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STATEMENT FOR THE RECORD

PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Mr. Chairman, and members of the subcommittee, I appreciate the opportunity to appear today. I have submitted to the subcommittee TIGTA's analysis of management challenges facing the IRS. I would like to focus today on four of those areas:

- security of IRS employees, facilities and information systems,
- systems modernization,
- customer service performance, and
- the decline in enforcement.

While the IRS has long recognized the risks that violence against its infrastructure and employees poses, the events of September 11 expanded the security paradigm considerably. For instance, in the past IRS disaster recovery plans generally addressed the risk of only one site shutting down. The Al Qaeda terrorist attacks and the subsequent anthrax and bomb threats made it realistically possible that sophisticated forces could incapacitate multiple IRS locations. The IRS is now developing plans to address multiple acts of terrorism and maintain continuity of operations. Completing these actions is important because the IRS is the nation's primary revenue collector and any disruption of these activities would have a detrimental effect on all Government operations. In addition, the increased networking of IRS computers and increased use of the Internet, combined with the growing number of destructive computer viruses, makes the IRS more vulnerable to the risk of data loss or theft. Apart from the external risks, there is an overall lack of awareness of security within IRS among

IRS employees, and functional managers have generally not accepted responsibility for security. For example, posing as Help Desk employees, we contacted 100 IRS employees and asked for their assistance in resolving a fictitious network problem. We asked employees to temporarily change their password to one that we had created. Of the 100 employees contacted, 71 agreed to compromise their password, effectively giving us access to IRS systems.

The second challenge that I would like to discuss is IRS' business systems modernization. This area is considered a significant risk due to its high cost, previous failures, and because many IRS reforms, such as improved debt collection, are backlogged awaiting systems modernization. While the IRS has made some progress modernizing its systems, the overall pace of these efforts has been considerably slower than expected. To its credit, the IRS has begun implementing process improvements in such areas as configuration management, risk management, schedule and cost analysis, and quality assurance. However, these improvements are recent and we have not yet seen major improvements in the actual application of these actions at the project level. As a result, the projects continue to experience significant delays and cost increases, with significant decreases in functionality. We attribute this to several factors, including:

- the initiatives are still struggling with immature project management processes,
- the PRIME contractor has not consistently demonstrated the management and technical disciplines that it was hired to bring to the IRS,
- requirements have continued to evolve, and
- lessons learned in previous projects are not being applied adequately to other similar projects and problems.

Another significant issue facing the IRS is meeting its goal to provide quality service to taxpayers. At times taxpayers need to come to the IRS for assistance. My office has conducted reviews of the IRS' toll-free telephone operations and walk-in activities during this filing season. TIGTA auditors monitored 736 telephone calls and found IRS employees responded incorrectly to 22% of the questions. TIGTA auditors also visited 40 taxpayer assistance centers and asked 168 tax law questions. IRS employees provided:

- 36 correct responses;
- 42 correct responses despite procedural errors;
- 40 referrals to publication in lieu of a response; and
- 50 incorrect responses.

Another concern with serious implications for voluntary compliance is the well-known decline in enforcement activities at the IRS. During the past decade, the number of tax returns selected for examination by the IRS has decreased, while the number of tax returns filed by taxpayers has increased. Additionally, the number of liens, levies, and seizures, although slightly up from the previous year, continue to be significantly fewer than in the past. Also, delinquent accounts and delinquent investigations in inventory are increasing dramatically.

The IRS is at a crucial point in its re-invention process. As Commissioner Rossotti completes his term, the risks increase that IRS will not succeed in delivering its promised improvements. Commissioner Rossotti's strategic planning and leadership skills, combined with his willingness to substantially change the IRS culture, have been instrumental in guiding the IRS to the successes it has achieved thus far.

I would be happy to answer questions now on these or any of the other management challenges.