

**STATEMENT OF CHARLES O. ROSSOTTI,
COMMISSIONER OF INTERNAL REVENUE,
BEFORE THE SENATE FINANCE COMMITTEE,
JANUARY 28, 1998**

Mr. Chairman and Distinguished Members of the Committee:

When I appeared before this Committee in October, I had already confirmed for myself two things: that the IRS must do a far better job of serving taxpayers, and that achieving a goal of consistent first rate service would require a major shift in the IRS's focus. I committed to you that I would improve the work of an agency that directly affects so many people and do so to the best of my ability.

Since my appearance here in October, I have read thousands of pages of studies and reports, met with over 500 IRS employees, reviewed the ongoing audits conducted by the IRS Chief Inspector, visited offices all across the country, spoken with taxpayers at Problem Solving Days and met with all of the practitioner and professional groups who will testify before you tomorrow. I have learned a great deal from the work of this Committee and from the work of the Committee on Ways and Means. Drawing upon these sources, the report and recommendations of the National Commission on Restructuring the IRS, and my own 28 years of experience as a manager, I have reached a clear and inescapable conclusion: the IRS must shift its focus away from its own internal operations and think about its job from the taxpayers' point of view.

I am pleased to be here today to outline for you how I plan to do what I said I would do back in October, how the legislation you are considering will help in this endeavor, and how concrete measures will be taken to address the kinds of problems you, Mr. Chairman, brought to light in your hearings in September.

But, before I outline my concept of a new IRS, let me discuss two important issues of concern to this committee. First, the hearings you held in September prompted the IRS to take stock of itself in a number of key areas, and I'd like to take this opportunity to review the actions the agency has taken since. Second, I'd like to make a few points with regard to the restructuring legislation that has passed the House and that will soon be marked up in the Senate.

ACTIONS SINCE FINANCE COMMITTEE HEARINGS

Mr. Chairman, your September hearings were a call to action and have caused the IRS to begin a period of self-examination on a number of fronts. We have initiated internal audits on the use of statistics in Examination and Collection and begun reviewing the conduct of managers and employees so that we can detect and correct abuses. In addition to these specific actions, I want to take a moment to review some of the other major commitments we have made to improve our treatment of taxpayers. I would also like to assure you that we will continue to fulfill our current commitments and for the longer term strive to prevent these situations from occurring in the first place.

Both before and after the hearings last September, the IRS worked closely with the Finance Committee staff and the Treasury Department to identify the problems that must be resolved in order to end abuses, protect taxpayers' rights, and make the IRS more customer focused.

The IRS and the Treasury Department have jointly developed action plans to address each of the problem areas which have surfaced over the last few months. The issues that could be resolved quickly have been. Others will take more time. There are approximately 100 detailed actions being taken by the IRS to honor commitments made during and after the September hearings, and just last week we delivered our second progress report to the Committee. There are three general categories of actions that I highlighted in my report to you and also would like to address today:

- Resolution of problem cases;
- Enforcement statistics and employee misconduct; and
- Employee education.

Resolution of Problem Cases

IRS staff, both at the National Office and in the field, have been working on several efforts related to resolving problem cases. Some of these efforts are direct consequences of the Senate hearings, whereas others are more proactive steps to identify and solve taxpayer concerns before they become intractable problems.

We have completed a comprehensive review of the cases involving the four taxpayers which testified at Septembers hearings. Our findings and the reports prepared by the responsible field office executives were sent to you last week.

In addition to addressing the cases for these four taxpayers, the IRS has established new procedures to monitor complaints received as a result of the hearings. The Chief Inspector is also

tracking any complaints generated by the hearings. The Taxpayer Advocate has been working closely with field executives to review correspondence received by the IRS in the first quarter of this fiscal year (October 1, 1998 through December 31, 1998). In this review, field offices analyzed roughly 25,000 pieces of correspondence and provided a summary of those results to your staff last week. We are currently undergoing a similar review for the second quarter. Through these types of extensive reviews, we will be able to better understand the types of correspondence we are receiving and more readily identify potential systemic and individual problems early on.

Problem Solving Days

On September 25, 1997, Deputy Commissioner Mike Dolan announced that each IRS district would begin holding monthly Problem Solving Days to provide taxpayers an opportunity to meet with Service personnel to resolve special tax problems they might be encountering. On Saturday, November 15, 1997, we held our first Problem Solving Day. Since then, we have held many more Problem Solving Days throughout the country. I was pleased to spend time with you, Mr. Chairman, in Wilmington, Delaware, and with you, Sen. Grassley, in Des Moines. As of January 16, 1998, more than 16,200 people have been assisted during Problem Solving Day events throughout the country.

We are pleased with the initial success of Problem Solving Days. According to the customer satisfaction survey distributed at the November Problem Solving Day, taxpayers were extraordinarily pleased with the quality of service they received. With a 55 percent response rate, customers gave the day an average rating of 6.46 on a scale of 1 to 7, with 7 being "completely satisfied." Approximately 75 percent of respondents gave the IRS the top rating of 7 for "overall service." The highest overall rating of 6.66 was for employee courtesy.

In our second round of Problem Solving Day events, held in December, the IRS received even higher ratings for "overall service". For "overall service", the IRS received an average rating of 6.54 as compared to the November rating of 6.46. Again, our highest overall rating was for "employee courtesy"; however, the rating improved (from 6.66 to 6.81).

During the two Saturdays prior to April 15, 1998, IRS will hold "Problem Prevention Days." Local offices will assist taxpayers in preparing returns and in voluntarily complying with tax laws.

Problem Resolution Program

The IRS is increasing the National Office Problem Resolution staff by one-third and is conducting a workload review to determine how many additional resources are needed in field offices. Additionally, the IRS has begun a national search, using a well known executive search

firm, for a new Taxpayer Advocate with experience representing and advocating for individuals and small business taxpayers. I also plan to expand the position to include significantly increased opportunities for educating the public about the Taxpayer Advocate program and the remedies it offers.

Improve Written Communications With Taxpayers

During fiscal year 1997, the IRS issued roughly 10 million letters and 111 million notices to taxpayers. Letters are issued by a specific employee to provide detailed information regarding a taxpayer's account. Notices are standardized forms which are categorized by issue and sent to taxpayers which require that type of notification. To improve the taxpayer's ability to respond to letters we have issued a reminder alert to field offices to emphasize that all letters must be signed by the appropriate contact person.

We also have been working to redesign our notices, and plan to procure the services of an outside contractor, in an effort to increase their clarity. These improvements should help taxpayers understand more clearly why they have received a notice and how they need to respond to that notice without the need for further explanation. Many of our generated notices already include names.

Although we continue to evaluate the viability of adding names to more notices, we have reservations. For example, the IRS has invested considerable resources to emulate private sector best practices by enhancing customer access to toll-free telephone services. To improve access, we have implemented systems that enable us to route incoming calls to the next available assistor located in any of our call sites across the nation. We are concerned that a taxpayer, calling the employee identified on a notice, may have to stay on hold for longer than if he or she had been transferred to the first available employee. We are continuing to explore ways to make employees more accountable for solving problems while ensuring that taxpayers get the most efficient service we can deliver.

Provide Better Telephone Service

On January 2, 1998, the IRS expanded telephone service over one third — from 5 days a week, 12 hours a day to 6 days a week, 16 hours a day. In addition to increasing our hours of operation, the IRS has several key initiatives designed to improve the Level of Access to our telephone service to 70% during the 1998 filing season.

Enforcement Statistics and Employee Misconduct

Last September's Finance Committee hearings raised a number of questions about how the IRS uses enforcement statistics. Since the hearings, senior IRS executives have made a

determined effort to communicate to the entire organization that enforcement statistics are not to be used in evaluating employees. We have stopped ranking the 33 district offices and 10 service centers on revenue and enforcement results and stopped issuing these kinds of performance goals to regions, districts, and service centers. Because of concerns that including penalties in our examination assessments created incentives for our employees to propose unwarranted taxpayer penalties, we have also decided to exclude all penalty data from the statistics used for examination assessments.

IRS Seizures

On December 2, 1997, the IRS announced an interim policy requiring higher level management approval before an employee can seize tangible property. This higher level of approval is a prudent step to ensure that, while we complete our analysis of the use of these enforcement authorities, collection enforcement tools such as seizures are only used in appropriate cases.

Internal Audit Reports

Subsequent to the Committee's September hearings, in which allegations of violations of taxpayers' rights surfaced, the Inspection Service and the General Accounting Office (GAO) were asked to investigate the IRS's use of enforcement tools and statistical indicators. To date, two Internal Audit reports have been issued. The first audit report focused on the Arkansas-Oklahoma district and concluded that the district permitted, and in some cases encouraged, inappropriate use of enforcement statistics and tools. The second report reviewed the use of enforcement statistics in the Collection function at the national and regional levels, and in 12 districts. On January 13 this report was issued and concluded that the IRS created an environment driven by statistical accomplishments that placed taxpayer rights and a fair employee evaluation system at risk. In response to both audit reports, the IRS has taken the following steps:

- On December 16, 1997, the Deputy Commissioner initiated a review of the lien and levy procedures currently being followed by field offices. This review will result in recommendations for improving current processes with a particular emphasis on ensuring that these collection tools are utilized in a way that correctly balances the individual rights of taxpayers with the organization's responsibility to collect the correct amount of tax.
- On December 22, 1997, Deputy Commissioner Dolan recalled Document 9429, Managing Statistics Within the Collection Function. Collection personnel were

directed to rely on the overall guidance contained in Document 7300, Managing Statistics (1992). New guidance revisions are scheduled to be available by March 30, 1998.

- At the request of the IRS, GAO is currently conducting an overall review of the quarterly certification process.
- The IRS will expand its longstanding policy prohibition on the use of enforcement statistics to bar their use in evaluating front-line managers of enforcement officers and apply the TBOR Certification process to all enforcement activities, not just collection.
- The procedures that govern the clearance of documents containing reference to interpretation of Service policy will be strengthened so that any legal concerns raised by Chief Counsel will be adequately addressed.

Additionally, I announced on January 13, a panel will be created to objectively determine disciplinary actions to be taken in cases arising from the Chief Inspector's investigation.

Employee Education

Finally, during the September hearings, a commitment was made to engage the IRS in discussions about the organization's obligation to provide high-quality customer service to taxpayers. IRS management has conducted several video conferences with employees to discuss lessons learned from the hearings; conducted meetings with all IRS executives and field office division chiefs; issued several formal statements to employees announcing corrective actions being taken; and this week we will be conducting focus group interview sessions with over 2,000 employees to solicit employees' concerns regarding barriers to proper treatment of taxpayers and to offer suggestions for improving taxpayer treatment.

The IRS is working on other initiatives to formally educate employees. One of these initiatives is titled "Working with Taxpayers" and is designed to help employees throughout the organization understand how to treat taxpayers fairly and courteously. Another critical aspect of providing the proper level of customer service is accurate technical knowledge. There have been several significant changes to the tax code over the last year, the most significant being the Taxpayer Relief Act of 1997 (TRA 97). The IRS is currently providing training to Customer Service personnel on TRA 97 issues that impact the 1998 filing season.

RESTRUCTURING LEGISLATION

Mr. Chairman, this hearing marks the start of the Finance Committee's deliberations to draft its own version of IRS restructuring legislation. As Secretary Rubin stated earlier, we support the

Internal Revenue Service Restructuring and Reform Act of 1997, as passed by the House of Representatives, and are committed to working with the Congress, along with the Department of Treasury, to implement it. As currently drafted, the Act provides for, among other things, additional taxpayer rights, more effective oversight of the IRS and greater continuity of leadership at the agency. This Act can be the impetus for bringing additional change to the IRS - change that will help to accomplish the shift in focus that I have mentioned. I would like to take this opportunity to comment on some of the key provisions.

Taxpayer Rights

The House-passed bill includes a number of taxpayer rights provisions that we support including:

- relief for innocent spouses,
- the expansion of our authority to issue “taxpayer assistance orders”,
- providing taxpayers with additional information on a variety of matters, including a taxpayer’s rights in interviews with the IRS,
- equitable tolling of the statute of limitations for refund claims of disabled taxpayers, and
- matching grants for the development, expansion or continuation of certain low-income taxpayer clinics.

We also support the provision which would allow taxpayers to sue the government for up to \$100,000 in civil damages caused by IRS employees who disregard provisions of the Internal Revenue Code or Treasury regulations in connection with collection Federal tax with respect to taxpayers, but believe the standard should be “gross negligence”.

The House-passed bill also contains two provisions that cause us concern. As currently drafted, the section on burden of proof could have the unintended consequence of providing taxpayers with an incentive not to keep records that support their tax return positions and could make audits more intrusive. We are also concerned that the provision extending a privilege to accountants could give rise to disputes and interfere with our efforts to resolve issues quickly and correctly. These are highly technical issues that we would like to have our staff work with the Committee staff to resolve.

Electronic Filing

The expansion of alternative methods of filing is of vital importance to America’s tax system and the House-passed bill establishes a long-range goal for electronic filing. While IRS’s electronic filing programs have been successful to a degree, the public’s use and acceptance of electronic alternatives to paper has not grown as rapidly as once hoped. For these reasons, the

encouragement provided under the House-passed bill is important. As the Committee knows, current law already authorizes paperless filing, but the policy statement in this bill could be the catalyst for its successful expansion.

The legislation also provides us with needed authority to pursue such developments as the ability to accept taxpayers' signatures in a digital or other electronic format. During 1998, the IRS will be formulating a broader strategy for electronic service delivery through partnerships with private industry. Priorities for 1999 include implementing paperless filing, accepting electronic payments, and continuing to increase taxpayers' and practitioners' understanding of the benefits of electronic filing.

Governance Arrangements

As Secretary Rubin indicated to the Committee, the bill contains new governance arrangements that will ensure critical input from the private sector, provide for outside oversight, and maintain authority and accountability with respect to the IRS within the existing structure of the federal government. We support the provisions in the final bill that retain executive branch accountability under the Constitution, as well as the Secretary's authority to administer and enforce the internal revenue law. We also support granting the Oversight Board the authority to consult on strategic plans and review operational functions.

I should also note that I believe it is critical that we are able to attract the right people to fulfill the Board's important role. To avoid a prohibitive time commitment that an attractive candidate might not be able to fulfill, or, conversely, not allow for enough time to make a substantial contribution, I encourage a change to the legislation that would allow the Chairman of the Oversight Board maximum authority concerning the functioning of the board on matters such as the frequency of meetings and the possibility of appointing subcommittees. In addition, I support the technical changes to the conflict of interest provisions applicable to the Board. The current provisions are unclear and may inadvertently discourage service on the Board. We understand that the Office of Government Ethics is willing to work with Committee staff to ensure that these provisions are clear and fair.

Personnel Flexibilities

Mr. Chairman, critical to achieving the goals that I will lay out for you today is my ability to recruit and retain a top notch leadership and technical team, and to re-tool the existing workforce for the new challenges that await them. Therefore, we will be seeking your support for several additional flexibilities, particularly in the areas of compensation and workforce restructuring. Also, so that our employees may make the best choices for their futures, we seek reauthorization of the buyout authority that expired in December. Flexibility to reposition the

current IRS workforce will be critical to implementing a new organization that is designed around the needs of the taxpayers. The Committee's support for these changes will be appreciated.

Mr. Chairman, the actions we have taken since your September hearings and the ongoing discussion of the restructuring legislation point the direction for the IRS into the next century. Let me now turn to my concept for modernizing the nation's tax agency.

CONCEPT TO MODERNIZE THE NATION'S TAX AGENCY

Mr. Chairman, I noted at the outset that your hearings were a call to action for the IRS. As you begin to consider restructuring legislation, I want to lay out my concept of how we can modernize the IRS. Let me stress at the beginning that enactment of restructuring legislation is crucial to the effort I am about to outline. The legislation is a necessary and critical enabler of the change that the IRS must undertake.

How can the IRS shift its focus and become the customer-oriented agency it must become?

I have carefully reviewed the work done by the National Commission on Restructuring the IRS, read many thousands of pages of internal studies of IRS business practices, technology and organization, and have met with hundreds of IRS employees as well as others who are vitally interested in our tax system. I have consulted with the Secretary of the Treasury and benefitted by the work of the Treasury and National Performance Review task force on customer service.

A clear sense of direction has emerged from this work and from the problems brought to light by this Committee. The IRS must shift its focus from its own internal operations and think about its job from the taxpayers point of view.

The IRS today does a remarkable job of processing 200 million tax returns, collecting with great integrity over \$1.5 trillion and providing service to millions of taxpayers. These capabilities represent great strengths for our country.

To meet the public's legitimate expectations in the future, however, we in the IRS must fundamentally change the way we think about our agency. We must become fundamentally committed to customer service. We must shift our focus, as many large companies have already done, from expecting our customers, the taxpayers, to understand and navigate the IRS according to our internal operations, to thinking about everything from the taxpayers's view. We must gain a greater understanding of taxpayers' problems and how we can best help them meet their obligations under the tax laws.

From the taxpayer's viewpoint, we provide service in two ways.

We serve *each* taxpayer with whom we deal directly, one at a time. These interactions with taxpayers range from the routine, such as providing forms and information, to the complex, such as when a taxpayer may be thought to owe more money as a result of an examination. In each and every one of these interactions with taxpayers, we should provide first quality service and treatment that is prompt, professional and helpful based on what we know to be their particular needs.

Secondly, we serve *all* taxpayers by ensuring that compliance is fair. Our tax system depends on each person who is voluntarily meeting his or her tax obligations having confidence that his or her neighbor or competitor is also complying.

I believe that the IRS, over time, can greatly improve both kinds of service to the public. Furthermore, I believe that we can accomplish this, while also processing an increasing workload with the workforce we have. Our workforce is competent and dedicated, but handicapped by outdated practices and technology.

In the near term, we are taking action to move forward toward these goals.

As I mentioned earlier, the Problem Solving Days that we have been holding monthly across the country are excellent examples of the way we should be serving taxpayers. We are extending the hours of telephone service this filing season to 16 hours a day 6 days a week. We are setting up a special process to resolve the particularly difficult taxpayer cases that we are identifying through your Committee and our internal programs. We have taken steps to raise the level of management review on enforcement actions such as seizures and to see that inappropriate use of enforcement statistics is ended. These are only a few of the hundreds of actions we are taking this year to improve service and provide proper treatment to taxpayers.

We are also closely managing our enormous and challenging program to update our computer systems for the century date change and the tax law changes required by the 1997 Taxpayer Relief Act. Most of this work must be completed in the next 12 months prior to the 1999 filing season.

As important as these steps are, they will not enable us to meet our goals unless we make more fundamental changes to our way of doing business. These changes will take time but are essential for the IRS to meet the public's legitimate expectations for service from its tax agency.

Five Key Elements

The concept that I will outline today includes a renewed mission with emphasis on service and fairness to taxpayers and practical goals and guiding principles which define the path forward. We will reach our goals of service to *each* and to *all* taxpayers through changes in five key areas, each complementing the others. These five areas, along with the goals and guiding principles are summarized on Chart C.

Revamped IRS business practices that will focus on understanding, solving and preventing taxpayer problems.

Each of the IRS's business practices, from customer education to filing assistance to collection, holds great promise for improvement by our gaining a greater understanding of the particular problems that taxpayers have and focusing continuously on solving them. In most cases, there are very close parallels in the private sector that we can draw on.

For example, our business practices should make filing easier for all taxpayers by providing easily accessible high quality assistance to those taxpayers who need help in filing and by having more returns filed electronically. Just as companies develop very particular marketing programs to reach customers with differing needs, we can help taxpayers more effectively by tailoring our publications, education, communications and assistance programs to taxpayers with particular needs. College students who often can file with a simple 1040EZ form and a 10 minute phone call have very different needs from senior citizens with social security and investment income who may be best served through a network of volunteers who specialize in the needs of seniors.

This principle of tailoring our services to the needs of particular groups of taxpayers is a cornerstone of how we can dramatically improve our service to taxpayers as well as our internal productivity.

As another example, some of our most difficult interactions with taxpayers occur when additional money may be due and collection activity is required. Today, 90 % of the active collection activity by the IRS telephone and field collectors is on accounts that are more than 6-months old, and most are much older than that. This is the reverse of practices in the private sector. The proven keys to effective collection are to identify as promptly as possible customers who may present risk of non-payment and to work out a payment program that addresses the particular payment problem of that customer. This helps the customer as well as the collecting agency and minimizes the need for enforcement actions.

Organizational structure built around taxpayer needs.

The IRS organizational structure no longer enables its managers to be knowledgeable about and take action on major problems affecting taxpayers nor is it capable of modernizing the business practices and technology needed to achieve our goals. The principal IRS organization today, as shown in Chart A, is built around 33 districts and 10 service centers. Each of these 43 units is charged with the mission of serving every kind of taxpayer, large and small, with simple or complex problems, in a defined geographical area. If a taxpayer moves, the responsibility moves to another geographical area. Further, every taxpayer is serviced by both a service center and a district and sometimes more than one. Service centers and districts each perform customer service, collection and examination activities for the same taxpayer.

For example, in the collection area, there are three separate kinds of organizations, spread over 43 organizational units, that use three separate computer systems to support collection. Each of these three types of units collects from every kind of taxpayer, from small businesses to wealthy individuals.

There are 8 intermediate levels of staff and line management between a front line employee and the Deputy Commissioner, who is the only manager besides the Commissioner who has full responsibility for service to any particular taxpayer. Although important improvements have been made in this structure over the last few years, notably the reduction in the number of districts, the fundamental problem remains: the structure is far too complex and accountability is weak.

Fortunately, there are solutions to this organizational problem which are widely used in the private sector and may enable us to better serve the American taxpayer. The approach I am discussing today is to organize around the needs of our customers, the taxpayers. Just as many large financial institutions have different divisions that serve retail customers, small to medium business customers, and large multinational business customers, the taxpayer base falls rather naturally into similar groups. This fact simply reflects the structure of the US economy.

Therefore, as shown in Chart B, one logical way to organize the IRS is into four units, each charged with end-to-end responsibility for serving a particular group of taxpayers with similar needs. These units could replace the four regional offices and a substantial part of the national office, allowing the national office to better fulfill its responsibilities of oversight and broad policy rather than operations. As I noted at the outset, this is a concept — a concept that will require outside validation. I am initiating a review of this concept because I believe we need to refocus and realign the efforts of the IRS on our customers — the American taxpayers. Of course, during and after the review, we may need to revise this proposal, depending on the results.

By organizing in this way, the management teams for each unit could learn a great deal about the needs and particular problems that affect each group of taxpayers. The tax code is extremely complex but most of it does not apply to each group of taxpayers.

There are 100 million filers, comprising about 140 million taxpayers, who have only wage and investment income. For this very large group, almost 80% of all taxpayers, the primary needs are improved assistance in filing or in getting information about an account or a refund. Collection problems are relatively limited since most of their taxes are paid through withholding by employers. Compliance problems are concentrated in the area of dependent exemptions, credits, filing status, and deductions, many of which can be addressed in part by better education of taxpayers with the assistance of volunteer groups and preparers. Improved phone service and more walk-in “retail” sites where taxpayers can get quick, in-person assistance are also important.

Another very important group of taxpayers are small businesses, including sole proprietors and small business corporations. There are about 25 million filers in this category. Compared to other individual taxpayers, this group has much more frequent and complex filing requirements and pays much more directly to the IRS, including tax deposits, quarterly employment returns and many other types of income tax returns and schedules. Providing good service to this group of taxpayers is more difficult than wage and investment filers, and compliance and collection problems are also much greater. Small start-up businesses in particular need special help. By dedicating a fully responsible unit to providing all IRS services for the self employed and small business, this unit will be able to work closely with industry associations, small business groups and preparers to solve problems for the benefit of all.

Larger businesses, although few in number, pay a substantial share of their tax in the form of withholding, employment and excise taxes, and corporate income taxes. Complex tax law, regulatory and accounting questions, including many issues arising from international activities, dominate the work of the IRS in serving this group. A management team and unit dedicated to serving these taxpayers will be able to understand and solve these problems more effectively than at present.

Finally, the tax exempt sector, including employee plans, exempt organizations and state and local governments, represents a large economic sector with unique needs. Although generally paying no income tax, this sector pays over \$190 billion in employment taxes and withholding for employees and manages \$5 trillion in tax exempt assets. This huge sector will benefit from a dedicated unit that understands its special problems.

Management roles with clear responsibility.

Since each unit will be fully responsible for serving a set of taxpayers with like needs, the management teams responsible for each of these units will be able to become knowledgeable about the needs and problems of their customers, and be held fully accountable for achieving specific goals in serving them. Furthermore, having learned about problems, managers can cut dramatically the time required to communicate with the workforce and implement solutions. Because the organization would be “flatter,” there would be fewer layers of management. Front-line employees and first-line managers would have a much closer identification and communication channel to people with general management responsibility.

For each unit, a cohesive management team will be established which will be able to organize internally in ways that are appropriate to the particular needs of the taxpayers they are serving. I believe that highly qualified managers, from internal or external sources, will be far more attracted to these kinds of management jobs than those in today’s complex structure .

Balanced Measures of Performance.

It is essential to have measures of organizational performance that balance customer satisfaction, business results, employee satisfaction and productivity. It is particularly important that performance measures do not directly or indirectly cause inappropriate behavior toward taxpayers, and that they provide incentives for service-oriented behavior.

The establishment of management teams with clear responsibility for serving large groups of taxpayers with reasonably common characteristics and needs will help make it possible for the first time to develop realistic and meaningful measures of organizational performance in the areas of customer satisfaction and overall compliance on a continuing basis. This will help eliminate the problem that has plagued the IRS for decades, namely the use of “enforcement” results as a key measure of success.

New Technology.

One of the limiting factors in our ability to modernize our business practices at the IRS today is our computer systems, which are extremely deficient in their ability to support our missions and goals. But computer systems essentially represent a detailed codification of the business practices and organization structure that exist. Building new computer systems to support the old business practices and complex organization structure will not work.

The recently issued technology modernization blueprint and the new CIO organization provide an outstanding and professional basis for managing the evolution of our technology. The revamped business practices and rationalized organizational structure I discussed earlier will

provide a sound basis for completing and implementing the modern systems envisioned in the blueprint.

The management teams in each unit will be able to act as knowledgeable and responsible business owners to work with the centralized professional information systems organization and outside contractors. For the first time, this will establish all the critical elements needed to manage a large-scale technology/modernization program successfully.

SUMMARY

The comprehensive modernization concept I have outlined includes a renewed mission with emphasis on service and fairness to taxpayers, practical goals and guiding principles which define the path forward, revamped business practices that focus on solving taxpayer problems, a new organizational structure built around serving groups of taxpayers with like needs, more accountable and attractive management roles, balanced measures of performance tied to achievement of goals, and a workable way of modernizing our technology. All this is summarized on one page in Chart C.

I want to emphasize that much study is required to validate this concept and to decide on hundreds of details. Much consultation will be involved, internally and externally, during this study process which we hope to complete by early summer. While an enormous job is ahead of us, I am confident that, given time and support from Congress and the public, this path will lead us to the goal we all seek: an IRS which provides consistently first quality service to taxpayers.

Let me also stress that this concept is fully consistent with and, in fact complements, the Oversight Board that is created in the Restructuring Bill. Under the structure proposed, the Commissioner and the National Office will be better able to fulfill their appropriate top management roles and will be able to be accountable to the Board for the achievement of overall organizational goals as approved by the Board.

In conclusion, I want to assure the Committee that it is a new day at the IRS. The agency is committed to moving forward in ways that keep up with a changing world and the increased expectations of the American taxpaying public. Restructuring legislation will help us get there, and the work of your Committee has served as one of our catalysts for change. Thank you, Mr. Chairman, and I will be happy to answer any questions.

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