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Report to the Chairman, Commerce, Consumer and Monetary Affairs Subcommittee, Committee on Government Operations House of Representatives

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TAX SYSTEMS MODERNIZATION

Automated Underreporter Project Shows Need for Human Resource Planning

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The Honorable John M. Spratt
Chairman, Commerce, Consumer and
Monetary Affairs Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

Over the next several years, the Internal Revenue Service (IRS) plans to implement its $23 billion Tax Systems Modernization (TSM) program. Among other things, TSM will replace outdated computer and telecommunications equipment with new systems designed to provide instant access to information and move IRS toward a paperless electronic environment. In conjunction with the modernization, IRS is overhauling its organization and operations to take better advantage of the new technology and is reshaping its workforce to meet the job requirements of the new work environment.

This report discusses IRS' (1) human resource planning for TSM, (2) strategy for meeting the human resource needs of the new environment, and (3) experience in implementing the Automated Underreporter (AUR) project—the first TSM project with a significant human resource impact. We made this review because of congressional concern as to whether IRS will have the workforce needed to make a successful transition to the new environment.

We examined TSM planning documents, discussed the status of human resource planning with IRS officials, and interviewed managers and employees at four service centers that are converting to AUR and three that lost the underreporter function. Appendix I contains more information on our objectives, scope, and methodology. The Commissioner of Internal Revenue provided written comments on a draft of this report. Those comments are presented and evaluated on pages 19 and 20 and are reprinted in appendix V.

Results in Brief

IRS has identified how it plans to use human resources in the modernized environment but has not yet (1) determined workforce requirements for the new environment; (2) assessed the knowledge, skills, and abilities of its current workforce in relation to the new requirements; and (3) developed detailed retraining and redeployment plans. Human resource planning for TSM was understandably delayed while IRS studied and planned for the concurrent overhaul of its organization and business practices. IRS does not expect to complete the above-mentioned planning before March 1995. Meanwhile, IRS is implementing TSM projects and reassigning displaced employees without knowing what its workforce needs are, what skills its employees have, and how many employees need retraining.

IRS estimated that over 24,000 workers will no longer be needed for the jobs they are now doing, but it has pledged that no career or career-conditional employee will lose his or her job because of TSM. To keep its pledge, IRS plans to retrain and reassign existing employees to meet new staffing requirements, use term appointments to staff jobs that can be eliminated later in the transition, reduce seasonal employment levels, and make selective use of voluntary early-out options. IRS also plans to reassign some displaced employees to new customer service and compliance jobs. Although IRS has not specified the jobs it hopes to create by reinvesting TSM labor savings, officials stated that revenues generated from these new jobs would exceed their costs.

IRS' experience in implementing AUR reveals some of the problems that can occur without comprehensive human resource planning. IRS was not adequately prepared to redeploy the almost 1,900 employees displaced at 4 service centers that lost the underreporter function. Despite a large number of vacant positions that had accumulated during a 2-year freeze on hiring permanent employees, the centers did not have enough vacant positions to reassign all of the displaced employees. As of November 1993—about 18 months after the redeployment began—about 16 percent of the employees were still awaiting reassignment. Additionally, IRS began reassigning staff before it had negotiated redeployment guidelines with the National Treasury Employees Union (NTEU), which represents many of the affected employees. Consequently, some of the employees may have to be moved again as a result of an arbitrator's ruling on NTEU's protest of the AUR redeployment.

Background

TSM is one of the government's largest modernization efforts. It was initiated in 1986 primarily to upgrade IRS' outdated computer and telecommunications systems. As of February 1994, the TSM program consisted of about 50 projects to be implemented through the year 2001. TSM is designed to move IRS from a paper-based work environment to an on-line electronic environment. The new environment is expected to increase efficiency, capacity, and data accessibility, thereby enabling IRS to process an increasing number of tax returns and be more responsive to taxpayers. According to IRS officials, to work effectively in this new environment many IRS employees will need new or enhanced communications and computer skills, as well as additional technical training in such areas as tax law, accounting, financial and economic analysis, and information systems technology.

IRS expects the TSM investment to result in significant benefits to both the government and taxpayers. In November 1993 congressional testimony,[1] the Commissioner of Internal Revenue stated that TSM will cost an estimated $23.3 billion[2] through 2008, or a net investment of $7.8 billion more than the $15.5 billion that would be required to operate and maintain IRS' current systems through the same period. On the other hand, she said that TSM will yield an estimated $12.6 billion in direct benefits to the government through reduced or avoided costs, reduced interest, and increased revenues. Over the same period, the Commissioner estimated that taxpayers will save $5.4 billion in interest and tax preparer fees and a billion hours in dealing with IRS. Through fiscal year 1993, IRS had invested approximately $1.3 billion of the estimated $23.3 billion.

While the human resource implications of TSM were always significant, they have become a major strategic issue for IRS. Initially, IRS planned only to modernize its computer equipment while retaining its basic organizational structure, work processes, and centers of employment. We and others, including the National Research Council, recommended that IRS use TSM as an opportunity to reshape the way it is organized and operated to get the most out of modernization. IRS subsequently began studying its organization and business practices, and the resulting decisions have compounded the scope and complexity of human resource planning for TSM.

IRS recently completed three reorganization studies for its national and regional offices; its service centers, call sites, and computing centers; and

[1]Reinventing the IRS, Statement of Margaret Milner Richardson, Commissioner of Internal Revenue, before the Commerce, Consumer and Monetary Affairs Subcommittee, House Committee on Government Operations, November 17, 1993.

[2]IRS' TSM cost and savings estimates have not been adjusted to reflect changes resulting from subsequent organization studies. For example, the TSM cost and savings estimates were based on mainframe computer replacements at 10 service centers and 2 computing centers. After completion of its Service Center Organization Study, however, IRS decided to consolidate mainframe operations at only three computing centers.

its district offices. On the basis of these studies, in December 1993 IRS announced far-reaching changes in its basic organizational structure.

IRS plans to consolidate returns processing operations now performed in the 10 service centers. Five submission processing centers will process tax returns submitted on paper, while three computing centers will process electronic returns. IRS plans to consolidate taxpayer services now performed by 70 entities into 23 customer service sites and reduce the number of regional offices from 7 to 5. IRS also plans to downsize remaining regional offices and to reorganize its National Office to eliminate layers of management, consolidate similar functions, eliminate overlapping responsibilities, and broaden spans of control. In December 1993, IRS estimated that these various changes will eliminate the need for over 24,000 jobs.

To maintain employee morale and secure employee cooperation in making the transition to the new environment, IRS pledged in a 1990 policy statement that no career or career-conditional employee will lose his or her job or grade because of TSM. The policy applies to permanent as well as seasonal employees. IRS plans to reassign some workers displaced by TSM to vacancies generated by attrition, while others will be placed in new compliance and customer service jobs.

AUR is the first TSM project to displace a large number of workers. The AUR project automates much of IRS' process for identifying taxpayers who underreport wages, interest, or other income that third parties have reported as paid to the taxpayers. A potential underreporter case exists if the amount of a third-party payment exceeds the amount of such income reported by the taxpayer. A tax examiner then reviews the individual's tax return to see if the income in question has been included elsewhere on the return. If the income is not found after IRS contacts the taxpayer, additional taxes are proposed.

Compared with the manual system, AUR is expected to enable tax examiners to screen cases faster and make fewer errors because taxes owed are automatically computed. Also, clerks no longer have to key enter the data needed for the computer to generate notices to taxpayers. Appendix II contains a more detailed comparison of AUR and the manual underreporter process.

In 1992, IRS decided to limit the AUR project to 6 service centers, where IRS expected to process about the same number of cases as were previously processed at 10 service centers. The four service centers that lost the underreporter function—Andover, MA; Cincinnati; Kansas City, MO; and Memphis—had to redeploy almost 1,900 employees into other activities. Displaced workers at these service centers consisted primarily of GS-4 to GS-7 tax examiners and clerks and included some supervisors and managers in grades GS-9 to GS-14.

IRS Has Made Progress in Human Resource Planning but Has Not Determined Future Workforce Requirements

IRS is making progress in developing its human resource plans for TSM, including the development of a model to help determine future workforce requirements. Also, IRS is using work systems design (WSD) to ensure that human factors are considered as the new systems are being designed. However, IRS has not yet identified the number and skills of employees needed in the new work environment.

IRS Has Developed a Much Needed Framework for Human Resource Planning

In 1988 and 1991,[3] we reported that comprehensive and detailed human resource planning was essential to ensure that IRS would have the workforce (occupation types, numbers, and skill levels) needed for the modernized environment. The National Research Council also reported the need for such planning in 1992.[4] In March 1993, we reported[5] that sound human resource planning is a key component of a strategic management process and consists of four essential elements:

- monitoring and assessing key human resource issues (internal and external),
- projecting human resource requirements and comparing projections to the current situation to identify needed changes,
- developing action plans to address needed changes, and
- assigning accountability for plan accomplishment.

IRS has made several important strides toward determining future workforce requirements. For example, IRS has established visions of both

[3]Managing IRS: Actions Needed to Assure Quality Service in the Future (GAO/GGD-89-1, Oct. 14, 1988); and Managing IRS: Important Strides Forward Since 1988 but More Needs to Be Done (GAO/GGD-91-74, Apr. 29, 1991).

[4]Review of the Tax Systems Modernization of the Internal Revenue Service, National Research Council, September 1992.

[5]Management of VA: Improved Human Resource Planning Needed to Achieve Strategic Goals (GAO/HRD-93-10, Mar. 18, 1993).

its future operations and how it expects to use and manage human resources in its modernized environment.[6] IRS has also outlined the overall transition planning that it believes is needed to achieve these visions. In October 1993, IRS issued its first annual Human Resource Master Plan. This plan, while general in nature, provided further information on future human resource planning efforts.

Human Factors Considered in Project Design

IRS has begun using WSD to help ensure that human needs are considered as new systems are being designed. Under WSD, technical personnel, system users, human resource staff, and union representatives work as a team to design a system that balances human needs with new technology.

Among other things, WSD considers the way managers and employees work together and how employees are treated. The goal is to create an environment in which employees have opportunities for personal growth and are involved in problem-solving. WSD also looks at ergonomic issues such as space, comfort, and lighting.

Although IRS considered ergonomics when evaluating the design of AUR workstations, the Document Processing System (DPS) is IRS' first attempt to fully integrate WSD as a project is being designed. DPS is being developed at the Austin Service Center to provide IRS the capability to scan and convert paper tax returns to electronic, machine-readable information. The system is expected to displace several thousand workers who now transcribe data from paper returns.

The DPS/WSD team identified employee concerns with such things as personnel management and position design, recruiting and retention, and training. The team's recommendations included providing ergonomically designed workstations, making maximum use of work schedule flexibility, providing broad job responsibilities to enhance career opportunities, and expanding year-round employment.

IRS Still Lacks Essential Components of Workforce Planning

According to the Commissioner of Internal Revenue, the new environment will require a highly skilled and interdisciplinary workforce with superior computer skills, detailed knowledge of tax law, and outstanding interpersonal skills. While IRS has made progress in planning for the transition to this kind of workforce, some crucial steps have not been completed.

[6] Plan for Human Resource Issues, IRS Document 9071, January 1993.

The fundamental human resource planning tasks facing IRS include

- identifying its workforce requirements—the number of workers, types of positions, and skills needed to operate in the new environment;
- assessing the knowledge, skills, and abilities of its existing workforce;
- determining the gap between existing workforce capabilities and those required for the new environment; and
- developing detailed recruiting, training, retraining, and redeployment plans to meet projected workforce requirements while providing continued employment for its current workforce.

Using an analytical model, IRS expects to determine its workforce requirements by March 1995. According to IRS' Human Resource Master Plan, the first phase of the model has three main components: (1) a data component that considers current and historical staffing of career and career-conditional employees (i.e., those covered by IRS' job protection pledge) and attrition projections; (2) a convertibility prediction component that estimates the number of displaced career and career-conditional employees who, with training, can "reasonably be expected to successfully perform" the duties of the new customer service representative position;[7] and (3) a demand component that will estimate old and new business staffing requirements through 2002. The model will project staffing requirements (numbers, occupations, and skill levels) for submission processing centers, customer service sites, and computing centers.

IRS' Human Resource Master Plan does not provide details on how or when IRS plans to assess the skills of its workforce or complete the other tasks to ensure that it has the workforce needed for the new environment.

[7]Presently, taxpayers experience differing levels of service based on the tools and information available from the different types of IRS service sites, and their inquiries are often transferred from one site to another before being fully resolved. According to the Commissioner of Internal Revenue, the new customer service representatives will have the tools and information access needed to answer most taxpayer inquiries on the first call.

IRS' Transition Strategy Includes Reassigning Some Employees to New Compliance and Customer Service Jobs

IRS' strategy for meeting staffing needs of the new environment is to (1) redirect employees displaced by the modernization and reorganization to positions created through attrition or to new jobs, (2) use term appointments[8] to staff transitional positions that will not be needed in the new environment, (3) reduce seasonal employment,[9] and (4) make selective use of early-out options. In order for this strategy to succeed, IRS will need the authority to create new positions. According to officials, IRS also needs relief from existing OPM term appointment regulations.

IRS recognized that attrition would not provide a sufficient number of vacancies to allow it to absorb all workers displaced by TSM and reorganization. Therefore, in order to keep its job protection pledge, IRS plans to redirect some displaced employees to new jobs in the compliance and customer service areas. IRS believes new jobs in these areas will generate more revenues than they will cost. IRS is also confident that most employees being displaced from lower skilled positions have the capability to complete required training and perform successfully in the higher skilled positions required by the new environment. However, IRS has not identified the new jobs it hopes to create or demonstrated that displaced employees will be able to perform successfully in these new positions. The second part of IRS' strategy is to use term appointments to temporarily fill positions that will be eliminated in the modernized environment. IRS is doing this in order to maintain a stable workforce to carry on its operations without having to commit to long-term employment. As of March 1994, IRS had hired approximately 6,700 employees under term appointment status, primarily in entry-level positions.[10]

According to officials, however, IRS needed relief from certain term employment limitations to help meet transitional staffing requirements without having to increase permanent employment levels. Specifically, officials said they needed authority to make term promotions for permanent employees, establish/extend terms beyond the current 4-year maximum, and convert term employees to permanent status. IRS might want to use a term promotion for a permanent employee, for example, to temporarily fill a vacated supervisory position that it plans to eliminate

[8]Office of Personnel Management (OPM) regulations authorize federal agencies to make a term appointment when the employment need is longer than 1 year but not more than 4 years. Employment ends automatically when the term expires.

[9]According to the general agreement between IRS and NTEU, seasonal employees can attain career status and work full time or part time. However, seasonal employment is expected to be less than 12 months a year.

[10]As of March 31, 1994, IRS' 6,684 term employees and 4,153 temporary employees accounted for about 8.2 percent of IRS' workforce of 132,582 employees.

within a few years. Similarly, longer term appointments would allow IRS to hire a term employee to fill an essential position that could not be eliminated within 4 years. Additionally, as IRS further reduces seasonal employment, its pool of term employees would become an alternate source of demonstrated high performers.

In March 1994, an OPM official told us that relief had been provided in one of the above-mentioned areas and that relief in the other two areas was to be included in proposed legislation. In November 1993, OPM delegated to federal agencies the authority to make term promotions for career employees. OPM was also changing its regulations to combine temporary and term employment into a single category (temporary) that would have no time limit. However, OPM suspended this effort because this change is to be among the changes in personnel legislation being proposed by the National Partnership Council as part of the National Performance Review. According to the OPM official, the President has never delegated OPM the authority to approve the noncompetitive conversion of term employees to permanent status. However, the proposed legislation is also to include a provision that would allow temporary employees to compete with other employees for career/career-conditional positions within a limited "area of consideration" as defined by the agency.

Another part of IRS' strategy is less reliance on seasonal employees. Seasonal employees are a major component of IRS' peak workforce. Although the number of seasonal employees varies during the year, IRS had over 23,000 seasonal employees during a peak period in April 1993. During fiscal year 1993, IRS' seasonal employees worked the equivalent of about 13,000 full-time employees. While IRS' job protection pledge includes career seasonal employees, it does not guarantee them work for the same length of time as in the past. The expected length of seasonal employment is established for each employee in an employment agreement and depends on management determinations of the amount of work to be done during the year.

NTEU, which represents seasonal as well as permanent employees, does not believe that IRS should reduce seasonal work to make room for displaced employees. When AUR was being implemented, NTEU took the issue of reduced seasonal work to arbitration. The arbitrator ruled that IRS must adhere to the national agreement with NTEU.[11] The agreement states that "the sole determinants of the length of time an employee is in pay status

[11] NCIII, National Agreement Between Internal Revenue Service and National Treasury Employees Union, July 1989.

are the availability of work and the employee's standing on the release and recall list . . . ."

In November 1993, IRS and NTEU agreed that IRS will adjust the length of seasonal employment only to reflect changes in workload. However, according to the Chief of Management and Administration, IRS' top human resource official, increased efficiencies from modernization are reducing the amount of work available for seasonal employees. He said that some seasonal employees will leave IRS because the amount of work available for them will not meet their needs.

Another part of IRS' strategy is the selective use of voluntary early-out options, which could include paying employees to resign or retire early. IRS was authorized to offer early retirement without any incentive to displaced tax examiners at the four service centers that lost the underreporter function. In March 1994, the Treasury Department received authority to offer monetary incentives through March 1995; as of June IRS had not completed its plans for using that authority.

AUR Experience Reinforces the Need for Comprehensive Human Resource Planning

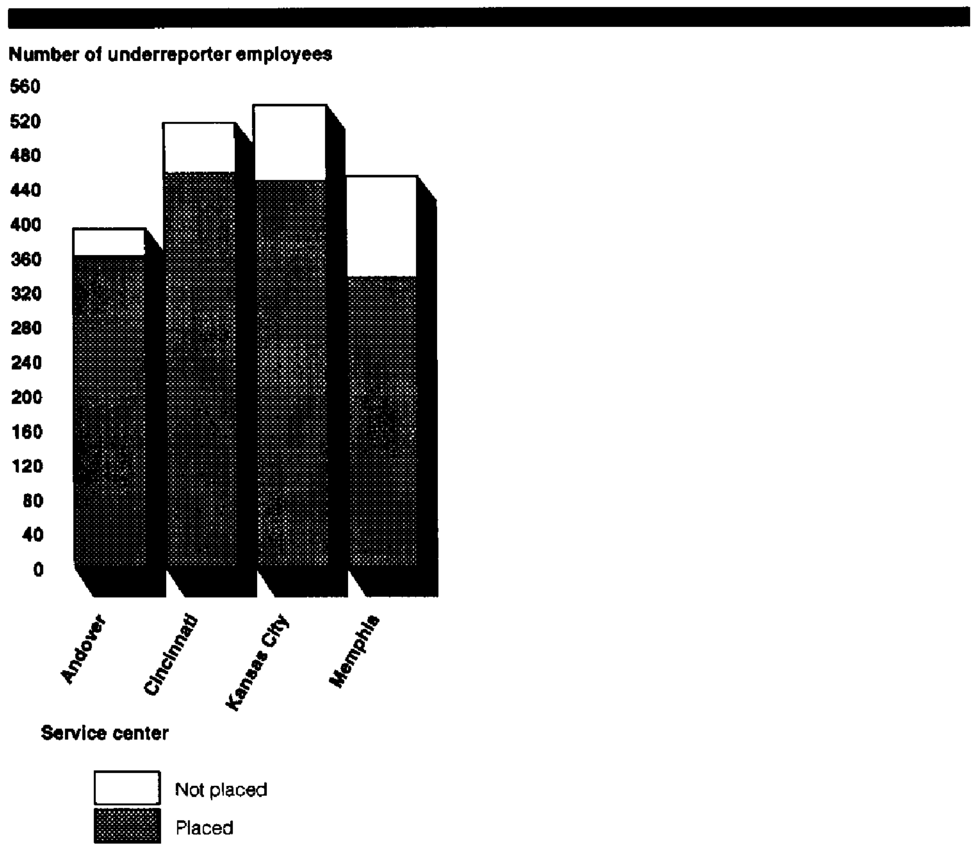
As of November 1993, about 18 months after the redeployment began, IRS had reassigned most of the employees displaced by AUR at the four service centers that lost the underreporter function.[12] Many of the employees were placed in vacancies that had accumulated at service centers during a 2-year freeze on hiring permanent employees. Additionally, to place some employees the service centers increased authorized staffing levels, planned to assign some employees in excess of authorized staffing levels, and reduced seasonal employment. IRS reassigned staff before negotiating redeployment guidelines with NTEU, assessing staff skills and abilities, and identifying all qualifying vacancies. The displaced underreporter employees we interviewed had mixed views about the way IRS managed the redeployment.

[12]Some displacement of underreporter employees also occurred at sites converting to AUR. At the Austin Compliance Center and Ogden Service Center, for example, a total of 65 underreporter employees were displaced. However, we did not evaluate redeployment at the AUR sites—Atlanta, Austin, Brookhaven, Fresno, Ogden, and Philadelphia—because the displacement at these sites was not as extensive as at the four centers that lost the underreporter function, and thus we did not anticipate that redeployment would be a problem at the AUR sites.

Backlog of Positions Allowed IRS to Reassign Most Underreporter Employees

As shown in figure 1, the four service centers that lost the underreporter function have made considerable progress in reassigning their underreporter employees. As of November 1993, the centers, in total, had placed 1,602, or about 84 percent, of the affected employees. Appendix III has more detail on the reassignment of displaced underreporter employees by position type and service center.

Figure 1: Status of Redeployment at the Four IRS Service Centers That Lost the Underreporter Function, November 1993



Source: IRS.

One factor that helped IRS place these employees was a backlog of vacancies that had accumulated during a 2-year hiring freeze on permanent positions at the service centers we visited. However, once the backlog of vacancies at these centers was depleted, the centers began experiencing difficulty finding jobs for the remaining employees. For example, in July 1993 one official said that his center was lucky to have had the backlog of vacancies but was "now saturated." The official indicated that the center would have difficulty redeploying any more underreporter employees[13] or employees displaced by other TSM projects.

Additionally, two service centers had to increase authorized staffing levels in order to place some employees. One center increased authorized staffing levels to place 156 employees in areas such as taxpayer relations and returns management. The other center increased authorized staffing levels to place 58 employees and had plans for placing 49 others in excess of authorized staffing levels. According to officials at these centers, they can increase authorized staffing levels for certain functional areas if they have the workload and funding to support the increase. We did not verify whether workload and funding at the two centers supported their increases in authorized staffing levels.

As an interim measure until additional positions were identified, the 4 centers also temporarily detailed 51 of the unassigned employees to various functional areas.

Redeployment Reduced Seasonal Workload

IRS uses seasonal employees primarily during the tax filing season to do such tasks as open mail, process returns, and assist taxpayers. But the amount of work available to seasonal employees is being reduced. At the Memphis Service Center, for example, seasonal work decreased by 20 percent from fiscal year 1992 to fiscal year 1993. The decline was due in part to the reassignment of displaced underreporter employees, according to IRS officials. They told us that internal budget cuts and greater efficiency from other TSM projects, such as the instant access to taxpayer files provided by Corporate Files On Line (CFOL),[14] were also reducing seasonal work.

As shown in table 1, seasonal work is also declining at the Andover and Kansas City Service Centers, the other two centers we visited that lost their underreporter work.

[13]At that time, more than 32 percent of the center's affected permanent employees had not been reassigned.

[14]As it is being implemented, CFOL is providing employees faster access to taxpayers' account information and reducing the need to order the master file transcripts. When all phases of this project are completed, employees are to have on-line access to taxpayers' active master file data within seconds. Faster access, in turn, would allow faster taxpayer service.

Table 1: Seasonal Staff Years at Andover, Kansas City, and Memphis Service Centers, Fiscal Years 1992 to 1994

Service center	Fiscal year	Seasonal staff years[a]	Percent decline from 1992
Andover	1992	976	0
	1993	917	6
	1994	573	41
Kansas City	1992	1,395	0
	1993	1,383	1
	1994	1,167[b]	16
Memphis	1992	1,124	0
	1993	898	20
	1994	736	35

[a]Fiscal year 1994 staff years are projected.

[b]The Kansas City Service Center was unable to separate temporary and part-time permanent staff years from its seasonal staff year projections for 1994. Therefore, the corresponding percentage decline is understated.

Sources: Andover, Kansas City, and Memphis IRS Service Centers.

Some employees told us they were concerned about the amount of work that seasonal employees will have. One reason for concern is that seasonal employees generally are not eligible for government-sponsored health insurance unless the minimum expected period of work specified in their employment contracts totals at least 6 months in a 12-month period.

IRS Reassigned Employees Before Reaching Agreement With NTEU

The four service centers that lost their underreporter work began reassigning employees before IRS negotiated redeployment guidelines with NTEU. Two service centers began reassigning employees immediately after IRS' June 1992 decision to consolidate AUR at six service centers, while the other two began in the fall of 1992. All four service centers used IRS' merit selection criteria in making lateral reassignments within their centers. That is, the reassignments were based primarily on the employees' most recent performance evaluations, with consideration for pertinent experience and awards. Appendix IV has a chronology of IRS' negotiations with NTEU on AUR.

We visited three of the four service centers and found that the absence of uniform guidance agreed upon between IRS and NTEU caused inconsistent treatment of some displaced employees. For example, two of the three service centers accepted voluntary downgrades from affected employees, while the third did not. As a result, some employees who did not want to risk being placed in undesirable jobs were allowed to take jobs at a lower grade, while others were not. The service centers that lost the underreporter function were also inconsistent in the way they selected employees for new positions. Specifically, two centers allowed the new supervisors to select from among listings of the best qualified applicants, while the third center required the new supervisor to accept the top-ranked applicant. Additionally, two centers continued hiring career-conditional seasonal employees, compounding the redeployment problem.

NTEU disagreed with the criteria the centers used in placing the underreporter employees. This issue was resolved in arbitration in July 1993, with the decision that IRS should use seniority as the primary basis for reassigning displaced underreporter employees. The arbitrator also ruled that IRS must consider employees for any district and regional office positions and that IRS must pay any associated relocation expenses. Therefore, IRS may have to move some of the reassigned employees to new positions. We discussed this with officials at one center in January 1994. They told us that they were making plans to redo their redeployment based on seniority as required by the recently negotiated TSM redeployment guidelines.[15]

IRS Did Not Inventory Skills and Compare Displaced Employees With Vacant Jobs

Displaced underreporter employees were reassigned in a reactive, piecemeal fashion because IRS had not assessed employee skills or identified job vacancies that the displaced employees could fill. Rather than comparing the employees' skills with the skills required by vacant positions, IRS selected underreporter employees for their new jobs on the basis of their underreporter work. How well employees performed their underreporter work, however, may not be indicative of their ability to perform their new jobs. Consequently, IRS may not have placed employees in the most appropriate positions for either the agency or the employees.

Displaced Employees Had Mixed Views About the Redeployment

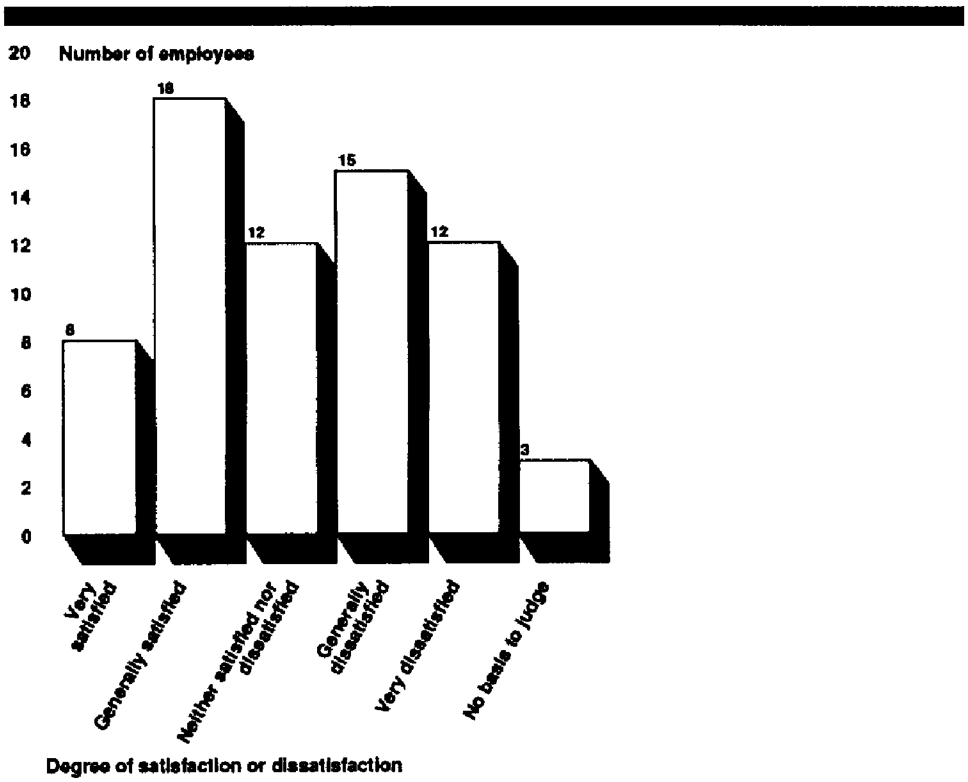
Employee perspectives are useful in considering human resource lessons learned from a redeployment. To gain insight into employee views, we interviewed 68 employees displaced as a result of the AUR project.[16]

[15]IRS negotiated these guidelines with NTEU after we suggested that uniform TSM guidelines were needed. IRS and NTEU agreed to the guidelines on November 24, 1993.

[16]We interviewed 56 displaced employees at 3 service centers that lost the underreporter function (Andover, Kansas City, and Memphis) and 12 displaced employees at 2 service centers that were converting to AUR (Austin and Ogden).

Because of the small number interviewed, the results do not represent the opinions of all displaced underreporter employees. We have included the survey results because they may provide IRS with useful insights to help better anticipate potential employee concerns in future redeployments. At the time of the interviews, 43 of the 68 employees had been reassigned, and the other 25 had not. As shown in figure 2, the displaced employees we interviewed were almost equally divided as to the degree of their overall satisfaction or dissatisfaction with the way IRS handled their redeployment.

Figure 2: 68 Displaced Employees' Overall Satisfaction or Dissatisfaction With IRS' Redeployment Process



Source: GAO interviews of 68 displaced underreporter employees.

Twenty-seven (40 percent) of the 68 employees expressed overall dissatisfaction with the way IRS handled the redeployment process.[17] Commonly mentioned reasons for overall dissatisfaction with the process included the level of communication, the criteria used for reassignment, and the pressure to take new positions.

Thirty-five employees cited the need for better communication concerning the reassignment process.[18] These employees wanted more detailed information describing the positions to be filled and a clearer explanation of the redeployment procedures. They believed that IRS should have provided this information earlier in the redeployment process. Forty-three employees felt that they did not receive enough information about the redeployment. Twenty-nine employees said that they were not given enough time to find new jobs at IRS.

Twelve employees disagreed with the reassignment criteria.[19] Eight employees said that seniority should have been a factor in determining reassignment priorities, rather than performance appraisals. Three commented that performance ratings were too subjective, and a fourth said that underreporter tasks may or may not be similar to the tasks of the new positions.

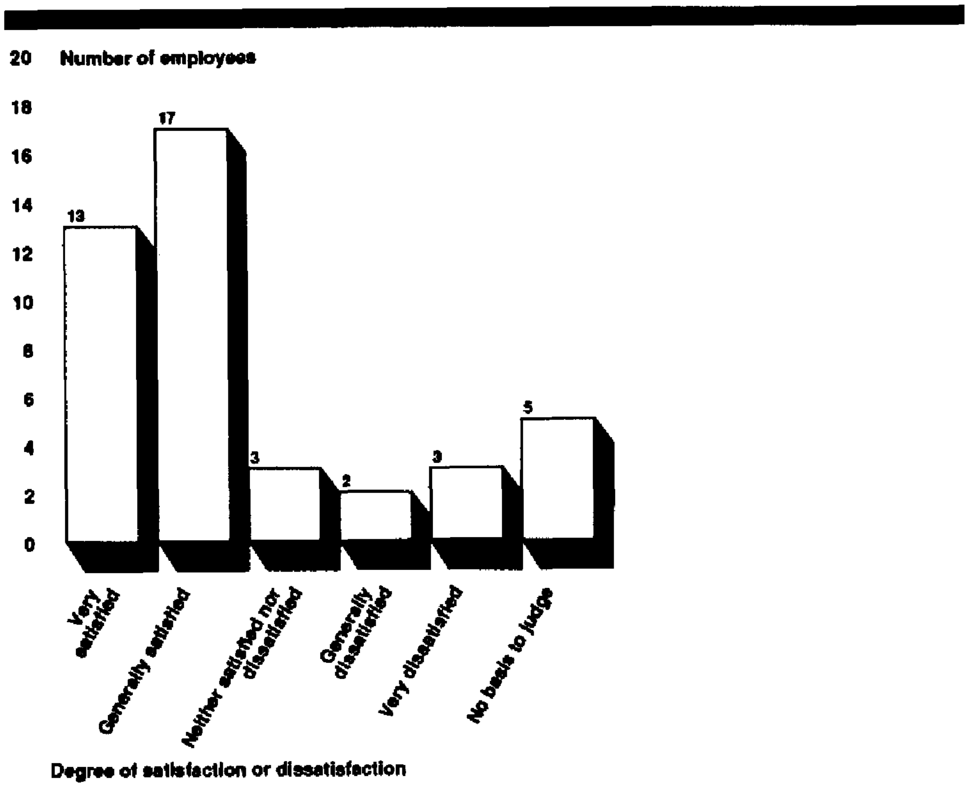
Of the 43 employees who had been reassigned, only 5 (12 percent) were dissatisfied with their new jobs, as shown in figure 3.

[17]Of the 27 employees who expressed dissatisfaction with the redeployment process, 14 had been reassigned and 13 had not.

[18]Of the 35 employees who cited the need for improved communication, 21 had been reassigned and 14 had not.

[19]Of the 12 employees who disagreed with the reassignment criteria, 6 had been reassigned and 6 had not.

Figure 3: 43 Displaced Employees' Satisfaction or Dissatisfaction With Their New Positions



Note: Total does not add to 100 percent due to rounding.

Source: GAO interviews of 43 reassigned underreporter employees.

Four of the employees who were generally and very dissatisfied said that they felt undue pressure to accept the first vacant position they were offered rather than risk the uncertainty of subsequent involuntary placement by IRS. For example, one employee said that she was "scared into applying for the first permanent jobs that came up." Another said that she took a job that she "probably wouldn't have taken otherwise" because she thought that the situation "would get worse." Three of the reassigned employees said they accepted positions that involved tasks they did not want to perform or required changing work shifts. For example, one said that she considered her new job "tedious, boring work [with] no thinking needed."

In addition, we interviewed 25 employees who had not been reassigned. Most of the 25 employees expressed feelings of anxiety, and some questioned IRS' ultimate ability to place them at the same grade level.

Conclusions

IRS will see great changes in the types of jobs and skills needed to carry out its mission as it moves to the new modernized environment. To its credit, IRS recognized the need to overhaul its organization and operations in conjunction with TSM and has narrowed the gap between the technical planning for TSM and the comprehensive human resource planning needed to reshape its workforce. However, IRS has not yet completed all the steps needed to meet the demands of the modernized environment. Specifically, it has not quantified workforce requirements for this new environment, assessed the capability of its current workforce to meet these future requirements, and developed detailed plans for retraining and redeploying its employees.

Until this critical planning is completed, IRS has no assurance that its transition strategy is workable or that it is redeploying displaced workers to positions where they can make their best contribution. In the absence of such planning, as is evidenced by the AUR project, IRS is forced to make human resource decisions on a reactive, project-by-project basis. The AUR redeployment experience also demonstrated that IRS' transition strategy depends heavily on the availability of suitable jobs for employees displaced by modernization. The affected service centers' capacity to absorb displaced employees was virtually exhausted with the first TSM project having a significant human resource impact. Because attrition is unlikely to produce sufficient vacancies to absorb all displaced workers from future projects, IRS plans to reassign some of the displaced employees to the compliance and customer service positions it hopes to create by reinvesting TSM labor savings. However, without comprehensive plans, IRS does not know how to best allocate displaced workers to new work areas.

Recommendations

We recommend that the Commissioner of Internal Revenue take the following steps before fielding other modernization projects that have a significant human resource impact:

- assess existing workforce knowledge, skills, and abilities and update this assessment periodically for later comparison with project requirements;

- identify specific staffing requirements (numbers, skills, grades, and training) for all TSM projects that will have a significant effect on human resources; and
- compare project staffing requirements with the inventories of existing workforce knowledge, skills, and abilities and develop detailed retraining and redeployment plans to meet the requirements for TSM projects that will have a significant effect on human resources.

Agency Comments and Our Evaluation

The Commissioner of Internal Revenue provided written comments on a draft of this report (see app. V). She said that our report was generally accurate in describing the human resource problems IRS experienced in implementing AUR but contained little emphasis on the fact that IRS had learned from the AUR experience or its efforts to address the concerns raised in our report.

The Commissioner did not specifically address our recommendations. Instead, she listed a number of activities that she believes will prevent or minimize negative human resource impacts during the modernization. The activities she cited that are not addressed in this report include (1) the designation of a Modernization Executive with overall responsibility for ensuring a successful transition to IRS' new Business Vision; (2) the establishment of three new offices responsible for developing and overseeing IRS' redeployment strategy, developing models to analyze and compare present and future workforce knowledge, skills, and abilities, and providing assistance to employees undergoing change resulting from reorganization or redeployment; (3) the designation of staff leaders within the Office of the Chief, Management and Administration, who are to work closely with site executives to ensure full and timely consideration of human resource issues during the modernization; (4) the authority to offer early-outs, with incentives, which was recently delegated to IRS by the Secretary of the Treasury; and (5) the development of site-specific redeployment plans by July 1994.

We believe these actions lay an organizational framework within which IRS can plan for, and its employees can cope with, the human resource impacts of the modernization. However, the Commissioner did not comment on when IRS expects to quantify its future workforce requirements; how and when it expects to assess the knowledge, skills, and abilities of its current workforce; or how IRS plans to fill the void between projected requirements and current workforce capabilities. As demonstrated by the AUR experience, these are things IRS needs to do before fielding other modernization projects with a significant human resource impact. Until these steps are taken, IRS will lack reasonable assurance that it will have the workforce it needs to meet its future requirements.

We are sending copies of this report to various congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, the Director of the Office of Management and Budget, and other interested parties. We will also make copies available to others on request.

Major contributors to this report are listed in appendix VI. Please contact me at (202) 512-5407 if you have any questions concerning the report.

Sincerely yours,

Jennie S. Stathis

Jennie S. Stathis
Director, Tax Policy and
Administration Issues

Contents

Abbreviations

AUR	Automated Underreporter
DPS	Document Processing System
IRS	Internal Revenue Service
NTEU	National Treasury Employees Union
OPM	Office of Personnel Management
TSM	Tax Systems Modernization
WSD	work systems design

Objectives, Scope, and Methodology

Due to the critical need to modernize IRS, the magnitude of investment in TSM, and previous failed attempts to modernize, Congress is concerned that IRS make a smooth and successful transition to the modernized environment. Mindful of congressional concern and the need for IRS to reshape its workforce to meet the requirements of the new environment and consider the human element in modernizing its equipment and operations, we reviewed IRS' human resource planning for TSM.

Our review was designed to answer the following three questions:

- What progress has IRS made toward developing detailed plans to ensure that its workforce is properly sized, adequately trained, and available when needed to operate in the modernized environment?
- How does IRS plan to meet projected workforce requirements for the new environment while also honoring its pledge that employees would not lose their jobs because of new technology?
- What human resource planning lessons might be suggested from IRS' experience in implementing the AUR project?

To answer the first two questions, we

- obtained and reviewed congressional hearing transcripts and reports issued by us and the National Research Council;
- discussed, with IRS National Office officials, the status and progress of IRS' human resource planning for concurrent modernization and reorganization; and
- obtained and reviewed relevant IRS planning documents, including the Design Master Plan, the Plan for Human Resource Issues, the Service Center Organization Study, the District Organization Study, the Business Vision Transition Plan, and the Human Resource Master Plan.

To address the third question, we

- examined IRS' experience with the human resource planning for the AUR project;
- discussed the impact that the AUR project will have on staffing levels at 4 of the 6 AUR service centers (Atlanta, Austin, Brookhaven, and Ogden);
- analyzed IRS' experience in training AUR staff and redeploying the 1,898 employees displaced by the AUR project;
- interviewed 56 displaced underreporter employees and their new supervisors (if reassigned) at 3 of the 4 non-AUR service centers (Andover, Memphis, and Kansas City) and 12 displaced underreporter employees at 2

of the 6 service centers that were converting to AUR (Austin and Ogden); and

- interviewed 24 underreporter employees working with AUR at 2 of the 6 AUR sites (Brookhaven and Ogden).[20]

We selected the Atlanta and Memphis service centers in order to compare one AUR and one non-AUR site within the same region (Southeast). We visited Ogden because it was the AUR pilot project site. When the scheduled AUR implementation at Atlanta was delayed, we added Brookhaven to have a second site (other than the pilot site) where AUR had been implemented. We chose Andover and Kansas City because they appeared to be having problems reassigning their underreporter employees. We went to Austin because it was also the site where IRS was prototyping work systems design.

At Andover, Kansas City, and Memphis—non-AUR sites—we randomly selected and interviewed 56 of 1,382 displaced employees to obtain their opinions and perceptions about how AUR had affected them. At Austin and Ogden—AUR sites—we judgmentally selected and interviewed 12 of 65 employees displaced by AUR. Because of the small number of employees we interviewed, interview results cannot be projected and may not represent the opinions of all displaced underreporter employees.

We conducted our review from October 1992 through February 1994 in accordance with generally accepted government auditing standards. The Commissioner of Internal Revenue provided written comments on a draft of this report, and those comments are reprinted in appendix V.

[20]We did not interview AUR employees at Atlanta and Austin because the project had not yet been implemented at those sites at the time of our visits.

The Underreporter Function and the History of the AUR Project

The underreporter program computer-matches payments to individuals reported by employers (Form W-2), banks (Form 1099), and other third parties with the income reported on individuals' tax returns (Form 1040). If the payments do not match the income reported, a potential underreporter case exists. A tax examiner screens the tax return for the missing income. If the tax examiner finds the missing income (e.g., on another line), he or she closes the case. Otherwise, the taxpayer is notified of the additional taxes owed. If the taxpayer can demonstrate that all income was reported or can account for the discrepancy, the tax examiner will close the case; otherwise, the taxpayer is expected to pay the additional taxes.

Because tax returns are not filed until April of the next year and they are not computer matched with third-party payments until early the year after that, underreporter work does not begin until 18 months after the end of the tax year. For example, tax year 1990 returns, which were to be filed by April 15, 1991, were computer matched with third-party payments in early 1992. Then in July 1992, tax examiners began screening the 1990 returns.

Underreporter work serves as a deterrent against noncompliance and generates revenue. For tax year 1989 (the latest year for which complete data were available), IRS assessed $1.4 billion in additional taxes through underreporter work that cost an estimated $77.5 million. As the figures show, the underreporter program is a cost-effective method for detecting unreported income.

Automating the underreporter process will bring several improvements over the manual program. For example, AUR will eliminate much of the paper involved in the manual process because third-party payments and taxpayers' account information will be stored on a computerized database. Consequently, two-thirds of the original case files will be eliminated as will the related storage space. Reduced paper handling and document association will save time and allow cases to be worked faster. Also, AUR will eliminate most math errors in figuring taxes and penalties because the system will calculate the amounts of underreported income and additional taxes owed that are used to generate notices. Taxpayers are expected to receive more accurate, timely, and personalized notices and faster and more consistent responses to their letters and calls. Finally, AUR could increase revenue through improved productivity and processing efficiency.

AUR is intended to be a transitional project ultimately replaced by enhanced TSM capabilities. After 7 years, the income matching function is expected to become part of TSM's Integrated Case Processing System. According to the Director, Information Reporting Program, details on how the income matching functions will be done when they are part of the integrated system had not been worked out.

AUR Implementation Problems

The AUR project has experienced several problems since its inception. In 1991, the tax year 1989 pilot at the Ogden Service Center was delayed 4 months because IRS was slow in defining its operational and processing requirements. Consequently, IRS did not develop the tax year 1989 software until April 1992, which in turn delayed development of the tax year 1990 software by 5 months. As a result, Ogden started screening tax year 1990 cases in November 1992 rather than in July 1992. Additionally, in July 1992 IRS changed procurement contracts to ensure workstation compatibility within the Department of the Treasury. This made it necessary for IRS to procure different workstations, which were not available until February 1993.

All six service centers were scheduled to begin using AUR to screen tax year 1991 returns on May 1, 1993, 2 months earlier than usual for the underreporter process. However, the roll-out dates for AUR slipped significantly, as shown in table II.1.

Table II.1: AUR Implementation Schedule

Date	Location
July 1, 1993	Ogden Service Center
August 1, 1993	Brookhaven Service Center
	Philadelphia Service Center
September 1, 1993	Austin Compliance Center
May 31, 1994	Atlanta Service Center
	Fresno Service Center

Source: IRS.

Ogden, Brookhaven, Philadelphia, and Austin thus screened tax year 1991 underreporter cases using AUR. Atlanta and Fresno screened 1991 cases manually and will begin AUR work with the tax year 1992 caseload. The four other centers phased out underreporter work after completing the tax year 1990 caseload. IRS officials told us that the original schedule was overly optimistic because it did not adequately allow for problems.

These schedule delays will have two important effects. First, IRS may not realize projected savings for the Atlanta and Fresno Service Centers. IRS projected that AUR would cost $132.9 million and provide $163.8 million in benefits over its 7-year life. Because of the schedule delay, some of the projected benefits for Atlanta and Fresno will not be realized unless the AUR program is extended beyond 7 years. Second, Atlanta and Fresno employees who were trained as instructors were required to attend 6 weeks of refresher training, further reducing savings.

A few performance issues still remain for AUR, despite its implementation at four service centers. One problem was that the workstations procured under the new contract were slower than the original equipment. IRS explained that the slower response time was mainly due to the graphics capabilities of the system. In-house analysts have recommended evaluating a workstation-memory upgrade to improve response times. The computers posed other problems as well: users were not able to print from the new workstations, the computer screens locked up when users were viewing reports, and not all workstations provided the same menu options. As with the schedule delays, performance problems could also reduce AUR's projected savings.

Opinions and Perceptions of the Staff Using AUR

Of the 12 employees (2 managers, 3 clerks, and 7 tax examiners) we spoke with at Ogden who had used AUR, all had positive comments about the system. Eleven of them said that they made fewer errors, and 3 said that AUR allowed them to give taxpayers quicker responses. Five said that the clerks could do their job much faster with AUR.

However, 8 of the 12 employees said that they had experienced problems with the new system. For example, seven employees said that the computer moved slowly from screen to screen. Also, because the system proceeds through each step sequentially, experienced staff said that the automated process did not allow them to skip any unnecessary steps. Four employees complained that their work space was too small, and two said that the keyboard was uncomfortable. Five of the seven tax examiners said that they preferred classroom training rather than individual, self-paced training. They said that everyone benefits from others' questions in the classroom. IRS plans to use self-paced training for all future AUR training.

All 12 employees (1 clerk and 11 tax examiners) we spoke with at Brookhaven had positive comments about AUR. Eleven said that they were satisfied with the AUR equipment, stating that it was comfortable and easy to use. Six said that they made fewer errors, and four said that AUR uses less paper.

However, all 12 employees said that they had experienced problems with the new system. For example, eight employees said that the self-paced training contained errors and that the computer was too slow. Also, three said that the automated process did not allow them to skip unnecessary steps, three employees complained that their work space was too small, and two said that the cursor was hard to find on the screen.

Reassignment of Underreporter Employees by Position Type, November 1993

Service center	Appointment type	Position	Beginning total June 1992	Number placed[a]	Percent placed
Andover	Permanent	Clerk	64	53	
		Tax examiner	125	106	
		Manager	20	18	
			209	177	85
	Seasonal	Clerk	81	81	
		Tax examiner	103	103	
			184	184[b]	100
Cincinnati	Permanent	Clerk	39	29	
		Tax examiner	102	86	
		Manager	22	19	
			163	134	82
	Seasonal	Clerk	46	25	
		Tax examiner	307	298	
			353	323	92
Kansas City	Permanent	Clerk	56	56	
		Tax examiner	225	163	
		Manager	37	19	
			318	238	75
	Seasonal	Clerk	65	65	
		Tax examiner	153	145	
			218	210	96
Memphis	Permanent	Clerk	33	30	
		Tax examiner	152	108	
		Manager	22	14	
			207	152	73
	Seasonal	Clerk	118	79	
		Tax examiner	128	105	
			246	184	75
Total	Permanent	Clerk	192	168	
		Tax examiner	604	463	
		Manager	101	70	
			897	701	78
	Seasonal	Clerk	310	250	
		Tax examiner	691	651	
			1,001	901	90

Note: Data excludes reassignments to adjust staffing at AUR sites.

[a]The number of employees placed includes both reassignments and separations from IRS.

[b]Includes one clerk and one tax examiner who were pending disability.

Source: IRS.

Chronology of IRS' Negotiations With NTEU on the AUR Project

June 1992	IRS notified underreporter employees of its decision to eliminate underreporter work at four centers.
June to November 1992	Four centers began voluntary reassignment of underreporter staff.
August 1992	NTEU filed a grievance because IRS had begun placing employees before reaching agreement with it.
October 1992	NTEU sent its AUR proposals to IRS.
November 1992	Negotiations between IRS and NTEU began.
January 1993	IRS' National Office issued interim redeployment guidelines.
April 1993	IRS presented its counter proposal to NTEU.
July 1993	Negotiations went to arbitration.
August 1993	Final AUR agreement was signed.

Comments From the Internal Revenue Service

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

COMMISSIONER

April 22, 1994

Ms. Jennie S. Stathis
Director, Tax Policy and Administration Issues
General Government Division
United States General Accounting Office
Washington, DC 20548

Dear Ms. Stathis:

We have reviewed your recent draft report entitled, "Tax Systems Modernization: Automated Underreporter Project Demonstrates Need for Human Resource Planning."

Our overall review of the report indicates that the information is generally accurate in describing the events in IRS during the Automated Underreporter (AUR) implementation. However, there is very little emphasis placed on the fact that we have learned much from this experience and have been addressing the concerns raised in the report. While some of the positive steps underway are recorded in the report section, "IRS Has Made Progress in Human Resources Planning...", they get lost among the many recordations of the shortfalls that occurred during implementation of AUR. Even though this report is basically a historical document, in response to the report recommendations we would like to provide some information on current activities that will prevent or minimize negative human resource impacts as we continue with the reinvention of IRS through Tax Systems Modernization.

We hope you find these comments useful.

Sincerely,

Margaret Milner Richardson

Margaret Milner Richardson

Enclosure

IRS COMMENTS ON DRAFT REPORT
TAX SYSTEMS MODERNIZATION: AUTOMATED UNDERREPORTER PROJECT DEMONSTRATES NEED FOR HUMAN RESOURCE PLANNING

RECOMMENDATIONS: That the Commissioner of Internal Revenue take the following steps before fielding other modernization projects that have a significant human resource impact:

-- Assess existing workforce knowledge, skills, and abilities, and update this assessment periodically for later comparison to project requirements.

-- Identify specific staffing requirements (numbers, skills, grades, and training) for all TSM projects that will have a significant effect on human resources.

-- Compare project staffing requirements to the inventories of existing workforce knowledge, skills, and abilities and develop detailed retraining and redeployment plans to meet the requirements for TSM projects that will have a significant effect on human resources.

COMMENTS:

We feel that the following current activities will prevent or minimize negative human resource impacts as we continue with the reinvention of IRS:

- The establishment of an Office of Workforce Transition which is solely dedicated to overseeing the development and implementation of a redeployment strategy.

- The establishment of an Office of Occupation & Skills Analysis which is developing models to analyze present and future workforce knowledge, skill, and ability;

- The establishment of an Office of Employee Research & Change Assistance which is concentrating on issues faced by employees when change takes place during a reorganization or redeployment, as well as providing organizational development assistance to support functional reorganizations.

- The creation of Matrix Site Leader positions in the Office of the Chief, Management and Administration to work closely with the Site Executives and other functions early and throughout their restructuring to ensure that human resource issues are timely and fully considered.

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- o The creation of a comprehensive human resource supply/demand staffing model.
- o The development of site-specific redeployment plans (due in July).
- o The receipt of full early-out authority from Treasury.
- o The Redeployment Understanding reached with NTEU.
- o The establishment of a moving expense fund for redeployed employees.

Finally, we should note that the new office of the Modernization Executive provides a focal point for the transition of the IRS to the Business Vision. In this role the Modernization Executive will have the overall responsibility to integrate the Business, Technology, Management and Administration activities necessary to be successful. The subject and timing of this report precedes the establishment of that position.

Major Contributors to This Report

General Government Division, Washington, D.C.

David J. Attianese, Assistant Director, Tax Policy and Administration Issues
Robert J. McArter, Assistant Director, Tax Policy and Administration Issues
James E. Ward, Assignment Manager
James G. O'Donnell, Evaluator

Atlanta Regional Office

A. Carl Harris, Evaluator-in-Charge
Robert V. Arcenia, Site Senior
Kim M. Rogers, Evaluator
David W. Schechter, Evaluator

New York Regional Office

Andrew F. Macyko, Regional Assignment Manager
Richard T. Borst, Senior Evaluator
George F. Degen, Evaluator

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