposited into the Treasury's general fund. In 1995, Congress granted IRS authority to retain and obligate up to \$119 million in user fee revenue to supplement its annual appropriation.<sup>8</sup> In 2005, Congress removed the limit of \$119 million and IRS was permitted to retain and obligate user fees that were implemented after September 30, 1994, or the portion of the fee that has been increased since September 30, 1994, for those fees that existed prior to that date.<sup>9</sup> For example, fees for installment agreements—monthly payment plans for taxes owed—were established after September 30, 1994, and therefore IRS retains the full amount of the fee collected. However, the fee for enrolling as an actuary is divided between IRS and the general fund of the Treasury because this user fee existed prior to September 30, 1994.

In fiscal year 2016, IRS expects to collect about \$422 million in user fee revenue from sources such as installment agreements (about \$155 million) and income verification express services (about \$51 million). IRS deposits user fees that it is authorized to retain into its Miscellaneous Retained Fees Fund—an estimated \$411 million in fiscal year 2016—before transferring funds to an appropriation account to be obligated. For fiscal year 2016, planned user fee obligations (\$509 million) account for about 4 percent of IRS's total obligations (\$12,374 million). IRS's user fee funds are available until expended (no-year funds) and funds that are not obligated in the fiscal year in which they are collected are carried over to the next fiscal year.

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<sup>7</sup>GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: September 2005).

<sup>8</sup>Pub. L. No. 103-329, title 1, § 3, 108 Stat. 2382, 2388–2389 (Sept. 30, 1994).

<sup>9</sup>Pub. L. No. 109-115, div. A, title II, § 209, 119 Stat. 2396, 2439 (Nov. 30, 2005).

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## Information Technology and Appropriations Increases

IT comprises a significant portion of IRS's budget and plays a critical role in enabling IRS to carry out its mission and responsibilities. IRS's fiscal year 2016 appropriations include about \$2.5 billion for IT investments; this represents 20 percent of the total IRS budget.<sup>10</sup> IRS relies on IT systems to process tax returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities, including providing taxpayers with toll-free access to tax information, among other things.

IRS's fiscal year 2016 appropriations increased by \$290 million. IRS is required by law to allocate these funds across three areas: customer service representative level of service, cybersecurity, and identity theft prevention.<sup>11</sup> IRS plans to use this funding to invest in (1) increased telephone level of service, including reduced wait times and improved performance on IRS's Taxpayer Protection Program/Identity Theft Toll Free Line; (2) cybersecurity, including network security improvements, protection from unauthorized access, and enhanced insider threat detection; and (3) identity theft refund fraud prevention. As shown in table 1, cybersecurity was allocated almost one-third of the funding, solely from the Operations Support appropriation account. This funding includes \$7 million (50 additional full-time equivalents) to maintain the cybersecurity workforce.

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<sup>10</sup>Total IT investments ranged from 19 to 21 percent of total budgetary resources from fiscal years 2011 to 2017.

<sup>11</sup>Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, div. E, § 113, 129 Stat. 2242, 2430 (Dec. 18, 2015).

**Table 1: IRS Allocation of \$290 Million Increase in Appropriations from Fiscal Years 2015 to 2016 (Dollars in Millions)**

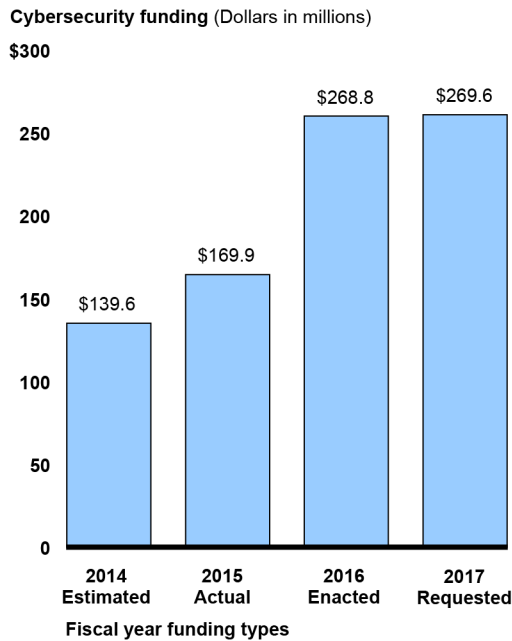
Appropriation account	Areas of increase			Total (percentage)
	Taxpayer Services	Cybersecurity	Identity Theft Prevention	
Taxpayer Services	176.6	—	0.2	<b>176.8</b> <b>(61.0%)</b>
Operations Support	1.8	95.4	11.0	<b>108.2</b> <b>(37.3%)</b>
Enforcement	—	—	4.9	<b>4.9</b> <b>(1.7%)</b>
<b>Total (percentage)</b>	<b>178.4</b> <b>(61.5%)</b>	<b>95.4</b> <b>(32.9%)</b>	<b>16.1</b> <b>(5.6%)</b>	<b>290.0</b> <b>(100.0%)</b>

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-16-695

Note: Numbers may not sum to totals because of rounding.

Cybersecurity efforts are intended to protect taxpayer information and IRS's systems, services, and data from internal and external cyber-related threats. Cybersecurity funding increased by 58 percent from fiscal years 2015 to 2016, primarily from increased appropriations as shown in figure 1.

**Figure 1: Cybersecurity Funding at IRS, Fiscal Years 2014 Estimated, 2015 Actual, 2016 Enacted, and 2017 Requested (Dollars in Millions)**



Source: IRS data. | GAO-16-695

Note: IRS officials said that the fiscal year 2014 amount is an estimate because it did not track cybersecurity costs separately from identity theft prevention and refund fraud until fiscal year 2015.

The President’s fiscal year 2017 budget also requests cybersecurity funds provided through a Treasury Cybersecurity Enhancement Account, which is intended to bolster Treasury’s overall cybersecurity posture. The request includes \$62 million for IRS, including \$54.7 million to directly support IRS cybersecurity efforts by securing data, improving continuous monitoring, and other initiatives.

## IRS Did Not Fully Link Future State Themes to Appropriation Accounts in Its 2017 Congressional Justification

IRS’s Senior Executive Team recognized that the 19 strategic objectives listed in the 2014-2017 IRS Strategic Plan were too broad a set of priorities for IRS future state vision. In January 2015, the Senior Executive Team agreed on six enterprise themes to support the future state vision that aligned with a subset of the strategic objectives and were informed by the needs of the business units.

IRS modified its approach to prioritizing programs and initiatives for requested funding increases in fiscal year 2017. In January 2015, the Office of Planning, Programming and Audit Oversight asked the operating

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divisions to submit program increase proposals they believed necessary for IRS to achieve its priorities. This office reviewed the proposals to ensure they aligned with IRS's strategic plan and submitted them to the Senior Executive Team for consideration. The Senior Executive Team prioritized the proposed program increases through a voting process to ensure that they aligned with IRS's strategy and resource needs.

According to IRS officials, funding increases were requested for fewer programs as a result of this new approach. Specifically, in the fiscal year 2017 CJ, increases were requested for 14 programs, whereas in the fiscal year 2016 CJ, increases in 25 programs were requested.

In its fiscal year 2017 CJ, IRS explained how requests for increased funding were linked to appropriations accounts, but it did not provide this information for the amount requested to maintain current funding levels. IRS linked each requested program increase to a future state theme and included details on how much of the requested increase would be funded by each of the four appropriation accounts.<sup>12</sup> Figure 2 shows each of the 14 program increase requests organized by theme or focus area, with funding requested broken out by appropriation account. Including data on the appropriation account provides additional transparency and improves the quality of the information available to Congress for budget deliberations.

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<sup>12</sup>IRS only listed program increases under three of the six themes in the fiscal year 2017 CJ.

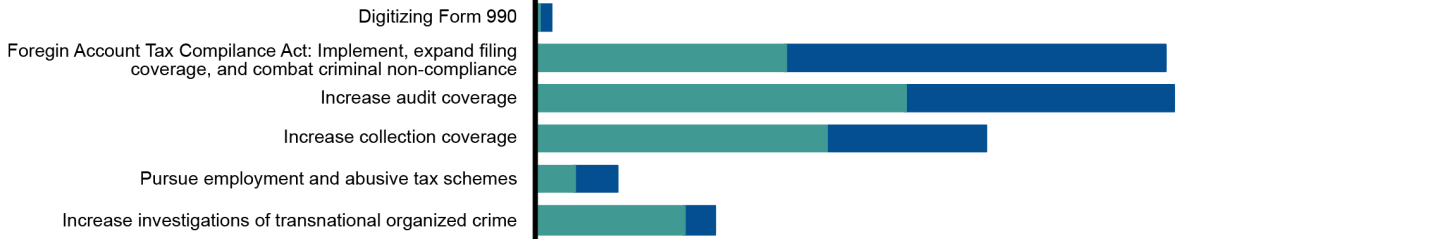
**Figure 2: IRS's Fiscal Year 2017 Requested Increase by Program and Appropriation Account (Dollars in Millions)**

**Funding increase by theme and appropriation account**

**Theme #1: Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support**



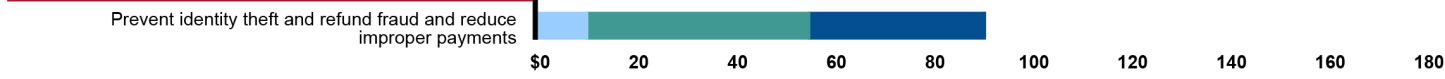
**Theme #2: Understand non-compliant taxpayer behavior, and develop approaches to deter and change it**



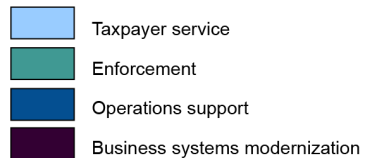
**Theme #6: Drive more agility, efficiency, and effectiveness in IRS operations**



**Focus Area: Strengthen cybersecurity and eliminate identity theft**



Dollars (in millions)



Source: GAO analysis IRS data. | GAO-16-695

However, IRS did not provide data on how much it is currently spending in support of each theme. As a result, it is unclear what amount of funding would be required to maintain current levels by theme. According to officials, IRS is working to develop such data, but officials cited technical challenges with data availability and comparability as well as challenges

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identifying spending for specific themes, some of which are worded broadly.

OMB Circular A-11 requires that an agency prepare justifications in concise, specific terms and cover all programs and activities of the agency. Additionally, the guidance specifies that an agency should consult with relevant congressional appropriations committees to confirm their support for modifications to the CJ's format. In adopting a new approach by prioritizing a subset of objectives, IRS modified how its budget data were organized, but did not clarify how spending by themes relates to appropriation accounts. Congressional appropriations' staff from both the majority and minority with whom we spoke told us they wanted more information on base spending by theme and account. Such information is important to ensure transparency on the current funding levels to assist Congress in making informed budget decisions.

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## IRS Used Its Flexibility to Spend User Fee Revenue to Fund Priorities

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### IRS Allocated User Fees as Part of Its Broader Budget Execution Process

IRS has permanent, indefinite authority to obligate user fee collections. This authority allows the agency flexibility in the use of these funds. While IRS does not need congressional approval of its user fee spend plan, it must obtain approval from Treasury and OMB. Additionally, for fiscal year 2016, IRS was directed to wait 30 days following the submission of the user fee spend plan to Congress before obligating these funds.<sup>13</sup>

IRS's Chief Financial Officer has oversight responsibilities for the initial assessment, updates, collection, and review of user fees. While the Chief Financial Officer does not provide the services for which user fees are charged, the office is responsible for ensuring that user fees are appropriately collected, deposited, and reported.<sup>14</sup> As seen in table 2, IRS

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<sup>13</sup>161 Cong. Rec. H10135 (Dec. 17, 2015).

<sup>14</sup>[GAO-12-193](#).



plans to allocate \$509 million of user fee revenues in fiscal year 2016 across three appropriation accounts. This represents 4 percent of IRS's total obligations in fiscal year 2016 (\$12.37 billion).

**Table 2: IRS Fiscal Year 2016 Allocation of User Fee Revenue (Dollars in Millions)**

	Appropriation Account			Total
	Taxpayer Services	Enforcement	Operations Support	
Patient Protection and Affordable Care Act Information Technology	-	-	\$203.5	<b>\$203.5</b>
Foreign Account Tax Compliance Act	-	-	62	<b>\$62</b>
eRecords Management	-	-	52	<b>\$52</b>
Health Coverage Tax Credit	19.6	0.7	27.7	<b>\$48</b>
Level of Service	40			<b>\$40</b>
Achieving a Better Life Experience Act	-	-	30	<b>\$30</b>
Submission Processing	20	-	-	<b>\$20</b>
Recurring IT Needs	-	-	19.5	<b>\$19.5</b>
Online Services	12	-	-	<b>\$12</b>
Return Preparer Program	-	9.2	-	<b>\$9.2</b>
E-Authentication Contract	8	-	-	<b>\$8</b>
Photocopy Program	3.9	-	-	<b>\$3.9</b>
Office of Personnel Management Investigative Rate Increase	-	-	1	<b>\$1</b>
Historical Easement Fee	-	0.2	-	<b>\$0.2</b>
<b>Total</b>	<b>\$103.5</b>	<b>\$10.2</b>	<b>\$395.7</b>	<b>\$509.3</b>

Source: GAO analysis of IRS data. | GAO-16-695

Note: Numbers may not sum to totals because of rounding. User fees under the Return Preparer Program and the Photocopy Program are applied only towards the reimbursement of the costs of managing those two programs respectively. The Historical Easement Fee is required to be used to fund enforcement compliance with that specific requirement. 26 U.S.C. § 170(f)(13)(C).

IRS allocates user fee revenues as part of its budget execution process and began planning for fiscal year 2016 allocations in April 2015. IRS allocates user fee revenue to fund agency priorities for which other funding was unavailable, but does not generally consider the source of

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funds when making these decisions.<sup>15</sup> Budget officials briefed members of the Senior Executive Team and the IRS Commissioner multiple times between September 2015 and January 2016, including on preliminary estimates of user fee spending. According to IRS officials, IRS sends a draft of the user fee spend plan to Treasury within 30 days of its budget being enacted and finalizes the plan within 60 days. However, IRS began fiscal year 2016 operating under a continuing resolution until December, so the user fee spend plan was submitted to Congress in February 2016.<sup>16</sup>

In May 2016, IRS announced that it is revising a number of existing user fees to more closely match the cost of providing the service and implementing new user fees for some additional services as a result of its 2015 Biennial Fee Review. Agencies are required to review, on a biennial basis, the fees, royalties, rents, and other charges for services and things of value and make recommendations on revising those charges to reflect costs incurred.<sup>17</sup> IRS expects total annual user fee revenue to increase by \$128 million when the fees are fully implemented. Officials said they plan to continue their current policy regarding how user fee revenue is allocated.

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### IRS Officials Cited Change in Appropriations and Cost of Implementing Mandates for Shift in User Fee Allocations

According to IRS officials, the planning process for allocating user fee revenue has been consistent between fiscal years 2011 and 2016. However, according to IRS officials, changes in appropriation levels and the cost of implementing mandates has resulted in a shift in how user fee revenue has been allocated. As shown in table 3 and the sidebar, both the amount and allocation of user fee funds shifted between fiscal years 2011 and 2016.

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<sup>15</sup>User fees under the Return Preparer Program and the Photocopy Program are applied only towards the reimbursement of the costs of managing those two programs respectively. The Historical Easement Fee is required to be used to fund enforcement compliance with that specific requirement. 26 U.S.C. § 170(f)(13)(C). In fiscal year 2016, this totaled \$13.3 million.

<sup>16</sup>For more information about continuing resolutions, see GAO, *Continuing Resolutions: Uncertainty Limited Management Options and Increased Workload in Selected Agencies*, [GAO-09-879](#) (Washington, D.C.: Sept. 24, 2009).

<sup>17</sup>31 U.S.C. § 902(a)(8). Also, see OMB Circular A-25, § 8(e).

**Table 3: User Fee Funds Obligated by IRS Appropriation Account, Fiscal Year 2011 through 2015 Actuals, and 2016 Planned (Dollars in Millions)**

Appropriation account	Fiscal year					2016 (planned)
	2011	2012	2013	2014	2015	
Taxpayer Services	\$129	\$175	\$191	\$183	\$45	\$103
Operations Support	54	132	184	222	393	396
Business Systems Modernization	89	-	-	-	-	-
Enforcement	13	19	20	15	21	10
<b>Total obligated</b>	<b>\$285</b>	<b>\$326</b>	<b>\$395</b>	<b>\$420</b>	<b>\$459</b>	<b>\$509</b>

Source: GAO analysis of IRS data. | GAO-16-695

**User Fee Allocations**

Of the \$509 million in user fee revenue IRS plans to allocate in fiscal year 2016, about \$296 million (58 percent) is planned for implementing mandates required by the:

- Patient Protection and Affordable Care Act Information Technology (\$203.5 million),
- Foreign Account Tax Compliance Act (\$62 million), and
- Achieving a Better Life Experience Act (\$30 million).

Source: GAO analysis of IRS data. | GAO-16-695

As we reported in June 2015, IRS management decided to allocate more user fee funds to Operations Support in fiscal year 2015, in part because of changes in the amount appropriated to its accounts and the cost of implementing mandates, such as the Patient Protection and Affordable Care Act (PPACA), which is largely funded by user fee revenue and Operations Support funds.<sup>18</sup> Of the \$1.6 billion spent on PPACA implementation between fiscal years 2010 and 2015, \$465 million was user fee revenue (29 percent) and \$467 million was annually appropriated Operations Support funds (29 percent).<sup>19</sup> The fiscal year 2015 appropriation for Operations Support was \$161 million (4.2 percent) less than fiscal year 2014, while Taxpayer Services was not reduced during that time frame. In fiscal year 2015, IRS obligated \$210 million in user fee revenue and \$154 million from the Operations Support account for PPACA implementation.

<sup>18</sup>GAO, *IRS 2016 Budget: IRS Is Scaling Back Activities and Using Budget Flexibilities to Absorb Funding Cuts*, [GAO-15-624](#) (Washington, D.C.: June 24, 2015).

<sup>19</sup>The remaining PPACA funding between fiscal years 2010 and 2015 was from the Department of Health and Human Services Health Insurance Reform Implementation Fund (\$559 million, 34 percent), Taxpayer Services (\$77 million, 5 percent), and Enforcement (\$53 million, 3 percent).

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In addition to changes in the allocation of user fee funds across appropriation accounts, IRS has also changed the amount it retains and the amount it carries over to the next fiscal year. The amount of user fee revenue that IRS collected and retained increased from \$324 million in fiscal year 2011 to \$391 million in fiscal year 2015. As previously mentioned, IRS is implementing changes to user fees which it expects to generate an additional \$128 million annually, all of which IRS is authorized to retain and spend. In fiscal year 2011, user fee obligations (\$285 million) accounted for 2.2 percent of IRS's total obligations (\$12,777 million). For fiscal year 2016, planned user fee obligations (\$509 million) account for about 4 percent of IRS's total obligations (\$12,374 million).

#### Carryover Balances

IRS can carry over any unexpended fee collections—those funds left over after IRS transfers fee collections to supplement its appropriations—for use in subsequent years.

We have suggested that carryovers are one way agencies can establish reserves to sustain operations in the event of a sharp downturn in user fee collections or other events. See [GAO-08-386SP](#) for additional information on user fee design.

Source: Pub. L. No. 103-329, title 1, § 3, 108 Stat. 2382, 2388–2389 (Sept. 30, 1994) and GAO. | GAO-16-695

These changes in the amount of funds that IRS retains and obligates have also affected the amount it carries over from one fiscal year to the next. As seen in table 4, IRS's carryover balance has declined in recent years from about \$327 million at the end of fiscal year 2011 to about \$93 million planned for the end of fiscal year 2016. This is potentially significant because, as we have previously reported, carryover balances can help agencies to sustain operations in the event of a sharp downturn in user fee collections or other events (see sidebar). However, this is less of consideration for programs that could also be funded through annual appropriations, as is the case with IRS. In briefings to the Senior Executive Team and to the IRS Commissioner, officials identified the low carryover balance from fiscal year 2016 to 2017 as a key risk because it decreases the funds available for future fiscal years. As part of budget deliberations, officials considered the tradeoffs between spending funds on priorities in the current budget year and maintaining a reserve for future years.

**Table 4: IRS User Fee Carryover Balances from Fiscal Year 2011 through 2015 Actuals and 2016 Estimates (Dollars in Millions)**

	Fiscal year					
	2011	2012	2013	2014	2015	2016 (estimated)
Carryover balance, end of year	326.6	352.9	311.9	261.8	193.1	93.0

Source: IRS. | GAO-16-695

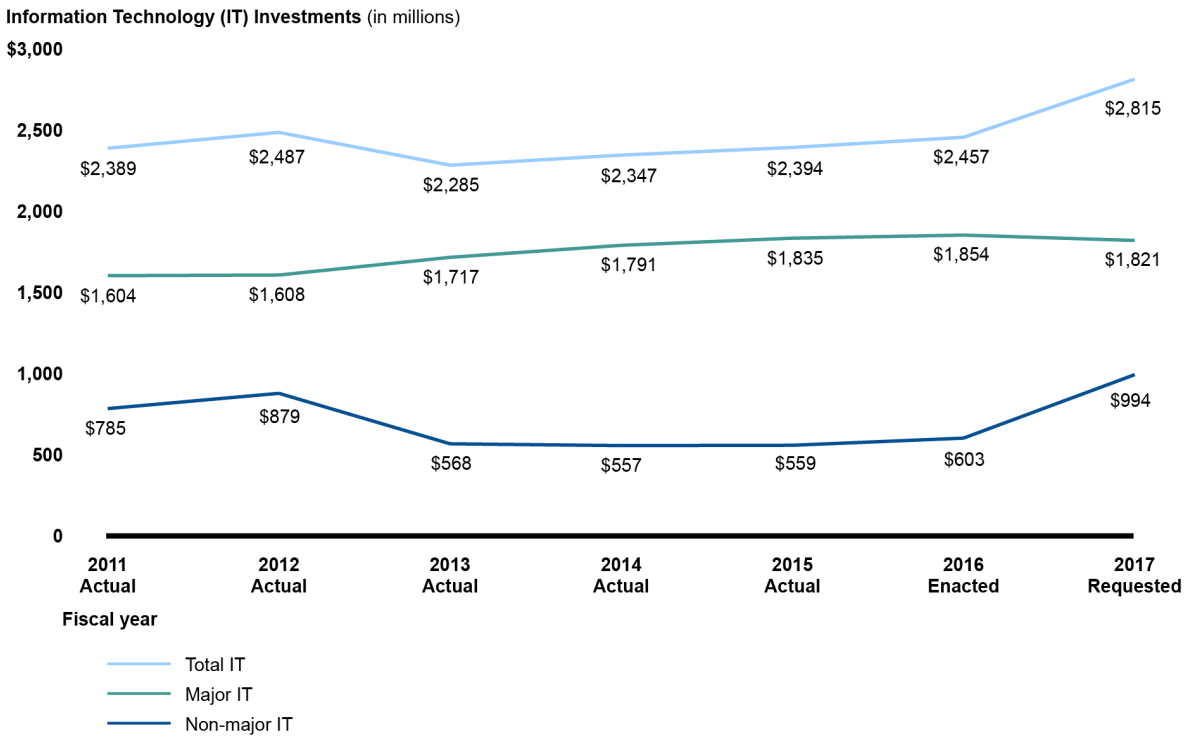
## IRS Changed Reporting of Major IT Investments, but Treasury Lacked Controls to Detect Errors in Reporting Certain IT Spending Data

IRS Reported the Fiscal Year 2017 President’s Budget Request of \$2.8 Billion for IT Spending Differently Than in Prior Years

IT is a significant portion—about 21 percent—of the total IRS budget request for fiscal year 2017. The President requested \$2.8 billion for IRS’s IT investments in fiscal year 2017, an increase of about 15 percent. This includes a \$391 million (65 percent) increase for non-major IT investments and a \$33 million (2 percent) decrease for major IT investments as shown in figure 3.<sup>20</sup>

<sup>20</sup>Treasury guidance defines a major investment as one that costs \$10 million in either the current year or budget year, costs \$50 million over the 5-year period extending from the prior year through 2 years after the budget year, or meets other specific criteria established by Treasury or OMB, such as having significant program or policy implications. OMB has instructed agencies not to categorize IT capital planning and Chief Information Officer function investments as major IT investments.

**Figure 3: Information Technology Investments, Fiscal Years 2011 through 2015 Actual, 2016 Enacted, and 2017 Requested (Dollars in Millions)**



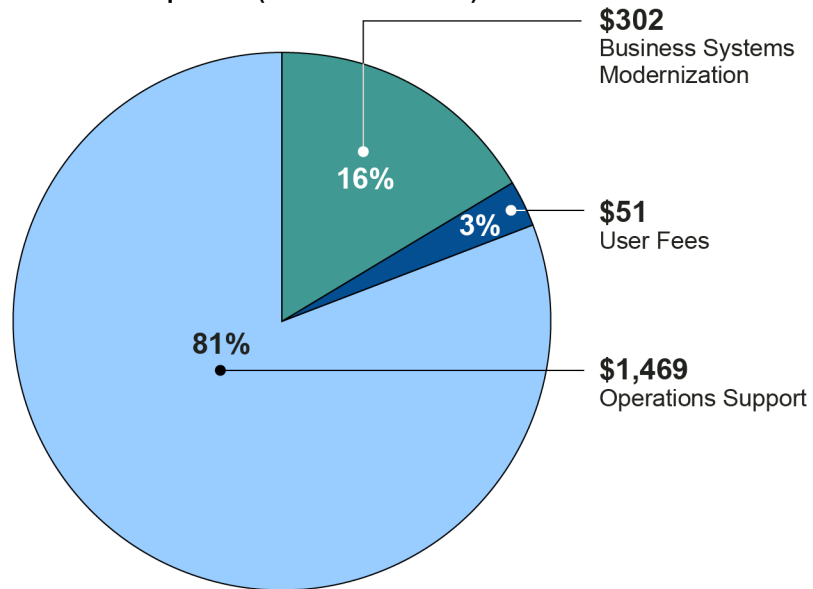
Source: IRS Fiscal Year 2014 to 2017 Congressional Justification and Summary of Capital Investments. | GAO-16-695

Note: Numbers may not sum to totals because of rounding.

IT investments are funded through the Operations Support and the Business Systems Modernization appropriation accounts and user fees. These investments generally support (1) day-to-day operations (which include operations and maintenance, as well as development, modernization, and enhancements to existing systems); and (2) modernization efforts in support of IRS’s goals. For IRS’s 23 major IT investments, the amount requested for fiscal year 2017 is \$1.8 billion, which is funded primarily through the Operations Support appropriation account as shown in figure 4.<sup>21</sup>

<sup>21</sup>See appendix II for a summary of IRS’s major IT investments.

**Figure 4: Major Information Technology Investments by Funding Source, Fiscal Year 2017 Requested (Dollars in Millions)**



Source: IRS Fiscal Year 2017 Summary of Capital Investments. | GAO-16-695

In previous years, IRS reported data on its IT investments in the CJ in a Summary of Capital Investments and Portfolio of Major Investments. The Summary of Capital Investments listed major and non-major IT investment totals and major IT investments by funding source. The Portfolio of Major Investments included a comprehensive list and description of major IT investments. For fiscal year 2017, IRS moved the Summary of Capital Investments from the CJ to a link on Treasury's website that was accessible 30 days following the release of the President's budget.<sup>22</sup> This website also includes a Capital Investment Plan, similar to the Portfolio of Major Investments.

Treasury provides capital investment information on its website for each Treasury bureau. Treasury is required to submit a Capital Investment Plan to Congress no later than 30 days following the submission of the President's budget.<sup>23</sup> According to IRS and Treasury officials, Treasury

<sup>22</sup><http://www.treasury.gov/about/budget-performance/pages/summary-of-capital-investments.aspx>.

<sup>23</sup>Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, div. E, § 123, 129 Stat. 2242, 2432 (Dec. 18, 2015).

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asked IRS to move the capital investment information from the CJ to a separate website to give Treasury additional time to review the data to improve reliability. According to IRS officials, this approach also eliminated the possibility of administrative errors in transcribing data from one database to another. While the move delayed the availability of the IRS information, the timing was consistent with capital investment reporting by other Treasury bureaus.

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### Treasury Lacked Controls to Detect Errors in Reporting Certain IT Spending Data

In the fiscal year 2017 IRS Summary of Capital Investments, Treasury reported the non-major IT investment total inaccurately for the 3 fiscal years presented (fiscal years 2015 actual, 2016 enacted, and 2017 requested). Treasury underreported the amounts by about \$4 million (less than 1 percent) in each fiscal year. Consequently, Treasury also reported the IT total for major and non-major IT investments inaccurately.

According to IRS and Treasury officials, this discrepancy was the result of an error introduced during the 30-day Treasury review process. IRS enters IT investment information into Treasury's SharePoint Investment Knowledge Exchange (SPIKE) system.<sup>24</sup> IRS and Treasury review and monitor the information before the Capital Investment Plan and the Summary of Capital Investments reports are generated. According to IRS officials, for fiscal year 2017, Treasury took a more active role in reviewing the information submitted by IRS on IT investments. During the review process, manual adjustments in SPIKE caused an error that resulted in two rows of non-major IT investments being excluded from the non-major IT total.

We asked IRS about the discrepancy, and IRS approached Treasury with the issue and Treasury subsequently corrected the error in SPIKE and revised the Summary of Capital Investments on Treasury's website. Stronger internal controls could help prevent such mistakes, such as effective monitoring of Treasury-generated IRS information technology investment reports. According to federal internal control standards, ongoing monitoring should occur in the course of normal operations. Monitoring should be performed continually and be ingrained in the agency's operations. It includes regular management and supervisory

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<sup>24</sup>SPIKE is Treasury's capital planning portfolio management tool. SPIKE is used to generate data for the Capital Investment Plan and the Summary of Capital Investments.



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activities, comparisons, reconciliations, and other actions people take in performing their duties.<sup>25</sup> According to Treasury officials, Treasury is aware of the need to reduce manual corrections by making improvements to SPIKE, but has yet to take steps to fully ensure that such errors will not occur in future budget cycles.

In June 2015, we reported on a separate ongoing monitoring internal control issue which resulted in IRS providing inaccurate data on actual obligations to date for major IT investments in its fiscal year 2016 CJ.<sup>26</sup> As a result of our recommendation that IRS implement internal controls to ensure the accuracy of information on major IT investments reported in the annual CJ, IRS took additional steps when preparing the fiscal year 2017 CJ. This included performing an operational review to examine the existing procedures. In addition, for the fiscal year 2017 IT investment reports, IRS implemented processes to ensure accurate and reliable data such as comparing its IT data maintained on control charts to the data it enters in SPIKE. IRS performed this reconciliation individually for each IT investment. However, IRS reported that it did not review the Summary of Capital Investments generated by Treasury in its entirety for accuracy after it was generated from SPIKE.

Without effectively monitoring IT investment information, Treasury risks continued errors in the information it reports on its IT investments. Such errors could negatively affect Congress's ability to obtain accurate information on IT investments needed to inform future budget decisions and oversight.

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## Conclusions

IRS intended to improve its budget process by aligning its spending priorities with themes supporting its future state vision, but the effort remains a work in progress. For fiscal year 2017, IRS did not make clear how spending by themes relates to appropriation accounts and how this advances IRS's priorities; this linkage is important to the clarity and transparency of IRS's budget presentation. Appropriations staff told us this information would help them make informed budget and oversight

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<sup>25</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

<sup>26</sup>See [GAO-15-624](#). For other budget-related recommendations that remain open, see appendix III.

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decisions. While IRS faces data challenges that may limit its ability to fully link funding requests to appropriation accounts, providing these linkages to the extent feasible will improve transparency and provide Congress with information to assist in making informed decisions. Additionally, accurate and timely budget data are key to effective congressional oversight. Since IT is such a significant portion—about 21 percent—of the total budget request for IRS, it is particularly important to have robust controls in place to ensure the data’s accuracy.

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## Recommendations for Executive Action

To enhance the budget process and to improve transparency, we recommend that the Commissioner of Internal Revenue, to the extent feasible, ensure that the CJ includes data by appropriation account on the amount of funding requested to maintain current services for each future state theme.

As Treasury works with IRS to improve the quality and accuracy of budget data, we recommend that the Secretary of the Treasury ensure sufficient controls are in place to make certain that the information technology investment reports generated from SPIKE are accurate. This includes, for example, taking steps to reduce the need for manual corrections to the data.

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## Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue and the Secretary of the Treasury for comment. In written comments reproduced in Appendix IV, IRS agreed with the recommendation related to the presentation of data in the Congressional Justification. IRS plans to provide a robust description of planned activities and outcomes for funding requested to maintain current services. Given IRS’s emphasis on the future state, budget data on the amount requested to maintain current services for each theme is particularly valuable. In a separate email response, Treasury agreed with the recommendation related to information technology internal controls. Treasury noted that it plans to implement improvements to SPIKE in the next few months that would address our recommendation by avoiding the need for manual corrections moving forward. IRS and Treasury also provided technical comments which were incorporated as appropriate.

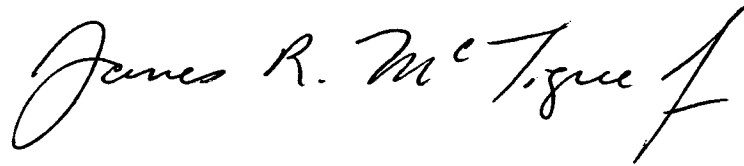
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We are sending copies of this report to the Chairman and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS.

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We are also sending copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, and other interested parties. 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) 512-9110 or [mctiguej@gao.gov](mailto: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 V.

A handwritten signature in black ink that reads "James R. McTigue, Jr." with a stylized flourish at the end.

James R. McTigue, Jr.  
Director, Tax Issues  
Strategic Issues

# Appendix I: Internal Revenue Service Funding and Full-Time Equivalents Data from Fiscal Year 2011 through 2017

**Table 5: Internal Revenue Service (IRS) Funding, Fiscal Years 2011 through 2016 Enacted and 2017 Requested (Dollars in Millions)**

Appropriations account	Fiscal year 2011 enacted dollars	Fiscal year 2012 enacted dollars	Fiscal year 2013 enacted dollars <sup>a</sup>	Fiscal year 2014 enacted dollars	Fiscal year 2015 enacted dollars	Fiscal year 2016 enacted dollars <sup>b</sup>	Fiscal year 2017 requested dollars below cap <sup>c</sup>	Fiscal year 2017 total requested dollars	Dollar change fiscal year 2016 enacted compared to fiscal year 2017 requested	Percent change fiscal year 2016 enacted compared to fiscal year 2017 requested
Enforcement	5,493	5,299	4,949	5,022	4,860	4,865	4,985	5,216	351	7.2
Operations Support	4,057	3,947	3,801	3,799	3,638	3,747	4,031	4,314	567	15.1
Taxpayer Services	2,293	2,240	2,136	2,157	2,157	2,333	2,406	2,406	73	3.1
Business Systems Modernization	263	330	313	313	290	290	343	343	53	18.4
Health Insurance Tax Credit Administration <sup>d</sup>	15	0	0	0	0	0	0	0	0	0.0
<b>Total annually appropriated resources</b>	<b>12,122</b>	<b>11,817</b>	<b>11,199</b>	<b>11,291</b>	<b>10,945</b>	<b>11,235</b>	<b>11,765</b>	<b>12,280</b>	<b>1,045</b>	<b>9.3</b>
Other resources, such as user fees	655	695	855	815	1,031	1,139	965	965	-175	-15.3
<b>Total budgetary resource funding</b>	<b>12,777</b>	<b>12,512</b>	<b>12,053</b>	<b>12,106</b>	<b>11,976</b>	<b>12,374</b>	<b>12,730</b>	<b>13,245</b>	<b>871</b>	<b>7.0</b>

Source: Congressional budget justifications for IRS, fiscal years 2013 through 2017. | GAO-16-695

Notes: Dollars are nominal and not adjusted for inflation, and numbers may not add due to rounding.

<sup>a</sup>Fiscal year 2013 enacted represents the operating level after applying across-the-board rescission and reductions required by sequestration.

<sup>b</sup>The Consolidated Appropriations Act of 2016, division E, section 113, gave IRS authority to allocate the \$290 million to the Taxpayer Services, Operations Support, and Enforcement accounts.

<sup>c</sup>Congress passes cap adjustments to allow additional funding above discretionary spending limits for certain activities that are expected to generate benefits that exceed cost.

<sup>d</sup>In fiscal year 2012 and thereafter, amounts appropriated for Health Insurance Tax Credit Administration, which had been a separate account, were moved to the Taxpayer Services appropriation.

**Table 6: Internal Revenue Service (IRS) Full-Time Equivalent (FTE), Fiscal Years 2011 through 2015 Actual, 2016 Enacted, and 2017 Requested**

Appropriations account	Fiscal year 2011 actual	Fiscal year 2012 actual	Fiscal year 2013 actual	Fiscal year 2014 actual	Fiscal year 2015 actual	Fiscal year 2016 enacted	Fiscal year 2017 requested below cap <sup>a</sup>	Fiscal year 2017 total requested	FTE change fiscal year 2016 enacted compared to fiscal year 2017 requested	Percent change fiscal year 2016 enacted compared to fiscal year 2017 requested
Enforcement	49,920	47,189	44,174	42,119	39,708	38,840	39,141	41,028	2,188	5.6
Operations Support	12,103	11,499	11,610	11,652	10,614	11,922	12,013	12,250	328	2.8
Taxpayer Services <sup>b</sup>	31,574	30,236	29,646	28,535	27,476	30,370	31,056	31,056	686	2.3
Business Systems Modernization	309	562	451	337	309	440	469	469	29	6.6
<b>Total FTEs funded with annual appropriations</b>	<b>93,906</b>	<b>89,486</b>	<b>85,881</b>	<b>82,643</b>	<b>78,107</b>	<b>81,572</b>	<b>82,679</b>	<b>84,803</b>	<b>3,231</b>	<b>4.0</b>
FTEs funded with other resources, such as user fees	1,003	2,185	1,884	2,118	2,685	1,533	2,219	2,219	686	44.7
<b>Total FTEs</b>	<b>94,909</b>	<b>91,671</b>	<b>87,765</b>	<b>84,761</b>	<b>80,792</b>	<b>83,105</b>	<b>84,898</b>	<b>87,022</b>	<b>3,917</b>	<b>4.7</b>

Source: Congressional budget justifications for IRS, fiscal years 2013 through 2017. | GAO-16-695

<sup>a</sup>Congress passes cap adjustments to allow additional funding above discretionary spending limits for certain activities that are expected to generate benefits that exceed cost.

<sup>b</sup>The administrative resources for the Health Insurance Tax Credit Administration were moved to the Taxpayer Services appropriation.

# Appendix II: Summary of the Internal Revenue Service's Major Information Technology Investments

In the fiscal year 2017 Capital Investment Plan, the Internal Revenue Service (IRS) did not report life-cycle costs of its major information technology (IT) investments since most investments were considered ongoing with an undetermined useful life. Instead, IRS provided total anticipated outlays for the investments through fiscal year 2021.

**Table 7: Major IT Investments (Dollars in Millions)**

Investment name and description	Start date of investment	Actual obligated dollars to fiscal year 2015	Fiscal year 2016 enacted dollars	Fiscal year 2017 requested dollars	Total anticipated outlay dollars to fiscal year 2021
<b>Account Management Services</b>					
Enhances customer support by providing applications that enable IRS employees to access, validate, and update individual taxpayer accounts on demand.	2009	135.4	15.0	17.8	242.3
<b>Achieving A Better Life Experience</b>					
Implements provisions of the Achieving A Better Life Experience (ABLE) Act related to the receipt and processing of information returns for ABLE accounts.	2016	0.0	30.0	6.0	84.0
<b>Affordable Care Act Administration</b>					
Encompasses the planning, development, and implementation of IT systems needed to support IRS's tax administration responsibilities associated with the Patient Protection and Affordable Care Act.	2010	1,341.2	303.2	258.3	2,979.6
<b>Customer Account Data Engine 2</b>					
Provides timely access to authoritative individual taxpayer account information and enhances IRS's ability to address security, financial material weaknesses, and long-term architectural planning and viability.	2009	932.4	135.3	137.4	1,779.6
<b>e-Services</b>					
Comprises several web-based, self-assisted services that allow authorized individuals to do business with IRS electronically.	1999	195.3	9.3	9.5	253.4
<b>Electronic Fraud Detection System</b>					
Detects fraud at the time that tax returns are filed in order to eliminate the issuance of fraudulent tax refunds. The investment is expected to fully retire in 2018 so the anticipated outlay amount is only to fiscal year 2018.	1996	143.9	13.1	13.3	183.8
<b>Enterprise Case Management</b>					
Provides a consistent approach to case management across IRS.	2016	4.1	30.1	41.9	280.4
<b>Event Driven Architecture</b>					
Provides the infrastructure to enable online taxpayer services and electronic filing options.	2016	0.0	4.4	34.6	103.6

**Appendix II: Summary of the Internal Revenue Service's Major Information Technology Investments**

<b>Investment name and description</b>	<b>Start date of investment</b>	<b>Actual obligated dollars to fiscal year 2015</b>	<b>Fiscal year 2016 enacted dollars</b>	<b>Fiscal year 2017 requested dollars</b>	<b>Total anticipated outlay dollars to fiscal year 2021</b>
<b>Foreign Account Tax Compliance Act</b>					
Implements provisions of the Foreign Account Tax Compliance Act regarding financial institutions reporting to IRS information about financial accounts held by U.S. taxpayers, or foreign entities in which U.S. taxpayers hold a substantial ownership interest.	2011	122.2	89.1	27.5	594.6
<b>Health Coverage Tax Credit</b>					
Encompasses the planning, development, and implementation of IT systems needed to support IRS's tax administration responsibilities associated with the Health Coverage Tax Credit	2015	0.0	24.9	6.4	55.3
<b>Individual Master File</b>					
Represents the authoritative data source for individual tax account data, supporting other IRS information systems and providing a critical component of IRS's ability to process tax returns.	1970	108.0	13.6	13.8	192.8
<b>Integrated Customer Communication Environment</b>					
Includes several projects that are intended to simplify voluntary compliance using telephone applications, Internet, and other computer technology	1992	509.1	11.7	11.9	582.2
<b>Integrated Data Retrieval System</b>					
Provides for systemic review, consistency in case control, alleviates staffing needs, issues notices to taxpayers, and allows taxpayers to see status of refunds.	1973	233.4	16.3	16.5	334.4
<b>Integrated Financial System</b>					
Provides budget, payroll, accounts payable/receivable, general ledger functions, and financial reporting; also used to manage budgets by fiscal year.	2001	437.7	2.8	4.2	462.3
<b>Integrated Submission and Remittance Processing System</b>					
Processes paper tax returns, and updates tax forms to comply with tax law changes.	1998	164.2	11.1	11.3	233.8
<b>IRS End User Systems and Services</b>					
Supports products and services necessary for daily functions for IRS employees at headquarters and field sites.	2002	1,081.7	213.8	193.4	2,291.2
<b>IRS Main Frames and Servers Services and Support</b>					
Supports the design, development, and deployment of server storage infrastructures, software, databases, and operating systems.	1970	5,127.8	417.0	468.2	8,213.8
<b>IRS Telecommunications Systems and Support</b>					
Supports IRS's broad and local network infrastructure such as servers, and switches for voice, data, and video servicing of IRS sites.	2001	1,578.5	276.2	286.0	3,336.1

**Appendix II: Summary of the Internal Revenue Service's Major Information Technology Investments**

<b>Investment name and description</b>	<b>Start date of investment</b>	<b>Actual obligated dollars to fiscal year 2015</b>	<b>Fiscal year 2016 enacted dollars</b>	<b>Fiscal year 2017 requested dollars</b>	<b>Total anticipated outlay dollars to fiscal year 2021</b>
<b>IRS.gov - Portal Environment</b> Provides web-based services to internal and external users, such as IRS employees and other government agencies, taxpayers, and business partners.	1996	627.7	60.6	68.9	1,046.0
<b>Modernized e-File</b> Provides a secure web-based platform for electronic tax filing of individual and business tax and information returns by registered Electronic Return Originators.	2001	488.1	54.7	60.1	853.8
<b>Return Review Program</b> Aims to maximize detection of fraud, including identity theft fraud, at the time that tax returns are filed to eliminate issuance of questionable refunds. This investment replaces the Electronic Fraud Detection System.	2010	192.6	91.9	92.9	816.3
<b>Service Center Recognition/Image Processing System</b> Provides a data capture, management, and image storage system using high-speed scanning and digital imaging to convert data from the 940, 941, K-1, and paper returns from Information Returns Processing into an electronic format.	1991	177.4	10.5	17.8	250.5
<b>Web Applications</b> Provides online tools for taxpayers, such as Where's My Refund and Get Transcript; supports search function and design of IRS.gov.	2015	13.2	19.2	23.3	211.6

Source: IRS Fiscal Year 2017 Capital Investment Plan. | GAO-16-695



# Appendix III: Our Open Budget-Related Recommendations to the Internal Revenue Service

Report	Recommendations	Benefit	Status
<a href="#">GAO-12-603</a> June 8, 2012	<p><i>Develop a quantitative measure of scope</i></p> <p>At a minimum, develop a quantitative measure of scope for its major information technology (IT) investments, in order to have complete information on the performance of these investments.</p>	<p>A quantitative measure of scope is a good practice as it provides an objective measure of whether an investment delivered the functionality that was paid for.</p>	<p>The Internal Revenue Service's (IRS) position on this recommendation has changed over time. IRS agreed with the recommendation we made in June 2012, but stated it had other methods in place to document delivered functionality of a project throughout the life-cycle. However, these methods did not provide a quantitative measure of performance. In responding to a related report we issued in April 2014, IRS maintained its position and therefore did not take action to address the recommendation. In the December 2015 quarterly report on information technology to Congress, however, IRS proposed a solution for one investment: specifically, it listed specific "scope elements" for the Return Review Program investment and identified the elements it had implemented to date. In addition, during our recent review of IRS's major IT investments, we found that IRS had developed a quantitative measure of scope for two investments, although we noted that the measure could be improved by accounting for the work performed by IRS staff in accordance with best practices (<a href="#">GAO-16-545</a>). The measure used in the quarterly report to Congress and the one we noted during our June 2016 review are positive steps. Similar, continued efforts by IRS would help fully address our recommendation to develop a quantitative measure of scope for all major IT investments.</p>
<a href="#">GAO-13-835</a> September 26, 2013	<p><i>Further refine updates to the Patient Protection and Affordable Care Act (PPACA) cost estimate</i></p> <p>Improve the accuracy and credibility of future updates to the PPACA cost estimate by taking the following actions to more closely follow best practices outlined in the GAO Cost Guide:</p> <ul style="list-style-type: none"> <li>• Use earned value management to capture actual costs and use them as a basis for future updates.</li> <li>• Explain why variances occurred between the current estimate and previous estimates.</li> <li>• Conduct future risk and uncertainty analyses consistent</li> </ul>	<p>Developing a cost estimate that meets additional best practices, will foster accountability, improve insight, and provide objective information.</p>	<p>IRS agreed with all of the actions recommended, except using earned value management and validating the PPACA cost estimate by preparing a second, independent cost estimate, in part because of cost and burden. In February 2015, IRS released version 3 of the PPACA cost estimate, which reflects best practices to a greater extent. However, four elements of this recommendation remain open. IRS improved the variance from the prior estimate, but IRS has not improved its practices related to the use of earned value management, risk and uncertainty analysis, or validating the estimate. IRS released version 4 of the cost estimate in April 2016 and we will continue to monitor IRS's progress.</p>

**Appendix III: Our Open Budget-Related  
Recommendations to the Internal Revenue  
Service**

<b>Report</b>	<b>Recommendations</b>	<b>Benefit</b>	<b>Status</b>
	<p>with best practices, and develop and document plans to address risks.</p> <ul style="list-style-type: none"> <li>Validate the original cost estimate by preparing a second, independent cost estimate.</li> </ul>		
<p><a href="#">GAO-14-605</a> June 12, 2014</p>	<p><i>Develop a long-term strategy</i> Develop a long-term strategy to address operations amidst an uncertain budget environment. As part of the strategy, IRS should take steps to improve its efficiency, including</p> <ul style="list-style-type: none"> <li>Reexamine programs, related processes, and organizational structures to determine whether they are effectively and efficiently achieving IRS's mission.</li> <li>Streamline or consolidate management or operational processes and functions to make them more cost effective.</li> </ul>	<p>Developing a long-term strategy will enhance budget planning and improve decision making and accountability.</p>	<p>IRS agreed with our recommendation and is taking steps to implement it. IRS has adopted a new, more strategic, approach to identify and select budget program priorities based on future state themes for the fiscal year 2017 budget request. As part of its planning process, IRS prioritized a subset of 5 objectives for action as part of the 19 objectives identified in the IRS 2014-2017 Strategic Plan. Operating division officials submitted requests for resources that they thought were necessary to achieve the five priority objectives, and they identified initiatives that were the highest priority to IRS. To guide IRS toward the future state concept and assess progress along the way, IRS has identified enterprise goals, but as of May 2016, these goals were still under development.</p>
<p><a href="#">GAO-14-605</a> June 12, 2014</p>	<p><i>Enhance calculation and use of actual return on investment (ROI) data</i> Calculate actual ROI for implemented initiatives, compare the actual ROI to projected ROI, and provide the comparison to budget decision makers for initiatives where IRS allocated resources.  Use actual ROI calculations as part of resource allocation decisions.</p>	<p>Enhanced calculation of ROI provides greater insight on the productivity of a program and can inform decision making.</p>	<p>While IRS agreed that having actual ROI data for implemented initiatives would be useful, it did not believe it was feasible to produce such estimates, as we recommended in June 2014. However, we maintain that IRS should be able to provide some information on past initiatives, such as whether funds requested were used in the manner originally proposed. As of July 2015, IRS officials reported there is no timeline for full implementation. In June 2016, IRS officials confirmed that they do not isolate the revenue attributable to a specific initiative, but pointed to other efforts to help manage IRS's budget, including establishing the Office of Planning Programming, and Audit Coordination intended to improve investment planning processes in the future. While these other efforts are intended to help IRS act more strategically, they are not directly linked to ROI.</p> <p>IRS's Research, Analysis, and Statistics Division has begun to estimate marginal direct revenues and marginal costs attributable to specific compliance projects. The estimates are necessary inputs to establish a measure of ROI, which in turn can guide resource</p>

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**Appendix III: Our Open Budget-Related  
Recommendations to the Internal Revenue  
Service**

<b>Report</b>	<b>Recommendations</b>	<b>Benefit</b>	<b>Status</b>
			allocation decisions within the correspondence exam program. IRS plans to use these estimates to inform future examination plans as we recommended in June 2014, but considerable work remains in this long-term effort. In July 2015, IRS officials reported there is no timeline for full implementation. In June 2016, IRS officials confirmed that projected revenue will be considered in investment decision making as part of fiscal year 2018 enterprise planning guidance, but did not report any progress in using actual ROI data.

Source: GAO analysis of IRS data. | GAO-16-695

# Appendix IV: Comments from the Internal Revenue Service



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

DEPUTY COMMISSIONER

July 5, 2016

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

Dear Mr. McTigue:

Thank you for the opportunity to review the draft GAO report, IRS 2017 BUDGET: IRS Could Improve Presentation of Budget Data in Its Congressional Justification (GAO-16-695). We appreciate that GAO recognizes the important role our service and compliance programs provide to all taxpayers. As in prior years, the IRS Congressional Justification (CJ) reflects continued improvements in the transparency, data quality, and accuracy of budget data through the strengthening of validation processes and controls.

Below are the IRS's comments on each specific recommendation.

Recommendation #1: To the extent feasible, ensure that the Congressional Justification includes data by appropriation account on the amount of funding requested to maintain current services for each future state theme.

Comment:

We agree with this recommendation. To ensure transparency and ease of communicating the Service's base and requested investments, the IRS will ensure its budget requests are identified by appropriation account with a robust description of what it expects to achieve at base funding levels and how the requested initiatives would improve performance and program delivery.

Recommendation #2: The Secretary of the Treasury should ensure sufficient controls are in place to make certain that the information technology investment reports generated from SharePoint Knowledge Information Exchange (SPIKE) system are accurate. This includes, for example, taking steps to reduce the need for manual corrections to the data.

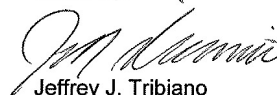
2

Comment:

Since this recommendation is addressed to Department of the Treasury, we provided this document to them for review. Treasury indicated that they will provide a written response directly to GAO.

If you have any questions, please contact me, or a member of your staff may contact Ursula S. Gillis, Chief Financial Officer, at (202) 317-6400.

Sincerely,



Jeffrey J. Tribiano  
Deputy Commissioner for Operations Support

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

James R. McTigue, Jr. (202) 512-9110, [mctiguej@gao.gov](mailto:mctiguej@gao.gov)

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## Staff Acknowledgments

In addition to the individual named above, the following staff made key contributions to this report: Thomas Gilbert, Assistant Director; Melissa King, Analyst-in-Charge; Charles Fox; Robert Gebhart; Carol Henn; Laurie King; Edward Nannenhorn; Sabine Paul; Bradley Roach; Robert Robinson; Cynthia M. Saunders; Andrew J. Stephens; and Elwood White.

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