United States Government Accountability Office
Report to Congressional Committees

June 2014

IRS 2015 BUDGET

Long-Term Strategy and Return on Investment Data Needed to Better Manage Budget Uncertainty and Set Priorities

GAO-14-605

GAO Highlights

Highlights of GAO-14-605, a report to congressional committees.

Why GAO Did This Study

The financing of the federal government depends largely upon the 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 2015, the President requested a $12.5 billion budget for IRS, a 10.5 percent increase over the fiscal year 2014 budget.

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 2015 budget request for IRS. (In April 2014, GAO reported interim information on IRS's budget.) Among other things, this report assesses IRS's (1) strategy to address budget cuts and (2) use of ROI analysis. To conduct this work, GAO reviewed the fiscal year 2015 budget justification, IRS and OMB budget guidance, and IRS workload and performance data from fiscal years 2009 to 2015. GAO also interviewed IRS officials and the National Taxpayer Advocate.

What GAO Recommends

GAO recommends that IRS (1) develop a long-term strategy to manage uncertain budgets, and (2) calculate actual ROI for implemented initiatives, compare actual ROI to projected ROI, and use the data to inform resource decisions. IRS agreed with GAO's recommendations, noting that it initiated a review of its base budget to ensure resources are aligned with its strategic plan and ROI is one of several factors relevant to making resource allocation decisions.

View GAO-14-605. For more information, contact James R. McTigue, Jr. at (202) 512-9110 or mctiguej@gao.gov.

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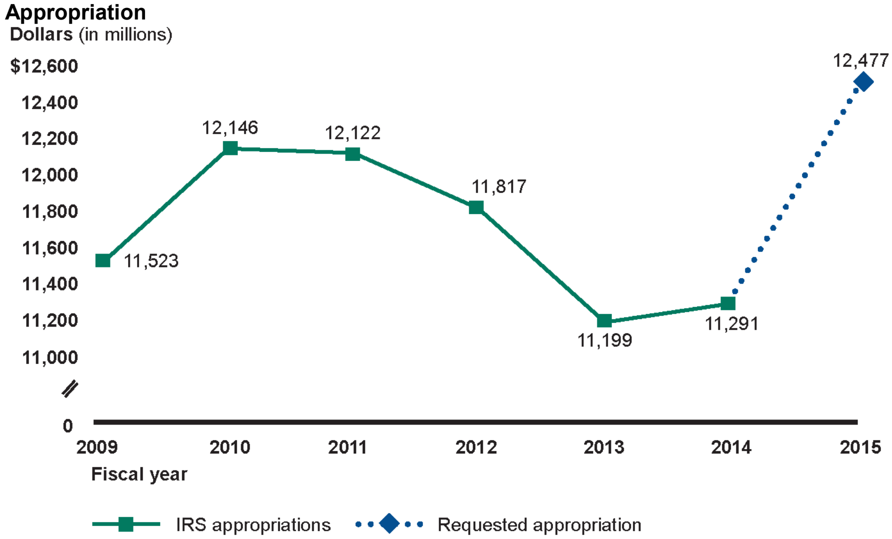
Long-Term Strategy and Return on Investment Data Needed to Better Manage Budget Uncertainty and Set Priorities

What GAO Found

Since fiscal year 2010, the Internal Revenue Service (IRS) budget has declined by about $900 million. As a result, funding is below fiscal year 2009 levels.

IRS Appropriations Fiscal Years 2009 through 2014 and Fiscal Year 2015 Requested Appropriation



Source: GAO analysis of fiscal years 2009 through 2015 congressional justifications for IRS.

Staffing has also declined by about 10,000 full-time equivalents since fiscal year 2010, and performance has been uneven. For example, between fiscal years 2009 and 2013, the percentage of callers seeking live assistance and receiving it fluctuated between 61 percent and 74 percent. IRS took some steps to address budget cuts, such as reduced travel and training.

IRS's strategic plan does not address managing budget uncertainty, although there are several indicators that funding will be constrained for the foreseeable future. For example, in May 2014, the Office of Management and Budget (OMB) generally required a 2 percent reduction in agencies' fiscal year 2016 budget submission. OMB guidance also requires agencies to develop strategies for operating in an uncertain budget environment. According to IRS, extensive senior leadership turnover has contributed to the lack of a long-term strategy. Without a strategy, IRS may not be able to operate effectively and efficiently in an uncertain budget environment.

For fiscal year 2015, IRS calculated projected return on investment (ROI) for most of its enforcement initiatives. However, due to limitations—such as estimating the indirect effect coverage has on voluntary compliance—IRS does not calculate actual ROI or use it for resource decisions. These limitations are important, which is why GAO recommended in 2012 that IRS explore developing such estimates. Given that these limitations could take time to address, GAO demonstrated how IRS could use existing ROI data to review disparities across different enforcement programs to inform resource allocation decisions. Comparing projected and actual ROI is consistent with OMB guidance. While not the only factor in making resource decisions, actual ROI could provide useful insights on the productivity of a program.

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Abbreviations

BCA	Budget Control Act of 2011
CI	Criminal Investigations
HIRIF	Health Insurance Reform Implementation Fund
FATCA	Foreign Account Tax Compliance Act
FTE	Full-time equivalent
IRDM	Information Reporting and Document Matching
IT	Information Technology
IRS	Internal Revenue Service
LB&I	Large Business and International Division
NTA	National Taxpayer Advocate
OMB	Office of Management and Budget
PPACA	Patient Protection and Affordable Care Act
PPA	Programs, projects, or activities
RAS	Research, Analysis, and Statistics Division
ROI	Return on investment
RRP	Return Review Program
SB/SE	Small Business/Self Employed Division
TIGTA	Treasury Inspector General for Tax Administration
W&I	Wage and Investment Division

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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June 12, 2014

The Honorable Tom Udall
Chairman
The Honorable Mike Johanns
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate

The Honorable Charles W. Boustany, Jr.
Chairman
The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The financing of the federal government depends largely upon the Internal Revenue Service's (IRS) ability to collect taxes, including providing taxpayers with services to make voluntary compliance easier and enforcing tax laws to ensure compliance with tax responsibilities. For fiscal year 2015, the President requested $12.5 billion for IRS. This is an increase of 10.5 percent ($1.2 billion) over the fiscal year 2014 appropriation. In April 2014, we reported that IRS has absorbed approximately $900 million in budget cuts since fiscal year 2010.[1] In that interim report, we found the cuts resulted in significant staffing declines and uneven performance. For example, we reported that IRS staffing has been reduced by about 8,000 full-time equivalents (FTE) since fiscal year 2009. We also reported that while IRS provided a 67 percent level of telephone services for fiscal year 2014 through March 15, 2014 compared to 61 percent for the prior entire fiscal year, average wait times to reach a

[1]GAO, *Internal Revenue Service: Absorbing Budget Cuts Has Resulted in Significant Staffing Declines and Uneven Performance,* GAO-14-534R (Washington, D.C.: Apr. 21, 2014).

telephone assistor had almost doubled since fiscal year 2009—from 8.8 minutes to 16.8 minutes as of mid-March 2014.[2]

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 2015 budget request for IRS. In this report we (1) assess IRS's strategy to address the budget cuts, including sequestration; (2) assess any new use of return on investment (ROI) analysis; (3) summarize requested funding and actual and planned spending for the Patient Protection and Affordable Care Act (PPACA),[3] and assess the updated PPACA information technology (IT) cost estimate; and (4) describe IRS's progress in implementing open GAO budget-related recommendations and list any GAO open matters for Congress and recommendations for executive action that could result in potential savings or increased revenue for IRS.

To conduct our work for all objectives, we reviewed key documents—such as the fiscal year 2015 congressional justification for IRS—and interviewed IRS officials. For the first objective, we also analyzed IRS data, including FTE and performance data for key IRS operations; reviewed executive orders, and Office of Management and Budget (OMB) guidance on improving government performance and efficiency; and interviewed the National Taxpayer Advocate. For the second objective, we reviewed IRS and OMB guidance, and interviewed officials from the IRS Office of Corporate Budget and its Research, Analysis, and Statistics (RAS) Division. For the third objective, we summarized PPACA information by funding source since inception and analyzed new information on actual and planned spending for fiscal year 2014. We could not assess the updates to the PPACA cost estimate because the updated September 2013 cost estimate is still under review.[4] For the fourth objective, we obtained information on our open recommendations

[2]This report updates our interim report. As of April 19, 2014, after the completion of the filing season, fiscal year 2014 telephone level of service was 67 percent and wait time was 17.0 minutes.

[3]Pub. L. No. 111-148, 124 Stat. 119 (2010), as amended by the Health Care and Education Reconciliation Act of 2010 (HCERA), Pub. L. No. 111-152, 124 Stat. 1029, which we refer to collectively as PPACA. IRS refers to PPACA by the acronym for the Affordable Care Act, ACA.

[4]We will report on the September 2013 PPACA cost estimate once it is released for our review.

from various IRS officials and analyzed relevant documentation to determine if the recommendations were implemented. We spoke with IRS officials and reviewed data collection procedures and determined that the data used in this report were sufficiently reliable for our purposes. For further details on our scope and methodology, see appendix I.

We conducted this performance audit from November 2013 to June 2014 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

IRS Budget Presentation

The congressional budget justification for IRS presents funding and FTE information at two levels: (1) appropriation account and (2) budget activity. In addition, it provides descriptions of program activities within each budget activity. IRS has four appropriation accounts:

- **Enforcement**. This account provides funding for the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of underreporting of tax obligations; securing of unfiled tax returns; and collecting unpaid accounts.

- **Operations Support**. This account provides funding for overall planning, direction, and support for the IRS, including shared service support related to facilities services, rent payments, printing, postage, and security. This appropriation funds headquarters policy and management activities such as corporate support for strategic planning; communications and liaison; finance; human resources; equity, diversity and inclusion; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security, and maintenance of IRS information systems.

- **Taxpayer Services**. This account provides funding for taxpayer service activities and programs. This includes printing forms and publications, processing tax returns and related documents, offering filing and account services, ensuring the availability of taxpayer assistance, and providing taxpayer advocacy services.

- **Business Systems Modernization**. This account provides resources for the planning and capital asset acquisition of IT to modernize the IRS business systems.

Budget activities divide appropriation accounts into additional functions. For example, the Enforcement appropriation is broken into three budget activities: Investigations, Exam and Collections, and Regulatory. Each budget activity, in turn, has multiple program activities. For example, Exam and Collections has 18 program activities.

The congressional justification presents how budget resources could be allocated to appropriation accounts. IRS is restricted from reprogramming funds within appropriation accounts without committee approval if the reprogramming will augment existing programs, projects, or activities (PPA) in excess of $5 million or 10 percent, whichever is less.[5] IRS refers to its PPAs as "budget activities." IRS generally notifies Congress if it expects to reprogram funds from one budget activity to another. However, IRS is not restricted from shifting resources between program activities, which are activities within a budget activity and not subject to reprogramming restrictions. Further, while IRS cannot transfer resources from one appropriation account to another without specific statutory authority to do so, IRS could shift resources between any of the 18 program activities within the Exam and Collection budget activity without Congressional approval or notification.

[5]See, for example, the Consolidated Appropriations Act, 2014, Pub. L. No. 113-76, div. E, title VI, § 608, 128 Stat. 5, 226 (Jan. 17, 2014). Reprogramming shifts funds within an appropriation account and, unlike transfers, agencies may reprogram without additional statutory authority; however, reprogramming above a statutorily defined threshold often involves some form of notification to the congressional appropriations committees, authorizing committees, or both.

Within the congressional justification, IRS also details its strategic goals and objectives for the agency. According to the fiscal year 2015 congressional justification for IRS, the IRS strategic plan guides program and budget decisions and supports the Department of the Treasury *Fiscal Year 2014 to 2017 Strategic Plan* and the Agency Priority Goal of expanding the availability and improving the quality of customer service options.

The congressional justification also details information on requested program increases (new program initiatives). The information includes why the funds are needed, how they will be used, and the number of staff by position needed to do the work. Some of the new program initiatives also include projected return on investment (ROI) calculations—the projected additional revenue collected, divided by the projected cost. For IRS, projected ROI is an estimate of how the agency expects a program initiative to perform. IRS defines three types of ROI:

- **Revenue producing**. The initiative yields direct, measureable results through enforcement activities.
- **Revenue protecting**. The initiative prevents the issuance of fraudulent refunds to persons posing as a taxpayer and resolves issues prior to issuing a refund.
- **Revenue enhancing**. The initiative leads to improved revenue collection through improvements in case selection, issue identification, and enforcement case treatment.

In recent years, some of the new program initiatives have been predicated on a program integrity cap adjustment. Congress passes these adjustments to allow additional funding above discretionary spending limits for certain activities that are expected to generate benefits that exceed cost. Of the 22 initiatives in the IRS fiscal year 2015 budget request, 17 are predicated on a program integrity cap adjustment.

Implementation of Major New Laws

IRS continues to implement four major new laws passed in recent years:

- **PPACA**. This law reforms the private insurance market and expands health coverage to the uninsured. IRS is responsible for implementing new provisions including new taxes, tax credits, and information reporting requirements.

- **Merchant card reporting**. This law requires payment settlement entities (e.g., banks) to report fiscal year information and the gross amount of reportable payment transactions (i.e., payment card and third party network transactions) to IRS.[6]

- **Cost basis reporting**. This law requires investment brokers to report the adjusted cost basis for certain publicly traded securities and whether a gain or loss is short or long-term.[7]

- **Foreign Account Tax Compliance Act (FATCA)**. This law adds reporting and other requirements relating to income from assets held abroad by: (1) requiring foreign financial and nonfinancial institutions to withhold 30 percent of payments made to such institutions by U.S. individuals, unless such institutions agree to disclose the identity of such individuals and report on their bank transactions, and (2) denying a tax deduction for interest on non-registered bonds issued outside the United States.[8]

IRS Has Taken Some Steps to Address Declining Budgets in the Short-Term, but Lacks a Long-Term Strategy

IRS Has Absorbed Substantial Budget Cuts in Recent Years

IRS's appropriations have ranged from a low of $10.2 billion in fiscal year 2005 to a high of $12.1 billion in fiscal year 2010. The fiscal year 2010 high was in part a result of a program integrity cap adjustment of $890 million. As we have previously reported, IRS's budget declined

[6]Housing Assistance Tax Act of 2008, Pub. L. No. 110-289, div. C, §3091, 122 Stat. 2654, 2908-2911 (July 30, 2008).

[7]Energy Improvement and Extension Act of 2008, Pub. L. No. 110-343, div. B, §403, 122 Stat. 3765, 3854-3860 (Oct. 3, 2008).

[8]Hiring Incentives to Restore Employment Act, Pub. L. No. 111-147, Title V, 124 Stat. 71, 97-117 (Mar. 18, 2010).

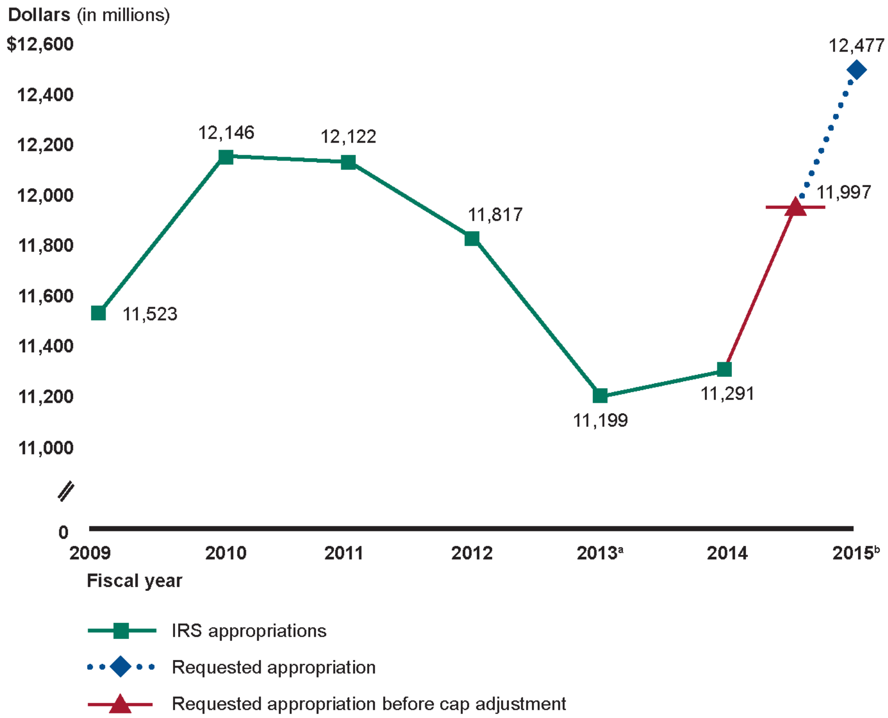
approximately $900 million between fiscal years 2010 and 2014.[9] These cuts reduced IRS's budget to below fiscal year 2009 funding levels. The largest budget reduction ($618 million) occurred in fiscal year 2013 because of sequestration ($594 million) and a 0.2 percent rescission ($24 million).[10] In fiscal year 2014, IRS's budget remained essentially flat, with an increase of $92 million for the improvement of identification and prevention of refund fraud and identity theft, and international and offshore compliance issues.[11] For fiscal year 2015, the President requested $12.5 billion for IRS, an increase of 10.5 percent ($1.2 billion) over fiscal year 2014 appropriations. See figure 1.

[9]GAO-14-534R. This report focused on fiscal years 2009 through 2015. We selected fiscal year 2009 as a starting point because fiscal year 2009 was the year prior to IRS's highest appropriation in recent years.

[10]Sequestration is the reduction or cancellation of budgetary resources provided by discretionary appropriations or direct spending laws. Amounts are subject to sequestration under a presidential sequester order. On March 1, 2013, the President ordered a sequestration to achieve $85.3 billion in reductions across federal government accounts, as required by the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. See 2 U.S.C. § 901a and *Sequestration Order for Fiscal Year 2013 Pursuant to Section 251A of the Balanced Budget and Emergency Deficit Control Act, As Amended*, 78 Fed. Reg. 14633 (Mar. 6, 2013).

[11]Consolidated Appropriations Act, 2014, Pub. L. No. 113-76, div. E, title I, 128 Stat. 5, 188-89, 190-91 (Jan. 17, 2014).

Figure 1: IRS Appropriations, Fiscal Years 2009 through 2014, and Fiscal Year 2015 Request



Source: GAO analysis of fiscal years 2009 through 2015 congressional justifications for IRS.

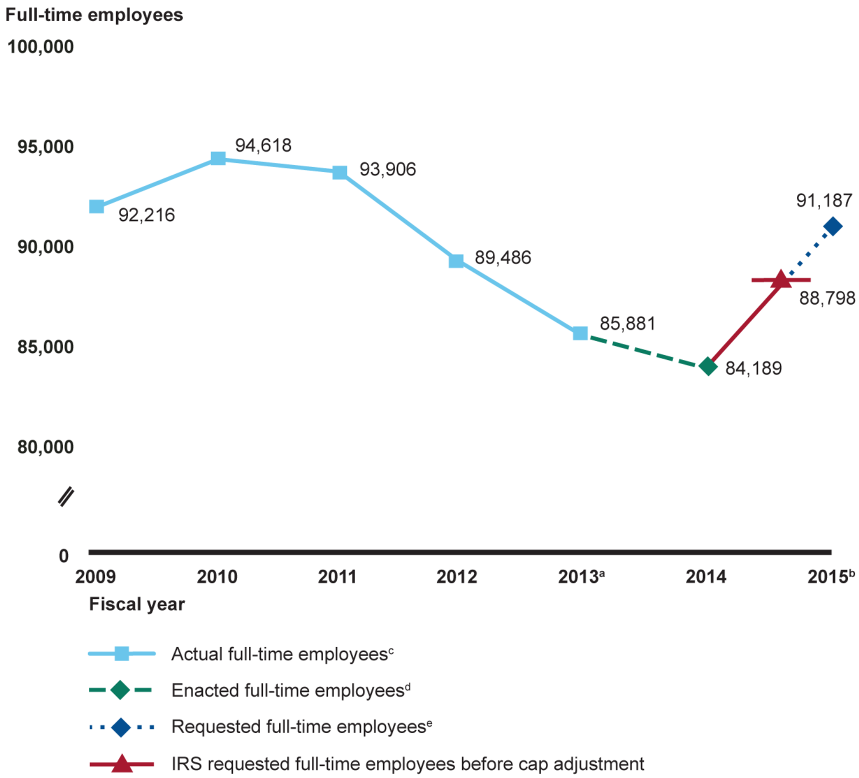
Notes: Amounts shown do not include other budgetary resources, such as user fees.

[a]Fiscal year 2013 levels represent an across-the-board rescission and reductions required by sequestration.

[b]For the fiscal year 2015 request, about $480 million, roughly 40 percent of the requested increase, is predicated on a program integrity cap adjustment, meaning Congress must approve funding above the discretionary spending limit.

Staffing declined by more than 10,000 FTEs between fiscal years 2010 and 2014, which reduced IRS's total FTEs to below fiscal year 2009 levels. For fiscal year 2015, the President requested an increase of about 7,000 FTEs over fiscal year 2014, which would bring IRS above fiscal year 2012 levels. See figure 2.

Figure 2: IRS Full-Time Equivalents Funded through Appropriations, Fiscal Years 2009 through 2013 (Actual), 2014 (Enacted), and 2015 (Requested)



Source: GAO analysis of fiscal years 2009 through 2015 congressional justifications for IRS.

Notes: Amounts shown do not include FTEs funded with other budgetary resources, such as user fees.

[a]Fiscal year 2013 levels represent the across-the-board rescission and reductions required by sequestration.

[b]For the fiscal year 2015 request, about 2,400 FTEs (roughly 34 percent of the requested increase) are predicated on a program integrity cap adjustment, meaning Congress must approve funding above the discretionary spending limit. The cost of the fiscal year 2015 initiatives was estimated based on a January 1 hire date for most FTEs.

[c]Actual FTEs represent the total number of hours worked divided by the number of compensable hours applicable to each fiscal year. For example, in fiscal year 2013, there were 2,080 compensable hours.

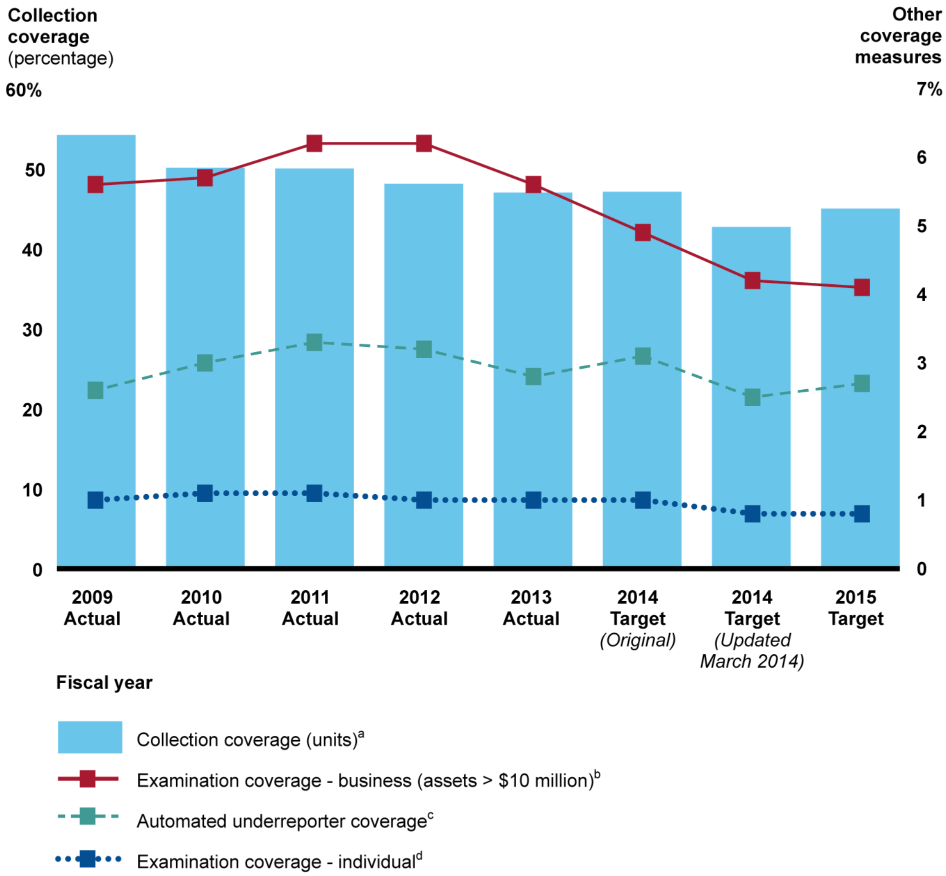
[d]Enacted FTEs represent the number of FTEs provided for in the enacted budget.

[e]Requested FTEs is the number of FTEs requested in the President's Budget for IRS.

IRS Performance Declined in Some Areas

Amidst these budget reductions, IRS's performance has declined in Enforcement and Taxpayer Services. IRS officials anticipate continued declines in fiscal year 2015. As shown in figure 3, IRS lowered its return examination and collection coverage targets. For example, the original audit coverage target for individual examinations was 1 percent for fiscal year 2014, but was lowered to 0.8 percent in the fiscal year 2015 congressional justification.

Figure 3: IRS Return Examination and Collection Coverage Measures, Fiscal Years 2009 through 2013 (Actual) and 2014 and 2015 (Target)



Source: GAO analysis of fiscal years 2009 through 2015 congressional justification for IRS.

Notes:

[a]Collection coverage is the volume of collection work disposed, compared to the volume of collection work available.

[b]Examination coverage-business (assets > $10 million) is the number of Large Business and International (LB&I) division returns (C and S Corporations with assets over $10 million and all partnerships) examined and closed by LB&I during the current fiscal year, divided by the number of filings for the preceding calendar year.

[c]Automated underreporter coverage is a percentage representing the total number of Wage and Investment (W&I) division and Small Business/Self Employed (SB/SE) division contact closures (a closure resulting from a case where SB/SE and W&I made contact with a taxpayer), divided by the total return filings for the prior year.

[d]Examination coverage-individual is the sum of all individual Form 1040 returns closed by SB/SE, W&I, Tax Exempt and Government Entities and LB&I (Field Exam and Correspondence Exam programs) divisions, divided by the total individual return filings for the prior calendar year.

IRS's performance in assisting taxpayers has also suffered, including telephone and correspondence services. Between fiscal years 2009 and 2013, telephone level of service—the percentage of callers seeking live assistance and receiving it—fluctuated between 61 percent and 74 percent. As of April 19, 2014, after the filing season ended, fiscal year 2014 telephone level of service was 67 percent.[12] In addition, the average amount of time a taxpayer had to wait to talk to a telephone assistor increased since fiscal year 2009—from 8.8 minutes to 17.0 minutes, as of April 19, 2014. Moreover, from fiscal years 2009 through 2013, overage correspondence—paper correspondence to which IRS has not responded within 45 days of receipt—increased from 25 percent to 47 percent.[13] However, according to IRS, the 2014 filing season was relatively smooth, which IRS attributes to reduced call volume and fewer tax law changes.

IRS attributes performance declines to sequestration and furloughs. For example, the number of individual, high-income, and business return audits fell from fiscal year 2012 to 2013 because fewer staff were available to conduct audits. Similarly, reports by the IRS Oversight Board and the National Taxpayer Advocate (NTA) attribute performance declines in part to reduced funding.[14]

IRS Faces an Increased Demand for Some Services

As staffing fell, IRS's workload increased in some areas as a result of statutory mandates and priority programs. For fiscal year 2014, IRS allocated 9 percent of its FTEs to these mandates and programs, including those to implement four new laws—PPACA, merchant card reporting, cost basis reporting, and FATCA. In addition, because instances of identity theft are more frequent, IRS has significantly increased resources devoted to refund fraud, which includes identity theft.

[12]From January 1 through April 19, 2014, the telephone level of service was 71 percent.

[13]The overage correspondence reported is for two IRS units that handle correspondence—Submission Processing and Accounts Management—both of which are part of W&I.

[14]See Internal Revenue Service Oversight Board, "Fiscal Year 2014 Budget Recommendation and Special Report, May 2013," *National Taxpayer Advocate, 2013 Annual Report to Congress, Volume 1* (Dec. 31, 2013).

Since IRS began tracking refund fraud in fiscal year 2011, it has more than quadrupled the numbers of FTEs allocated to refund fraud, from 1,018 in fiscal year 2011 to 4,146 FTEs in fiscal year 2014 (about 5 percent of its total workforce). Table 1 shows the shift in FTEs to legislative mandates and priority programs.

Table 1: Full-Time Equivalents Allocated to Implement New Laws and Priority Programs, Fiscal Years 2009 through 2013 (Actual), 2014 (Enacted), and 2015 (Requested)

Statutory mandates and priority programs	FY 2009 actual[a]	FY 2010 actual[a]	FY 2011 actual[a]	FY 2012 actual[a]	FY 2013 actual[a]	FY 2014 enacted[b]	FY 2015 requested[c]
Refund Fraud, Prevention Program (including identity theft)	--[d]	--[d]	1,018	3,299	4,146	4,146	4,603
International and Offshore Tax Administration	248	836	2,056	1,987	2,135	1,819	2,151
Patient Protection and Affordable Care Act	N/A	31	577	664	701	1,220	2,046
Merchant Card/Cost Basis Reporting	3	35	85	86	90	128	450
Foreign Account Tax Compliance Act	N/A	N/A	1	20	40	50	394
Return Preparer Oversight (includes Office of Professional Responsibility)	43	44	46	166	167	80	186
Return Review Program/Electronic Fraud Detection System	25	44	53	62	104	137	137
Total FTEs	**319**	**990**	**3,836**	**6,284**	**7,383**	**7,580**	**9,967**

Legend: FY = fiscal year; N/A = not applicable.

Source: IRS Office of Corporate Budget.

Notes:

[a]Actual FTEs represent the total number of hours worked based on IRS payroll data, divided by the number of compensable hours applicable to each fiscal year. For example, in fiscal year 2013, there were 2,080 compensable hours.

[b]Enacted FTEs represent the number of FTEs provided for the enacted budget.

[c]Requested FTEs represents the number of FTEs requested in the President's Budget for IRS.

[d]IRS did not track FTEs allocated to refund fraud.

IRS Has Taken Some Steps to Address Budget Cuts

To reduce spending to address sequestration and other budget cuts, IRS has taken steps that include the following key efforts:[15]

- **Staff attrition and furloughs.** IRS absorbed the majority of its budget cuts through staff attrition and furloughs. Of the $567 million in

[15]The efforts described here do not include all of the savings and efficiencies listed in the fiscal year 2015 congressional justification for IRS.

savings realized in fiscal year 2013, $311 million resulted from attrition, hiring freezes, and furloughs. IRS implemented an exception-only hiring freeze in December 2010. In fiscal year 2013 alone, FTEs decreased by more than 2.7 percent—2,978—from fiscal year 2012 as a result of attrition, according to IRS. Of these savings, IRS generated $88.5 million from 3 furlough days.[16]

- **Reduced travel and training**. IRS substantially reduced employee training and related travel. Since fiscal year 2010, IRS reduced training costs by 83 percent and training-related travel costs by 87 percent by limiting employee travel and training to mission-critical projects. From fiscal years 2009 through 2013, IRS reduced the amount it spent per employee on training from $1,600 to $200, according to data provided by IRS. Reductions of this magnitude are not sustainable, according to IRS officials. For fiscal year 2013, IRS reported a savings of $56.2 million by reducing agency-wide, non-technical training and non-case related travel. IRS attributes the savings to a greater use of technology and deferral of some standard training. IRS noted that in fiscal year 2013 the training budget was cut so the funds would be available to minimize furlough days and thereby maintain service to taxpayers.

- **E-file savings**. It costs IRS much less to process electronic returns than paper returns. IRS reported receiving 3.5 million fewer paper returns in fiscal year 2013 and 4.2 million more electronically filed returns, compared to fiscal year 2012. According to the fiscal year 2015 congressional justification, IRS realized savings of $11 million and 209 FTEs in fiscal year 2013 as a result of these changes, which exceeded projected savings by $2.4 million and 32 FTEs.

- **Space reduction**. IRS reported it completed 89 projects in fiscal year 2013 to reduce the amount of physical space it uses. As a result, IRS will rent 557,779 fewer square feet, which will save $15.7 million in rent annually. Further, IRS approved 30 more such projects in fiscal year 2014, which IRS estimates will reduce its space needs by another 350,000 square feet, producing an additional savings of about $11.3 million annually.

[16] IRS reduced the number of furlough days to 3 days in part by exercising its authority to carry over roughly $52 million in unobligated funds from fiscal year 2012 appropriations.

In addition, to address budget cuts, IRS has taken steps that it anticipates will produce savings in fiscal years 2014 and 2015.

- **Telephone and walk-in services**. In fiscal year 2014, IRS reduced or eliminated certain telephone and walk-in services. These actions are consistent with our finding in December 2012 that IRS needed to dramatically revise its strategy for providing telephone and correspondence services, and that incremental efficiency gains would not be enough to reverse service declines.[17] Specifically, IRS
    - limited telephone assistance to only basic tax law questions during the filing season and reassigned assistors to work account-related inquiries;
    - launched the "Get Transcript" tool, which allows taxpayers to obtain a viewable and printable transcript on www.irs.gov, and redirected taxpayers to automated tools for additional guidance;
    - redirected refund-related inquiries to automated services and did not answer refund inquiries until 21 days after a tax return was filed electronically or 6 weeks after a return was filed by paper (unless the automated service directed the taxpayer to contact IRS);
    - limited access to the Practitioner Priority Services line to only those practitioners working tax account issues;
    - limited live assistance and redirected requests for domestic employer identification numbers to IRS's online tool; and
    - eliminated free return preparation and reduced other services at IRS's walk-in sites.
- **IT reductions**. In part because of a lack of funding, IRS put a hold on aspects of two major IT projects:
    - Information Reporting and Document Matching (IRDM). This program is intended to improve business taxpayer compliance by matching business information returns (e.g., Form 1099-K) with individual tax returns to detect potential income underreporting. According to IRS IT officials, during the hold IRS will determine the best case management tool to use to meet IRDM's program requirements. IRS plans to leverage an off-the-shelf solution, which IRS believes will be more cost effective than building one.

[17] See GAO, *2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively*, GAO-13-156 (Washington, D.C.: Dec. 18, 2012).

- Return Review Program (RRP). When fully deployed, RRP is expected to make use of leading-edge technology to detect, resolve, and prevent fraud. IRS expects to complete a plan to move beyond the hold on RRP in the summer of 2014. Officials said the plan will help inform IRS's funding needs for RRP.

IRS Has No Long-Term Strategy to Address an Uncertain Budget Environment

IRS does not outline a framework for how it should operate in an uncertain budget environment in either its fiscal year 2009 through 2013 strategic plan or its fiscal year 2014 goals and objectives included in the fiscal year 2015 congressional justification for IRS. While IRS has taken steps in the short-term to address budget cuts (including sequestration)—such as exception-only hiring and reducing or eliminating some telephone and walk-in services—it does not have a strategy to operate in an uncertain budget environment over the long-term.

Further, we found that IRS absorbed the majority of cuts as a result of actions that were not part of a long-term strategy. According to officials from IRS's Office of Corporate Budget, IRS has absorbed the majority of cuts through attrition and, as a result, the programs that experienced the most attrition were the programs that absorbed the most cuts.[18] In fiscal years 2012 through 2013, IRS absorbed roughly $516 million through attrition, nearly $383 million from enforcement activities, according to data provided by IRS. Officials also noted IRS has taken large budget cuts over the last several years. As IRS continues to operate in an uncertain budget environment, it continues to examine and prioritize what it can cut and what it can postpone. According to the NTA, the budget cuts have caused IRS to operate in crisis mode—reacting to external changes and putting out fires. The NTA also stated that IRS has no overall, cohesive strategy to understand what kind of services it should be providing and when to eliminate a service.

In response to our questions about IRS's lack of a long-term strategy, officials noted that one key problem has been the extensive turnover in senior leadership across the agency. Nineteen of 46 members—over 40 percent—of IRS's Senior Executive Team were on-board on or after October 1, 2013, including the new IRS Commissioner, who took office in

[18]However, IRS officials note that it has allowed exceptions to the hiring freeze for high priority programs to help mitigate the impact of attrition in those areas.

December 2013.[19] However, IRS began an extensive review of its base budget in April 2014 in order to collect detailed spending and performance information for each of its distinct programs. Once IRS completes this review, management plans to determine the proper funding levels for each program and how to realign existing resources.

While this is an important start, it may not be sufficient over the long term. There are a number of indications that funding is unlikely to soon return to the growing and high budget levels IRS experienced in fiscal years 2010 and 2011.[20] First, our work on the nation's long-term fiscal outlook shows that growth in spending for federal health care and retirement programs will place increasing pressure on discretionary spending.[21] Second, in May 2014, OMB generally required a 2 percent reduction in agencies' fiscal year 2016 budget submission.[22] Third, under the Budget Control Act of 2011 (BCA), sequestration of discretionary appropriations could occur in any fiscal year through 2021.[23] In addition, as shown in figure 4, for the past several fiscal years IRS has been appropriated less than it requested, with a difference of 13 percent in fiscal year 2014. Looking back over a 10-year horizon provides further evidence that funding levels provided in fiscal years 2010 and 2011 were an exception and that the recent decline might be viewed more as a return to normal. All of these

[19]IRS's Senior Executive Team is comprised of its highest level members of the senior executive service, including the Commissioners, Deputy Commissioners, Chief Financial Officer, Office Directors, Chief Human Capital Officer, and Chief Counsel.

[20]IRS's budget was largely on an upward trajectory from fiscal year 2002 through fiscal year 2010.

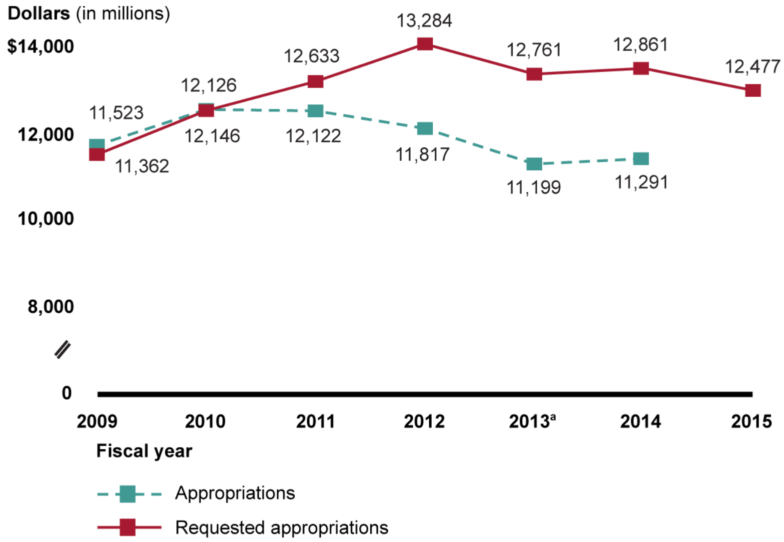
[21]GAO, *Fiscal Outlook: Federal Fiscal Outlook* (Spring 2014), (Washington, D.C.: 2014), accessed on June 3, 2014, http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview.

[22]Specifically, OMB stated, "Unless your agency has been given explicit direction otherwise by OMB, your FY 2016 budget submission to OMB should reflect a 2 percent reduction below the net discretionary total provided for your agency for FY 2016 in the FY 2015 Budget, for each of the defense and nondefense discretionary categories." Office of Management and Budget, *Fiscal Year 2016 Budget Guidance*, Memorandum M-14-07 (Washington, D.C.: May 5, 2014).

[23]The BCA imposed discretionary spending limits for fiscal years 2012 to 2021 to reduce projected spending by about $1 trillion. If the discretionary spending caps are not met in a given fiscal year, they will be enforced by an "after session sequestration" within 15 days after the end of a congressional session. Pub. L. No. 112-25, 125 Stat. 240 (Aug. 2, 2011).

factors indicate that it is increasingly important for agencies to have long-term plans to address uncertain budget environments.

Figure 4: IRS Appropriations, Fiscal Years 2009 through 2014, and Requested Appropriations, Fiscal Years 2009 through 2015



Source: GAO analysis of fiscal years 2009 through 2015 congressional justifications for IRS.

Notes: Amounts shown do not include other budgetary resources, such as user fees.

[a]Fiscal year 2013 levels represent an across-the-board rescission and reductions required by sequestration.

In addition, according to Executive Order No. 13576 and OMB guidance, agencies are to develop strategies for operating effectively and efficiently in an uncertain budget environment.[24] We have previously reported on steps that agencies can take to do this.[25] These include reexamining

[24]Executive Order No. 13576. *Delivering an Efficient, Effective, and Accountable Government*, 76 Fed. Reg. 35297 (June 16, 2011). In addition, a June 28, 2011 OMB memorandum outlined specific steps that CFOs should take to address the administration's directive to identify, execute, and report on administrative cost savings, including steps to identify and share best government practices that cut costs and improve efficiency. Office of Management and Budget, *Campaign to Cut Waste* (Washington, D.C.: June 28, 2011). See also Office of Management and Budget, *Planning for Uncertainty with Respect to Fiscal Year 2013 Budgetary Resources*, Memorandum M-13-03 (Washington, D.C.: Jan. 14, 2013) for guidance on preparing plans to operate within a reduced budgetary environment if sequestration occurs.

[25]GAO, *Streamlining Government: Key Practices from Select Efficiency Initiatives Should Be Shared Governmentwide*, GAO-11-908 (Washington, D.C.: Sept. 30, 2011).

programs, related processes, and organizational structures to determine whether they are effectively or efficiently achieving their mission. They also include streamlining or consolidating management or operational processes and functions to make them more cost effective.[26] We have also made recommendations to IRS on how it can more strategically manage operations in specific areas, such as developing a long-term strategy to improve its online services.[27]

A long-term strategy that includes a fundamental reexamination of IRS's operations, programs, and organizational structure could help it operate more effectively and efficiently in an environment of budget uncertainty. Although IRS has taken steps in the short term, they may not be sufficient to stem performance declines. While IRS was able to mitigate some of the effects of sequestration, it is unlikely that the steps taken are sustainable strategies in the long term. Moreover, the extent of turnover in senior leadership makes it even more important to have a long-term guiding strategy.

IRS Does Not Use Return on Investment Data to Evaluate the Performance of Revenue Initiatives or to Inform Enforcement Resource Allocation Decisions

[26]Key practices included (1) using change management practices to implement and sustain efficiency initiatives, (2) targeting both short-term and long-term efficiency initiatives, and (3) building capacity for improving efficiency. See GAO-11-908.

[27]GAO, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services,* GAO-13-435 (Washington, D.C.: Apr. 16, 2013); GAO-13-156; *Tax Gap: IRS Could Significantly Increase Revenues by Better Targeting Enforcement Resources*, GAO-13-151 (Washington, D.C.: Dec. 5, 2012).

IRS Calculates a Projected, but Not Actual, ROI for Most New Enforcement Initiatives

IRS calculates a projected return on investment (ROI)—the projected revenue divided by the projected cost—for most proposed new enforcement initiatives cited in the congressional justification.[28] In the calculation, revenue represents the expected direct revenue effects of the initiatives, but does not reflect any indirect revenue effects that may result if the added enforcement activities increase voluntary compliance among taxpayers. Cost includes all enforcement-related resources used by IRS, but does not incorporate compliance costs imposed on taxpayers.

For fiscal year 2015, IRS proposed 13 enforcement initiatives (see table 2). IRS estimated a projected ROI for 8 of the initiatives. In addition, 11 initiatives are predicated on funding from a program integrity cap adjustment. IRS calculates ROI over a 3-year period (based on projections of associated costs and expected revenue) because it expects that staff working on the initiative will reach their full performance after 3 years.

Table 2: Fiscal Year 2015 New Enforcement Initiatives

Enforcement initiative	Type of ROI initiative[a]	Full performance ROI (fiscal year 2017) (dollars)	Program integrity cap adjustment
Prevent Identity Theft and Refund Fraud	Revenue protecting	$22.4	
Expand Audit Coverage	Revenue protecting	20.5	✓
	Revenue producing	7.1	✓
Address Impact of Patient Protection and Affordable Care Act (PPACA) Statutory Requirements	Revenue protecting	14.0	
	Revenue producing	2.3	
Expand Coverage of High Wealth Individuals and Enterprises	Revenue producing	11.3	✓
Enhance Collection Coverage	Revenue producing	8.5	✓

[28] IRS currently does not calculate ROI for taxpayer service initiatives.

Enforcement initiative	Type of ROI initiative[a]	Full performance ROI (fiscal year 2017) (dollars)	Program integrity cap adjustment
Improve Coverage of Partnerships and Flow-Through Entities	Revenue producing	6.8	✓
Address International and Offshore Compliance Issues	Revenue producing	4.8	✓
Leverage Data to Improve Case Selection	Revenue enhancing	2.0	✓
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities	Strategic revenue producing	—	✓
Expand Compliance Coverage in the Tax-Exempt Sector	Strategic revenue producing	—	✓
Implement IT Changes to Deliver the Foreign Account Tax Compliance Act (FATCA)	Strategic revenue producing	—	✓
Leverage Digital Evidence for Criminal Investigations (CI)	Strategic revenue producing	—	✓
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes	Strategic revenue producing	—	✓

Source: GAO analysis of fiscal year 2015 congressional justification for IRS.

[a]Revenue protecting means the initiative prevents the issuance of fraudulent returns to persons posing as a taxpayer and resolves issues prior to issuing a taxpayer's refund. Revenue producing means the initiative yields direct, measureable results through ROI enforcement activities. Revenue enhancing means the initiative improves technology by providing better case selection, issue identification, and enforcement case treatment. Strategic revenue producing means the initiative does not have immediately measurable ROI, but clear long-term revenue effects.

IRS Does Not Calculate an Actual ROI Once Initiatives Are Implemented

As of May 2014, IRS has not determined the extent to which the resources actually devoted to enforcement initiatives differ from the 3-year projections of resources described in prior budget justifications. Nor has IRS computed actual rates of return on the resources that were actually used for specific initiatives. As a result, neither IRS nor others know whether the program initiatives it proposed, once implemented, were as productive as expected. We have reported that calculating actual ROI would be a significant step forward in determining how initiatives are performing and whether calculations for projected ROIs need to be adjusted.[29] IRS, following a recommendation from the Treasury Inspector General for Tax Administration, is conducting a feasibility study to identify the necessary steps and challenges that exist to measure actual revenue for enforcement initiatives.[30] IRS expects to complete the study in December 2014.

IRS officials noted that one reason they do not calculate actual ROI for enforcement initiatives is because it is difficult to determine which staff have actually worked on a particular initiative over a multi-year period. According to IRS officials, IRS creates exam plans each year based on division goals and priority areas, which can change on an annual basis. As such, staff may be initially hired to work on a specific initiative, but may work on another initiative the following year. According to IRS officials, different individuals may work on an initiative during the course of a year, rather than specific individuals being dedicated to the initiative 100 percent of the time. When staff initially hired to work on an initiative are transferred to another initiative, there can be significant differences between the scope of the proposed and implemented versions of the initiative. In our prior work, we noted that if IRS falls behind on its hiring plans, staff may not reach their full potential as quickly as anticipated, which ultimately could delay projected revenue gains.[31]

In addition, officials from the IRS Corporate Budget Office cited difficulties in tracking ROI-related information on funded initiatives, because of difficulties in matching information between IRS systems for formulating and executing its budget. IRS has established funded program codes (previously known as internal order codes) as a mechanism to track specific initiatives—such as IRDM and merchant card/cost basis reporting—which could provide actual ROI, but IRS mainly uses these codes to track information that is of interest to congressional staff.

[29]GAO, *Internal Revenue Service: Review of the Fiscal Year 2010 Budget Request,* GAO-09-754 (Washington, D.C.: June 3, 2009).

[30]Treasury Inspector General for Tax Administration, *The Use of Return on Investment Information in Managing Tax Enforcement Resources Could be Improved*, 2013-10-104 (Washington, D.C.: Sept. 23, 2013). In a February 2014 meeting with IRS, we discussed different approaches to calculating actual ROI. IRS officials told us they planned to take into consideration many factors and potential limitations to complete actual ROI calculations.

[31]GAO-09-754.

Comparing projected ROI to actual ROI is consistent with project management concepts, internal control standards, OMB guidance, and our prior work on performance management.[32] In addition, budget decision makers in Congress have stated that a comparison of projected ROI to actual ROI initiatives would be useful information to have. Until IRS calculates actual ROI for its implemented enforcement initiatives, it is not accountable for the ROI it projected when requesting funding.

IRS Calculates Actual ROI for Its Broad Enforcement Programs, but Does Not Use It to Inform Resource Decisions

In June 2009, we recommended that IRS calculate actual ROI because it provides information about how programs and initiatives are performing and the possible need to adjust ROI methodologies to more effectively project results of future proposed initiatives.[33] We have recognized that calculating actual ROI is challenging and existing data may not be complete.

Based on our prior recommendation, IRS began reporting actual ROI in the fiscal year 2014 congressional justification for the following three major enforcement programs:

- **Examination**. This program conducts examinations of tax returns of individual taxpayers, businesses, and other types of organizations to verify that the tax reported is correct.
- **Collection**. This program collects delinquent taxes and secures delinquent tax returns through the appropriate use of enforcement tools such as liens, levies, seizures of assets, installment agreements, offers in compromise, substitute for returns, and 26 U.S.C. § 6020(b), which allows the IRS to prepare returns if a taxpayer fails to file a return.

[32] Office of Management and Budget, *Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Results*, OMB Circular A-11 (Washington, D.C.: June 2008); Office of Management and Budget, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, OMB Circular A-94 (Washington, D.C.: undated); GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

[33] GAO-09-754.

- **Automated Underreporter**. This program matches taxpayer information returns against data reported on individual tax returns and verifies the information to identify any discrepancies.

Table 3: Actual Return on Investment (ROI) for Major IRS Enforcement Programs (Dollars in Millions)

	Fiscal year 2010			Fiscal year 2011			Fiscal year 2012			Fiscal year 2013		
Enforcement program	Cost	Revenue	ROI	Cost	Revenue	ROI	Cost	Revenue	ROI	Cost	Revenue	ROI
Examination[a]	$4,371	$23,563	5.4	$4,333	$18,924	4.4	$4,232	$14,476	3.4	$3,965	$16,662	4.2
Collection	1,948	29,105	14.9	1,939	31,060	16.0	1,742	30,442	17.5	1,660	31,396	18.9
Automated Underreporter	262	4,924	18.8	270	5,245	19.4	267	5,269	19.7	258	5,287	20.5
Total	**$6,581**	**$57,592**	**8.8**	**$6,543**	**$55,229**	**8.4**	**$6,242**	**$50,187**	**8.0**	**$5,883**	**$53,345**	**9.1**

Source: Fiscal year 2015 congressional justification for IRS.

Notes: Numbers may not add due to rounding.

[a]Revenues collected in a given year are not necessarily associated with costs realized in a given year because cases may cross years. Current revenue streams may be the result of past enforcement activity, such as installment agreements.

According to IRS officials, IRS calculates the actual ROI for these programs because total enforcement revenue collected is allocated to these three categories. IRS reports the actual ROI in the congressional justification, based on our previous recommendation and congressional budget decision makers' interest in this information. However, IRS does not use this actual ROI information for resource allocation decisions because the data do not reflect marginal ROI, nor do they include the indirect effects of IRS enforcement activities on voluntary compliance.[34] Moreover, because of the time required to work enforcement cases to completion, the costs associated with assessing and collecting additional revenues may be spread over more than one fiscal year and are not necessarily aligned with revenue collections that may occur in subsequent years. These limitations are critical concerns, which is why we recommended in 2012 that IRS develop estimates of marginal direct

[34]A marginal ROI can be defined as the ratio of revenue generated from marginal enforcement cases, divided by the resources spent on working those cases. Marginal enforcement cases are those that would not have been worked if the resources allocated to a particular enforcement activity had been slightly less, as well as those additional cases that would have been worked if the resources for the activity had been slightly greater.

revenue and marginal direct costs within each enforcement program. We further recommended that IRS explore the potential of estimating the marginal influence of enforcement activity on voluntary compliance.[35] However, given that these data gaps could take considerable time to fill, we also demonstrated how IRS planners could in the meantime review actual (average) ROI across different enforcement programs and across different groups of cases within these programs to better inform resource allocation decisions. As we noted, the planners could consider this information in combination with their professional judgment relating to other relevant but currently unquantifiable factors. In fact, while limited in scope, we demonstrated how a hypothetical shift in resources could potentially increase direct revenue by $1 billion annually, without significant negative effects on voluntary compliance.

The development of data relating to marginal ROI would also enable IRS to improve its projections of ROI for enforcement initiatives, particularly those that expand coverage for specific taxpayer categories. IRS currently knows little about the extent to which marginal yields differ from average yields within specific return categories; consequently, it does not know the extent to which its ROI projections, which are based on average yields, may be overstated.[36] By collecting the data needed to compute actual ROI for expanded coverage enforcement initiatives, IRS would be able to determine whether marginal returns are significantly lower than average returns; thereby, IRS would have better information for deciding whether the expanded coverage should be maintained, cut back, or expanded further in future years. Actual productivity information and better ROI projections can also help budget decision makers in determining funding levels for IRS.

[35]GAO-13-151. In addition to indirect revenue effects through improved voluntary compliance, we also identified taxpayer compliance costs and effects on equity and economic efficiency as factors that are relevant but difficult to estimate. Taxpayers' perceived risks of being audited are recognized as a factor that influences voluntary compliance. The higher the risk of being audited, the less likely taxpayers are to evade taxes.

[36]If IRS's return selection process results in returns with the greatest revenue potential being worked first and those with the least potential being worked last, then each additional return that IRS examines with the expanded coverage would have a lower revenue yield than the average for all of the returns that had been examined up to that point. In other words, the marginal yield would be lower than the average yield.

Since Inception, IRS Has Spent $859 Million to Implement PPACA, but an Updated IT Cost Estimate Is Unavailable for Review

When enacted, PPACA gave IRS responsibility for implementing a number of provisions. From fiscal year 2010 through 2012 and again in 2014, IRS received funds for PPACA implementation activities from the Department of Health and Human Services Health Insurance Reform Implementation Fund (HIRIF), which is used to fund the federal administrative expenses to implement PPACA. To implement PPACA provisions in fiscal years 2013 and 2014, IRS requested $360.5 million and $439.6 million, respectively, but it did not receive this funding. As we previously reported, of the $12.5 billion IRS requested for fiscal year 2015, $451.7 million is to implement PPACA.[37] Table 4 shows the amounts IRS obligated for PPACA implementation from fiscal years 2010 to 2014.

Table 4: Patient Protection and Affordable Care Act Spending, Fiscal Years 2010 to 2014 (in Millions)

	Fiscal years					
Appropriation account	**2010**	**2011**	**2012**	**2013**	**2014 (as of March 31)**	**Total**
Health Insurance Reform Implementation Fund	$20.7	$168.2	$299.2	-	$1.1	**$489.2**
Taxpayer Services	-	-	-	4.3	2.2	**6.5**
Enforcement	-	-	-	19.3	7.7	**27.0**
Operations Support	-	-	-	190.7	20.1	**210.8**
Operations Support User Fees	-	-	-	69.7	56.0	**125.7**
Total	**$20.7**	**$168.2**	**$299.2**	**$284.0**	**$87.1**	**$859.2**

Source: GAO analysis of IRS documents.

Note: Numbers may not add due to rounding.

For fiscal year 2014, IRS identified seven initiatives related to PPACA implementation. Table 5 shows how much IRS plans to spend on these initiatives in fiscal year 2014 and the amount spent through the middle of fiscal year 2014. Of the total planned spending for fiscal year 2014—$400.6 million—IRS has obligated $87.1 million through March 31, 2014.

[37] GAO-14-534R.

Table 5: IRS Fiscal Year 2014 Planned and Actual Spending on Patient Protection and Affordable Care Act by Initiative (in Millions)

Initiative	Fiscal year 2014 planned spending	Fiscal year 2014 obligations as of March 31, 2014
Administer New Fees on Drug Manufacturers and Health Insurers	$2.3	$1.0
Promoting Compliance with Other New Provisions	8.5	3.1
Strengthen Oversight of Exempt Hospitals	3.0	1.6
Assist Taxpayers Understanding ACA Issues	23.7	2.2
Support of Implementation & Taxpayer Issues (Counsel, Appeals & TAS)	5.2	2.2
Applications Development/Systems Software/Contracts/Systems Testing & Delivery	344.5	71.4
Program Management, Business Design and Specifications and Oversight of Data Sharing of Federal Tax Information	13.4	5.5
Total	**$400.6**	**$87.1**

Source: GAO analysis of IRS documents.

Note: Numbers may not add due to rounding.

Table 6 shows how much IRS requested to implement PPACA initiatives in fiscal year 2015.

Table 6: Fiscal Year 2015 Budget Request for IRS to Implement the Patient Protection and Affordable Care Act (in Millions)

Initiative	Fiscal year 2015
Expand Telecom Infrastructure to Handle Increased Demand	$16.0
Improve Taxpayer Service and Return Processing	73.9
Address Impact of Affordable Care Act (ACA) Statutory Requirements	56.1
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements	305.6
Total	**$451.7**

Source: GAO analysis of IRS documents.

Note: Numbers may not add due to rounding.

As of December 2012, IRS estimated the full life-cycle costs for PPACA to be $1.89 billion from fiscal years 2010 through 2026. According to IRS officials, an update to the December 2012 PPACA cost estimate was completed in September 2013. The updated cost estimate is still under review and it will not be released until January 2015. As a result, we cannot assess the progress made on implementing our prior recommendations.

In September 2013, we reported that IRS made progress in updating its initial October 2010 PPACA cost estimate, in accordance with best practices as identified in the GAO Cost Estimating and Assessment Guide.[38] However, we found that IRS could take further steps to improve the estimate's accuracy and credibility. At that time, IRS agreed with the majority of the actions we recommended. IRS officials reported that the September 2013 PPACA cost estimate does address some of the recommended actions. For example, IRS officials said they implemented our recommendation to document how cost drivers are selected for future sensitivity analyses. However, until the September 2013 cost estimate is available for our review, we cannot verify these changes.

IRS Implemented Three of Seven Prior Recommendations

Since September 2013, IRS at least partially implemented three recommendations made in our prior reviews of its budget justification documents. Two of the implemented recommendations resulted in more transparent reporting and greater accessibility to IT investments data. Table 7 summarizes the recommendations implemented by IRS.

Table 7: Prior GAO Recommendations Implemented by IRS

Report	Recommendation	Action taken	Benefit
GAO-12-603	Modify funding request for new hires Prepare funding requests for new staff based on estimated hiring dates.	Partially implemented: IRS changed how it requests funding for some new hires in the President's fiscal year 2015 budget request; however, it still assumed a January 1 hire date for most new staff.	Aligning funding requests more closely with estimated costs, hiring plans or both would represent workforce needs more accurately and transparently.
GAO-13-835	Enhance transparency of PPACA investment data Publicly report ACA IT investment as a major investment on the OMB IT Dashboard and the fiscal year 2015 budget request, including standard cost, schedule, and performance information.	Fully implemented: IRS reported the ACA IT investment as a major investment in the fiscal year 2015 budget request and included an Exhibit 300 (a capital asset plan), which is publicly available on the OMB Dashboard.	Publicly reporting on IRS's ACA IT investment eases the monitoring of implementation and enhances transparency.

[38]GAO, *GAO Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs,* GAO-09-3SP (Washington, D.C.: Mar. 2, 2009).

Report	Recommendation	Action taken	Benefit
GAO-13-835	Expand and consolidate information on major IT investments into justification materials Report key data on major IT investments in one consolidated document, such as the congressional justification, in consultation with congressional stakeholders.	Fully implemented: IRS included new, useful information on its major IT investments in its fiscal year 2015 budget request.	Consolidating key budget and performance information on major IT investments in one budget document (such as the congressional justification) ensures decision makers have comprehensive, easy to understand information on major IT investments.

Source: GAO analysis of prior GAO reports on IRS budget requests.

Four budget-related recommendations to IRS remain open. As shown in table 8, IRS is planning to implement two of the open recommendations, but only partially agrees with the two remaining open recommendations. Appendix II identifies all of our products with open matters for Congress and recommendations to IRS regarding tax administration that could result in potential savings or increased revenues.

Table 8: Budget-Related Recommendations to IRS that Remain Open

Report	Open recommendations	Benefit	Status
GAO-12-603	Conduct cost-effectiveness analyses Ensure cost-effectiveness analyses are conducted for future significant investments when there are alternative approaches for achieving a given benefit, such as for any new significant PPACA projects.	Without cost-effectiveness analyses, budget decision makers do not have information to compare alternatives and it may be difficult to determine the best use of resources.	IRS stated it is taking steps to implement this recommendation.
GAO-12-603	Develop a quantitative measure of scope At a minimum, develop a quantitative measure of scope for its major IT investments, in order to have complete information on the performance of these investments.	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.	In March 2014, IRS reported that it has practices and processes in place that address this recommendation, including quarterly reports to Congress and a baseline change request process. However, we do not believe these practices address our recommendation, as neither approach includes a quantitative measure. For this reason we believe the recommendation is still warranted.[a]
GAO-13-835	Improve budget formulation guidance Improve guidance given to business units for the pre-selection budget formulation process, emphasizing the importance of information on the estimated impact—qualitative or quantitative—of proposed budget initiatives.	Expanding internal guidance for pre-selection budget formulation templates facilitates more complete information for internal budget decision-making.	IRS is taking steps to implement this recommendation during fiscal year 2016 budget formulation.

Report	Open recommendations	Benefit	Status
GAO-13-835	Further refine updates to the PPACA cost estimate 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: • Use earned value management to capture actual costs and use them as a basis for future updates. • Explain why variances occurred between the current estimate and previous estimates. • Document how cost drivers are selected for future sensitivity analyses. • Conduct future risk and uncertainty analyses consistent with best practices, and develop and document plans to address risks. • Validate the original cost estimate by preparing a second, independent cost estimate.	Developing a cost estimate that meets additional best practices, will foster accountability, improve insight, and provide objective information.	IRS agreed with all of the actions recommended, except using earned value management and with validating the PPACA cost estimate by preparing a second, independent cost estimate, in part because of cost and burden. IRS officials reported that the other actions were implemented into version 2 of the PPACA cost estimate. The updated cost estimate was completed in September 2013, and we plan to review it once it is released in January 2015.

Source: GAO analysis of prior GAO reports on IRS budget requests.

Note: [a]GAO, *Information Technology: IRS Needs to Improve the Reliability and Transparency of Reported Investment Information*, GAO-14-298 (Washington, D.C.: Apr. 2, 2014).

Conclusion

IRS is operating in an uncertain budget environment, and there are implications that significant funding increases are unlikely in the foreseeable future. While IRS has taken steps in recent years to reduce spending, those steps were generally reactionary. Now is the time to fundamentally reexamine its operations, programs, and organizational structure to determine how to most efficiently and effectively accomplish its mission. Creating such a roadmap will help ensure that IRS effectively provides taxpayers with services to make voluntary compliance easier and to enforce the tax laws, so that taxpayers fulfill their tax responsibilities. A roadmap will also help provide continuity in light of any future turnover among senior executives.

As IRS examines its operations, it will need multiple sources of data on which to base its assessment and to ultimately make resource allocation decisions. While not necessarily the only factor in making resource allocation decisions, actual ROI could provide insight on the productivity of a program and inform estimating techniques for new initiatives. In turn, better estimates of ROI and actual productivity information can help budget decision makers in determining funding levels for IRS. Comparing projected and actual ROIs can help hold managers and the IRS accountable for the funding received.

Recommendations for Executive Action

We recommend the Commissioner of Internal Revenue take the following three actions:

As a result of turnover in IRS's Senior Executive Team and in order to enhance budget planning and improve decision making and accountability, we recommend IRS

- 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 (1) reexamining programs, related processes, and organizational structures to determine whether they are effectively and efficiently achieving the IRS mission, and (2) streamlining or consolidating management or operational processes and functions to make them more cost-effective.

Because ROI provides insights on the productivity of a program and is one important factor in making resource allocation decisions, we recommend IRS

- 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; and
- use actual ROI calculations as part of resource allocation decisions.

Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue for comment. In written comments, reproduced in appendix III, IRS agreed with our recommendations. Regarding our recommendation to develop a long-term strategy to address operations amidst an uncertain budget environment, IRS noted that it is conducting a review of its budget base to ensure resources are aligned with IRS Strategic Goals, Objectives, and Priorities, and will adjust its fiscal year 2015 budget as a result of this review. Regarding our ROI recommendations, IRS agreed that ROI is one of several factors relevant to making resource allocation decisions. However, IRS noted that determining the impact of an initiative will always rely on estimates, as the results of an initiative are the difference between actual results and what would have occurred in the absence of the initiative, which cannot be measured. We agree that projected benefits are based on estimates, but it is possible to develop an estimate for what would have occurred in the absence of the initiative. Moreover, this report emphasizes comparisons between projected and actual ROI, not comparing actual results with what would have occurred in the absence of an initiative. Comparing projected and actual ROI is important to assist budget decision makers in determining funding levels for IRS and to hold managers and the IRS accountable for the funding received. IRS also provided technical comments on our draft report, which we incorporated as appropriate.

We plan to send 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. We are also sending copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, and the Chairman of the IRS Oversight Board. The report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff has any questions about this report, please contact us at (202) 512-9110 or mctiguej@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff members who made major contributions to this report are listed in appendix IV.

James R. McTigue, Jr.

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

Appendix I: Objectives, Scope, and Methodology

We were asked to review the President's fiscal year 2015 budget request for the Internal Revenue Service (IRS). The objectives of this report were to (1) assess IRS's strategy to address the budget cuts, including sequestration; (2) assess any new use of return on investment (ROI) analysis; (3) summarize requested funding and actual and planned spending for the Patient Protection and Affordable Care Act (PPACA)[1] and assess the updated PPACA information technology cost estimate; and (4) describe IRS's progress in implementing open GAO budget-related recommendations and list any GAO open matters for Congress and recommendations for executive action that could result in potential savings or increased revenue for IRS.

To assess IRS's strategy to address the budget cuts, including sequestration, we summarized IRS's budget, staffing, performance, and workload trends for fiscal years 2009 through 2015. We selected fiscal year 2009 as a starting point because fiscal year 2009 was the year prior to IRS's highest appropriation in recent years. To summarize these trends, we analyzed congressional justifications for IRS for fiscal years 2009 through 2015 and performance data for key IRS operations. When we describe full-time equivalent (FTE) trends, the actual number of FTEs represents total number of hours worked (or to be worked) divided by the number of compensable hours applicable to each fiscal year, according to definition provided by IRS. Enacted FTEs represents the number of FTEs provided for the enacted budget. Requested FTEs represents the number of FTEs requested in the President's Budget for IRS.

We also analyzed FTE and workload trends on IRS identified priority programs, which include new statutory mandates. We reviewed reports by the IRS Oversight Board, Treasury Inspector General for Taxpayer Administration (TIGTA), and the National Taxpayer Advocate (NTA), which provided some possible reasons for performance declines. In addition, we analyzed proposed program initiatives in the fiscal year 2015 congressional justification and determined which ones were predicated on a program integrity cap adjustment, which Congress passes to allow additional funding above discretionary spending limits. We also analyzed steps IRS has taken to address budget cuts, including sequestration. To

[1]Pub. L. No. 111-148, 124 Stat. 119 (2010), as amended by the Health Care and Education Reconciliation Act of 2010 (HCERA), Pub. L. No. 111-152, 124 Stat. 1029, which we refer to collectively as PPACA. IRS refers to PPACA by the acronym for the Affordable Care Act, ACA.

analyze these steps, we reviewed the fiscal year 2015 congressional justification, including information on savings initiatives realized or proposed from fiscal years 2009 through 2015 and prior GAO work on sequestration. We also interviewed IRS officials in IRS offices of Corporate Budget and Information Technology and the NTA. We compared IRS efforts to address uncertain budgets to Executive Order 13576 "Delivering an Efficient, Effective, and Accountable Government" and Office of Management and Budget (OMB) guidance. In addition, we compared IRS efforts to leading practices in government performance and efficiency.

To assess any new use of ROI analysis, we reviewed the fiscal year 2015 congressional justification to identify IRS's projected and actual ROI; obtained data from IRS to determine the new initiatives by projected revenue, cost, and type; and summarized projected ROI by type for new enforcement initiatives and actual ROI for IRS's three enforcement programs—Examination, Collection, and Automated Underreporter. As part of our analysis of proposed program initiatives, we also identified any new enforcement initiative predicated on a program integrity cap adjustment. We reviewed OMB and IRS guidance on new program initiatives and interviewed IRS Corporate Budget officials to determine how IRS calculates ROI for proposed initiatives and the extent to which it compares estimated ROI to actual ROI for funded new initiatives. We reviewed prior GAO and TIGTA reports to identify criteria for measuring actual revenue of new program initiatives and for use in resource allocation decisions. We also interviewed IRS Research, Analysis, and Statistics officials to discuss the IRS feasibility study on ROI calculations and challenges in calculating actual ROI for new enforcement initiatives, as well as current enforcement programs.

To provide funding and spending information on PPACA, we summarized data by appropriation account since program inception (fiscal year 2010) and analyzed new information on actual and planned spending for fiscal year 2014, based on congressional budget justifications for IRS and on spending plans. We could not assess the most recent update of the PPACA cost estimate—September 2013—because it is still under review.[2] However, to determine IRS's progress in updating its cost

[2]We will report on the September 2013 PPACA cost estimate once it is released for our review.

estimate (consistent with our recommendation in 2013 to follow best practices identified in the GAO Cost Estimating and Assessment Guide) we interviewed and obtained some documentation from IRS officials.

To describe IRS's progress in implementing our prior budget-related recommendations, we obtained information from various IRS officials and reviewed relevant documentation, including the fiscal year 2015 congressional budget justification and the IRS Joint Audit Management Enterprise System reports, which track IRS actions taken to implement GAO recommendations. We then determined which recommendations were implemented. We also searched the GAO Engagement Reporting System to identify prior GAO open matters for Congress and recommendations for executive action. We then identified whether the recommendation or matter could result in a potential savings, increased revenue, or indirect financial benefits for IRS.

We interviewed IRS officials and determined that the data presented in this report were sufficiently reliable for our purposes. We conducted our work in Washington, D.C., where key IRS officials involved with the budget are located.

We conducted this performance audit from November 2013 to June 2014 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.

Appendix II: GAO Products with Open Matters for Congress and Recommendations to the Internal Revenue Service (IRS)

In the 37 GAO products listed below, as of March 13, 2014, there are 10 open matters for Congress and 72 open recommendations to IRS. Of these matters and recommendations, 20 increase revenue, 15 increase savings, 10 increase both savings and revenue, and 37 have indirect financial benefits.

Table 9: List of Open Matters for Congress and Recommendations to IRS That Could Result In Potential Savings or Increased Revenues

Report title and number	Potential financial impact
Enhancing budget requests and implementing Patient Protection and Affordable Care Act (PPACA)	
IRS 2014 Budget: Improvements Made to Budget Request and Cost Estimate, but Further Actions Needed (GAO-13-835)	Increase Savings, Indirect Financial Benefit
IRS 2013 Budget: Continuing to Improve Information on Program Costs and Results Could Aid in Resource Decision Making (GAO-12-603)	Increase Savings, Indirect Financial Benefit
Enhancing electronic filing	
E-Filing Tax Returns: Penalty Authority and Digitizing More Paper Return Data Could Increase Benefits (GAO-12-33)	Increase Savings, Increase Savings and Revenue, Indirect Financial Benefit
Electronic Tax Return Filing: Improvements Can Be Made before Mandate Becomes Fully Implemented (GAO-11-344)	Increase Savings
Enhancing electronic filing and improving accuracy of paid preparers	
Tax Administration: Many Taxpayers Rely on Tax Software and IRS Needs to Assess Associated Risks (GAO-09-297)	Indirect Financial Benefit
Enhancing internal controls	
Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Controls (GAO-13-420R)	Increase Savings, Indirect Financial Benefit
Enhancing online taxpayer services	
IRS Website: Long-Term Strategy Needed to Improve Interactive Services (GAO-13-435)	Increase Savings, Indirect Financial Benefit
Enhancing private pension disclosures	
Private Pensions: Clarity of Required Reports and Disclosures Could Be Improved (GAO-14-92)	Indirect Financial Benefit
Enhancing taxpayer services	
2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively (GAO-13-156)	Increase Savings and Revenue
2011 Tax Filing: Processing Gains, but Taxpayer Assistance Could Be Enhanced by More Self-Service Tools (GAO-12-176)	Increase Savings and Revenue
Enhancing treatment of appraisals issues	
Appraised Values on Tax Returns: Burdens on Taxpayers Could Be Reduced and Selected Practices Improved (GAO-12-608)	Increase Savings and Revenue
Enhancing verification of tax returns	
Tax Refunds: IRS Is Exploring Verification Improvements, but Needs to Better Manage Risks (GAO-13-515)	Indirect Financial Benefit

Report title and number	Potential financial impact
Expanding use of math error authority or third party data	
2011 Tax Filing: IRS Dealt with Challenges to Date but Needs Additional Authority to Verify year Compliance (GAO-11-481)	Increase Revenue
Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed (GAO-10-349)	Increase Savings and Revenue
2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved (GAO-10-225)	Increase Revenue, Increase Savings and Revenue
Tax Administration: IRS's 2008 Filing Season Generally Successful Despite Challenges, although IRS Could Expand Enforcement during Returns Processing (GAO-09-146)	Increase Savings and Revenue
Implementing Information Reporting and Document Matching (IRDM) system	
IRS Management: Cost Estimate for New Information Reporting System Needs to be Made More Reliable (GAO-12-59)	Indirect Financial Benefit
Information Reporting: IRS Could Improve Cost Basis and Transaction Settlement Reporting Implementation (GAO-11-557)	Indirect Financial Benefit
Implementing Patient Protection and Affordable Care Act (PPACA)	
Patient Protection and Affordable Care Act: IRS Should Expand Its Strategic Approach to Implementation (GAO-11-719)	Indirect Financial Benefit
Improving allocation of enforcement resources	
Tax Gap: IRS Could Significantly Increase Revenues by Better Targeting Enforcement Resources (GAO-13-151)	Increase Revenue
Improving administration of installment agreements	
2013 Tax Filing Season: IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources (GAO-14-133)	Increase Savings
Improving collection of unpaid taxes from Medicaid providers	
Medicaid: Providers in Three States with Unpaid Federal Taxes Received Over $6 Billion in Medicaid Reimbursements (GAO-12-857)	Increase Savings
Improving corporate tax compliance	
Corporate Tax Compliance: IRS Should Determine Whether Its Streamlined Corporate Audit Process Is Meeting Its Goals (GAO-13-662)	Increase Revenue, Increase Savings, Indirect Financial Benefit
Tax Gap: Actions Needed to Address Noncompliance with S Corporation Tax Rules (GAO-10-195)	Increase Revenue
Improving examinations of tax returns	
Tax Administration: IRS Could Improve Examinations by Adopting Certain Research Program Practices (GAO-13-480)	Increase Revenue, Indirect Financial Benefit
Improving individual or corporate tax compliance	
Virtual Economies and Currencies: Additional IRS Guidance Could Reduce Tax Compliance Risks (GAO-13-516)	Increase Revenue
Federal Tax Collection: Potential for Using Passport Issuance to Increase Collection of Unpaid Taxes (GAO-11-272)	Increase Revenue

Report title and number	Potential financial impact
Improving management of information technology (IT) investments	
Investment Management: IRS Has a Strong Oversight Process but Needs to Improve How It Continues Funding Ongoing Investments (GAO-11-587)	Increase Savings, Indirect Financial Benefit
Improving offshore compliance	
Offshore Tax Evasion: IRS Has Collected Billions of Dollars, But May be Missing Continued Evasion (GAO-13-318)	Increase Revenue, Indirect Financial Benefit
Improving real estate tax compliance	
Home Mortgage Interest Deduction: Despite Challenges Presented by Complex Tax Rules, IRS Could Enhance Enforcement and Guidance (GAO-09-769)	Increase Revenue
Improving rental real estate compliance	
Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance (GAO-08-956)	Increase Revenue
Improving sole proprietors' compliance	
Tax Gap: Limiting Sole Proprietor Loss Deductions Could Improve Compliance but Would Also Limit Some Legitimate Losses (GAO-09-815)	Indirect Financial Benefit
Improving tax credit administration	
Small Employer Health Tax Credit: Factors Contributing to Low Use and Complexity (GAO-12-549)	Increase Savings and Revenue
Improving third party compliance	
Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements (GAO-09-238)	Increase Revenue, Indirect Financial Benefit
Improving use of whistleblower claims	
Tax Whistleblowers: Incomplete Data Hinders IRS's Ability to Manage Claim Processing Time and Enhance External Communication (GAO-11-683)	Increase Revenue
Promoting effective use of third-party data	
Tax Gap: IRS Has Modernized Its Business Nonfiler Program but Could Benefit from More Evaluation and Use of Third-Party Data (GAO-10-950)	Increase Revenue, Indirect Financial Benefit
Reducing tax evasion	
Tax Gap: IRS Can Improve Efforts to Address Tax Evasion by Networks of Businesses and Related Entities (GAO-10-968)	Indirect Financial Benefit

Source: GAO.

Notes: Products with open matters and recommendations identified as of March 13, 2014. Some products may have matters and/or recommendations that do not have potential financial benefits or could be placed in different categories than provided above.

Appendix III: Comments from the Internal Revenue Service

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

DEPUTY COMMISSIONER

June 3, 2014

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 2015 BUDGET: Long-term Strategy and Return on Investment Data Needed to Better Manage Budget Uncertainty and Set Priorities (GAO-14-605). We are pleased the GAO recognizes the significant funding reductions we have experienced since fiscal year 2010 and the impact those reductions have had on our staffing and performance as well as the steps that we have taken in recent years to reduce spending.

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

Recommendation #1: As a result of turnover in IRS's Senior Executive Team and in order to enhance budget planning and improve decision making and accountability, we recommend IRS:

- 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 (1) reexamining programs, related processes, and organizational structures to determine whether it is effectively and efficiently achieving the mission and (2) streamlining or consolidating management or operational processes and functions to make them more cost-effective.

Comment: We agree with this recommendation. The IRS is currently conducting a review of the IRS budget base to ensure resources are aligned with IRS Strategic Goals, Objectives, and Priorities. The IRS base budget will be adjusted for FY 2015 with all permanent changes incorporated into the FY 2016 President's Budget due to Congress February 2015.

2

Recommendation #2: Because Return on Investment (ROI) provides insights on the productivity of a program and is one important factor in making resource allocation decisions, we recommend IRS:

- 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; and

- use actual ROI calculations as part of resource allocation decisions.

Comment: The IRS understands and recognizes the importance of having timely and relevant data to assist in understanding the effectiveness of its programs. We agree that ROI is one of several factors relevant to making resource allocation decisions. Other relevant factors include the use of cost/benefit, coverage, and balanced measures information in making resource allocation decisions.

The IRS further agrees that exploring ways to improve the estimates of benefits produced by new initiatives is worthwhile. However, determining the impact of an initiative will always rely on estimates, as the results of an initiative are the difference between actual results and what would have occurred in the absence of the initiative, which cannot be measured.

If you have any questions, please contact me, or a member of your staff may contact Adina Leach, Associate Chief Financial Officer for Corporate Budget, at (202) 317-6935.

Sincerely,

Peggy Sherry

Peggy Sherry
Deputy Commissioner for
Operations Support

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

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

Staff Acknowledgments

In addition to the contact named above, Libby Mixon, Assistant Director, Jehan Chase, Pawnee A. Davis, Mary Evans, Charles Fox, Suzanne Heimbach, Carol Henn, Felicia Lopez, Paul Middleton, Ed Nannenhorn, Sabine Paul, Mark Ryan, Erinn L. Sauer, Cynthia Saunders, Tamara Stenzel, and Jim Wozny made major contributions to this report.

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