

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Redesign Efforts for Most Taxpayer First Act Section 1302 Requirements Were Planned or Completed; However, Implementation Schedules and Reorganization Plans Need to Be Finalized**

March 17, 2022

Report Number: 2022-15-031

# HIGHLIGHTS: Redesign Efforts for Most Taxpayer First Act Section 1302 Requirements Were Planned or Completed; However, Implementation Schedules and Reorganization Plans Need to Be Finalized

Final Audit Report issued on March 17, 2022

Report Number 2022-15-031

## Why TIGTA Did This Audit

On July 1, 2019, Congress enacted the Taxpayer First Act (TFA) to improve taxpayer service, while ensuring that the IRS continues to enforce tax laws in a fair and impartial manner. TFA § 1302, *Modernization of the Internal Revenue Service Organizational Structure*, is a primary part of the Act and a foundation for all other TFA provisions.

This audit was initiated to determine what progress the IRS has made toward addressing legislated provisions of the TFA with its organizational redesign strategy.

## Impact on Tax Administration

TFA § 1302 requires the IRS to implement the TFA, prioritize taxpayer services, streamline the IRS's structure to minimize duplication, and combat cybersecurity and other threats. If the IRS does not successfully implement TFA § 1302 as planned, millions of taxpayers seeking assistance may not have access to expanded digital services, high quality customer service, or sufficient cybersecurity protections.

## What TIGTA Found

The IRS planned and completed actions for most of TFA § 1302. In accordance with TFA § 1302(a), the IRS submitted its written plan to Congress on January 11, 2021, to propose its organizational changes. The submission addressed TFA § 1302(b) because the restriction on the organizational structure contained in the IRS Restructuring and Reform Act of 1998 expired on January 11, 2022. The IRS completed TFA § 1302(a)5 by recommending that the Criminal Investigation Division not report directly to the Commissioner due to identified risks and challenges.

The IRS plans to address TFA § 1302(a)2 with the establishment of the Taxpayer Experience Office. This office expects to develop long-term goals to prioritize taxpayer services over the next 10 years. The IRS will also address TFA § 1302(a)4 through the expansion of Cybersecurity Office activities to combat cybersecurity and other threats.

However, plans remain incomplete for TFA § 1302(a)1 as implementation schedules were delayed and need to be finalized. In addition, the IRS has yet to establish the Enterprise Change and Innovation Division or the Operations Management Division.

TIGTA determined that the IRS did not conduct data-driven, quantitative efficiency, or effectiveness studies that concluded the reorganization changes recommended were the best alternatives. Instead, it relied on its reviews of feedback, stakeholder reports, best practices, *etc.*, some of which included its own cost efficiency information. During the audit, the IRS stated that it plans to integrate statistical analysis as part of the overall design strategy. Until the IRS finalizes its plans to reorganize, TIGTA cannot determine whether the recommendations presented in the *TFA Report to Congress* would streamline its structure, including minimizing the duplication of services and responsibilities within the IRS in accordance with TFA § 1302(a)3.

Requests for organizational change were not completed and approved prior to the IRS making organizational changes (*e.g.*, functioning as the Taxpayer First Act Office, assigning IRS NEXT executives, and creating and filling the Taxpayer Experience Officer position). Because the process to request an organizational change identifies alternatives to select the most beneficial change, making organizational changes prior to obtaining approved requests could result in an inefficient use of resources.

## What TIGTA Recommended

TIGTA recommended that prior to implementing additional changes to the organizational structure, the IRS ensures that requests for organizational change are properly prepared, submitted, and approved. IRS management agreed with the recommendation and plans to ensure that requests for organizational change are completed in accordance with the Internal Revenue Manual.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

## U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 17, 2022

### MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in blue ink that reads "Michael E. McKenney".

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Redesign Efforts for Most Taxpayer First Act Section 1302 Requirements Were Planned or Completed; However, Implementation Schedules and Reorganization Plans Need to Be Finalized (Audit # 202210522)

This report presents the results of our review to determine what progress the Internal Revenue Service has made toward addressing legislated provisions of the Taxpayer First Act with its organizational redesign strategy.<sup>1</sup> This review is part of our Fiscal Year 2022 Annual Audit Plan and addresses the major management and performance challenge of *Administration of Tax Law Changes and Pandemic Relief Benefits*.

Management's complete response to the draft report is included as Appendix III.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Bryce Kisler, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations).

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<sup>1</sup> Pub. L. No. 116-25, 133 Stat. 981 (codified in scattered sections of 26 U.S.C.).

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## **Background**

On July 1, 2019, Congress enacted the Taxpayer First Act (TFA) to improve taxpayer service, while ensuring that the Internal Revenue Service (IRS) continues to enforce tax laws in a fair and impartial manner.<sup>1</sup> TFA § 1302, *Modernization of the Internal Revenue Service Organizational Structure*, is a primary part of the Act and a foundation for all other TFA provisions.<sup>2</sup> TFA § 1302 is written as follows:

- a. *Submit to Congress a comprehensive written plan to redesign the organization of the IRS. The plan shall:*
  1. *Ensure the successful implementation of the priorities specified by Congress in the Act.*
  2. *Prioritize taxpayer services to ensure that all taxpayers easily and readily receive the assistance that they need.*
  3. *Streamline the structure of the agency including minimizing the duplication of services and responsibilities within the agency.*
  4. *Best position the IRS to combat cybersecurity and other threats to the IRS.*
  5. *Address whether the Criminal Investigation Division of the IRS should report directly to the Commissioner of Internal Revenue.*
- b. *Repeal of Restriction on Organizational Structure of Internal Revenue Service.—Paragraph (3) of § 1001(a) of the Internal Revenue Service Restructuring and Reform Act of 1998 [(RRA 98)<sup>3</sup>] shall cease to apply beginning one year after the date on which the plan described in subsection (a) is submitted to Congress.<sup>4</sup>*

## **Results of Review**

### **Taxpayer First Act Section 1302: Actions Completed, Actions Planned, and Plans Incomplete**

On September 5, 2019, the IRS Taxpayer First Act Office (TFAO) began functioning and took primary responsibility for implementing all TFA provisions.<sup>5</sup> Its mission was to instill pride and confidence in the Nation's tax system while developing a strategy to improve the taxpayer

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<sup>1</sup> Pub. L. No. 116-25, 133 Stat. 981 (codified in scattered sections of 26 U.S.C.).

<sup>2</sup> Pub. L. No. 116-25, § 1302 (July 2019).

<sup>3</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2, 5, 16, 19, 22, 23, 26, 31, 38, and 49 U.S.C.).

<sup>4</sup> Pub. L. No. 116-25, §§ 1302(a)(1-5) and 1302(b) (July 2019).

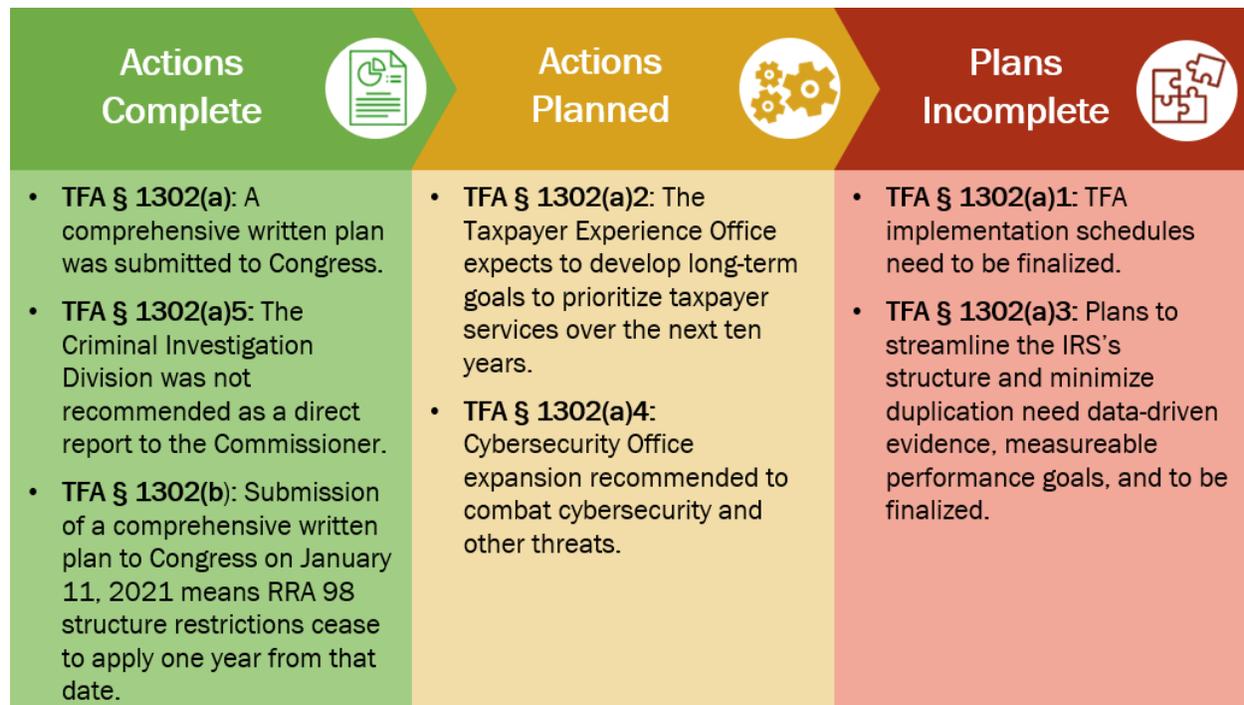
<sup>5</sup> The IRS Commissioner assigned a team of executives who lead the TFAO.

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experience and organizational structure (see Appendix II for a summarized timeline of TFA-related events).

On June 7, 2021, the IRS announced that it was transitioning the TFAO into IRS NEXT. IRS NEXT intends to build on the work done by the TFAO and address newly emerging priorities such as a corporate approach to organizational redesign, business operations, and human capital initiatives (recruiting, hiring, training, and onboarding). Figure 1 shows that the IRS has completed actions for three subsections, planned actions for two subsections, and still needs to finalize Subsections (a)1 and (a)3.

**Figure 1: TFA § 1302 – Status of the IRS’s Work on Subsections**



*Source: Treasury Inspector General for Tax Administration (TIGTA) analysis and overview of the IRS TFA Report to Congress.*

**Actions completed: The comprehensive written plan submitted to Congress addressed TFA §§ 1302(a) and (b)**

On January 11, 2021, in accordance with TFA § 1302(a), the IRS submitted a written plan to Congress for redesigning its organizational structure (hereafter referred to as the *TFA Report to Congress*). The *TFA Report to Congress* presented the IRS’s high-level recommendations for redesigning the organization of the agency. The IRS reported that these high-level recommendations set the tone for its theoretical structure, but they require further and more detailed analyses to finalize. The IRS stated that it would complete these analyses and additional work during the creation of its *Organizational Blueprint Report*, which would present a finalized version of its restructuring plans.<sup>6</sup>

TFA § 1302(b) required that one year after the IRS’s submission of the plan described in subsection (a), the RRA 98 restriction on the organizational structure of the IRS would cease to

<sup>6</sup> The IRS estimates its *Organizational Blueprint Report* will be delivered in Fiscal Year 2022.

apply. Therefore, the submission of the *TFA Report to Congress* on January 11, 2021, addressed TFA § 1302(b). This means the RRA 98 restriction on the organizational structure expired on January 11, 2022.

**Action completed: Pursuant to TFA § 1302(a)5, the IRS recommended that the Criminal Investigation Division should not report directly to the IRS Commissioner**

TFA § 1302(a)5 required that the IRS address whether the Criminal Investigation Division (CI) should report directly to the IRS Commissioner. The IRS concluded that the Chief, CI, should not report directly to the IRS Commissioner based on the following risks and challenges:

1. The IRS Commissioner's role is a presidentially appointed position and, if the Chief, CI, were a direct report, it could create the perception that CI is susceptible to political influence.
2. The IRS Commissioner frequently engages with Congress and other external stakeholders to speak on behalf of the agency. If CI were a direct report, and the IRS Commissioner faced direct questions concerning sensitive or protected taxpayer information, it could place the IRS Commissioner in a difficult position. Therefore, the IRS determined that the proposed future structure of CI reporting to the Assistant Commissioner of Compliance would provide an added layer of security, protect sensitive information, and reduce potential legal issues for the IRS Commissioner.
3. In addition to the IRS Commissioner's regular obligations, the recommended structural changes would increase the direct reports for the IRS Commissioner to 10, and the IRS Commissioner would be limited in providing the appropriate amount of focus to this critical function. Therefore, the IRS recommended that CI report directly to the Assistant Commissioner of Compliance to give CI more leadership attention and accommodation of their needs.
4. Allowing CI to hold the same reporting level as other business units allows for stronger collaboration and faster transfers of information.

**Action planned: The Taxpayer Experience Office is intended to prioritize taxpayer services as required by TFA § 1302(a)2**

To address TFA § 1302(a)2 and prioritize taxpayer services, the IRS developed and recommended the Taxpayer Experience Strategy in the *TFA Report to Congress*.<sup>7</sup> On January 27, 2021, the IRS created the Taxpayer Experience Officer position to lead the Taxpayer Experience Office and oversee the implementation of the Taxpayer Experience Strategy.<sup>8</sup>

The IRS developed and recommended the following six items for the Taxpayer Experience Office to improve taxpayer service:

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<sup>7</sup> In Fiscal Year 2020, the IRS provided assistance to 64.3 million taxpayers through correspondence, its enterprise-wide telephone helpline, and at Taxpayer Assistance Centers. A fiscal year is any yearly accounting period regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

<sup>8</sup> A candidate was selected for the Chief Taxpayer Experience Officer position on January 27, 2021.

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- (1) Expanded digital services to improve the online experience for all taxpayers and authorized tax professionals.
- (2) Seamless taxpayer experience to provide taxpayers with their preferred channel of service (website, telephone, in person, *etc.*).
- (3) Proactive outreach and education to improve providing information to taxpayers by using new technology, applying behavioral insights, expanding social media, and using partnerships.
- (4) Community partnerships to build on existing and new relationships to create an integrated delivery network.
- (5) Focused strategies to engage with underserved communities.
- (6) Enterprise data management and advanced analytics to develop a secure data management strategy that includes an agency-wide understanding of all data to identify improvements that reduce costs and improve the taxpayer experience.

These six items represent the goals for prioritizing taxpayer services that the IRS would like the Taxpayer Experience Office to achieve incrementally over the next 10 years. TIGTA will be assessing the IRS's implementation of the Taxpayer Experience Office in a separate review.

### **Action planned: Expansion of Cybersecurity Office Activity is intended to combat cybersecurity and other threats as required by TFA §1302(a)4**

To address TFA § 1302(a)4 and combat cybersecurity and other threats, the IRS determined that its current cybersecurity staff is not able to focus on incoming intelligence, data sharing, or emerging trends and threats in the cybersecurity area. Therefore, the IRS recommended expanding its Cybersecurity Office activities to engage all business units, reduce the number of offices, and increase collaboration.

This proposed collaboration intends to enable the Cybersecurity Office to reduce partial identification and treatment of cybersecurity incidents, streamline data sharing and treatment, and improve agency-wide oversight. The IRS also reported to Congress that this new framework's reduction in offices should decrease duplicative work because multiple IRS offices currently address the same type of cybersecurity issues without collaboration.<sup>9</sup>

### **Plan incomplete: TFA implementation schedules pursuant to TFA §1302(a)1 were delayed and need to be finalized**

According to the *TFA Report to Congress*, the IRS set Fiscal Year 2021 (September 30, 2021) as the goal to implement the following priorities:

- Begin the establishment of the Enterprise Change and Innovation Division. The Enterprise Change and Innovation Division will serve as the strategic planning and integration leader across the IRS.
- Begin the establishment of the Operations Management Division. The Operations Management Division will contain the organizational units that are responsible for coordinating and supporting all mission support functions. Both the Chief Risk and the

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<sup>9</sup> Publication 5426, *Taxpayer First Act Report to Congress* p. 118 (January 2021).

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Chief Diversity officers will sit within this division and have a direct line of communication to the IRS Commissioner.

- Move the Chief Information Officer as a direct report of the IRS Commissioner.

However, the IRS did not meet its Fiscal Year 2021 goal for these priorities. In addition, from March 2, 2021, to July 1, 2021, the TFAO ceased operations and progress on implementation of the organizational redesign strategy. On July 2, 2021, IRS NEXT replaced the TFAO and began revising and reprioritizing plans to reorganize. IRS NEXT also adjusted TFA implementation schedules to accommodate and prepare for pending legislation that could fund hiring and expansion of IRS enforcement operations.<sup>10</sup> Because the IRS is in the process of revising and rescheduling its restructuring priorities, TIGTA was unable to determine if the recommendations proposed in the *TFA Report to Congress* would address TFA § 1302(a)1.

TIGTA recently reported that the IRS plans to move the Chief Information Officer as a direct report to the IRS Commissioner at some point in Fiscal Year 2022.<sup>11</sup> The IRS also stated that its future *Organizational Blueprint Report* (expected sometime in Fiscal Year 2022), would feature an in-depth analysis on defined performance metrics to gauge implementation progress and a complementary evaluation plan to monitor the framework of the restructuring.<sup>12</sup>

However, there are risks associated with delaying implementation of the TFA priorities, including:

- Increased costs. Costs could exceed original expenditure estimates if plans are revised.
- Lower employee engagement. Shifting priorities without obtaining the same buy-in from all stakeholders as the first TFAO change initiative in Fiscal Year 2020 could affect employee morale and commitment to the changes.<sup>13</sup>
- Implementation challenges. Subsequent implementation phases could face challenges because the new coordinating functions are not available to facilitate collaboration.

### **Plan incomplete: Plans to streamline the IRS's structure and minimize duplication with data-driven evidence need to be finalized, and measurable performance goals need to be developed in order to address TFA § 1302(a)3**

According to the *Foundations for Evidence-Based Policymaking Act of 2018*, policy changes must have an evaluation and supporting evidence based on systematic analysis, and governed by principles of scientific integrity.<sup>14</sup> In addition, Office of Management and Budget

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<sup>10</sup> The Congressional Budget Office reported in September 2021 that the President's budget proposal would increase funding for the IRS by \$80 billion over Fiscal Years 2022-2031, with the highest growth in the first few years. This would fund hiring (mostly enforcement) and the IRS intends to hire mid- and senior-level people with private-sector experience who do not require much training.

<sup>11</sup> TIGTA, Report No. 2021-25-058, *Efforts to Implement Taxpayer First Act Section 2101 Have Been Mostly Successful* (Sept. 2021).

<sup>12</sup> Publication 5426, *Taxpayer First Act Report to Congress* p. 120 (January 2021).

<sup>13</sup> In developing and managing TFA-related change to the Agency, the TFAO conducted numerous site visits, surveys, e-mail communications, meetings, *etc.*, to promote inclusion and obtain feedback from stakeholders.

<sup>14</sup> Pub. L. No. 115-435, § 311(3) (January 2019).

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Circular A-11 § 51.9 requires that Federal agencies strengthen the use of evidence and data to drive better decision-making and more effectively deliver on their mission.<sup>15</sup>

The Government Accountability Office (GAO) recommends that organizations answer fundamental questions during Government streamlining efforts or when management functions are consolidated (such as the consolidation of the IRS's separate enforcement functions, like the Examination and Collection functions, into the new Compliance Division). The GAO also recommends that consolidation initiatives include key factors regarding cost-related studies and analysis.<sup>16</sup>

Proposed reorganizations should have specific, identifiable, and outcome-oriented goals and performance measures to help decision makers determine what problems need to be addressed, how to balance differing objectives, and what steps need to be taken to create not just short-term advantages but long-term gains.<sup>17</sup> Part of determining if agencies have successfully identified the goals of their proposed reforms is to determine whether the agency has built a business case analysis that presents facts and supporting details among competing alternatives.<sup>18</sup>

The IRS considered prior reports and recommendations made by the GAO, Taxpayer Advocate Service, and TIGTA, as well as held listening sessions with stakeholders and employees, to help inform decisions for the theoretical structure it proposed. The IRS determined that its present structure is separated, lacks enterprise-wide strategies, and does not address how issues should be elevated from the business units to top-level governing boards.

Therefore, the IRS recommended flattening its leadership structure to remove separations so that the IRS Commissioner and the senior leadership team could work more collaboratively. The *TFA Report to Congress* did not include the details of the theoretical structure (*e.g.*, the inner layers of the Compliance Division). Figure 2 compares the IRS's present and proposed theoretical future organizations to help illustrate the changes in the number of direct reports to the IRS Commissioner and how the senior leadership team intends to collaborate in the future structure.

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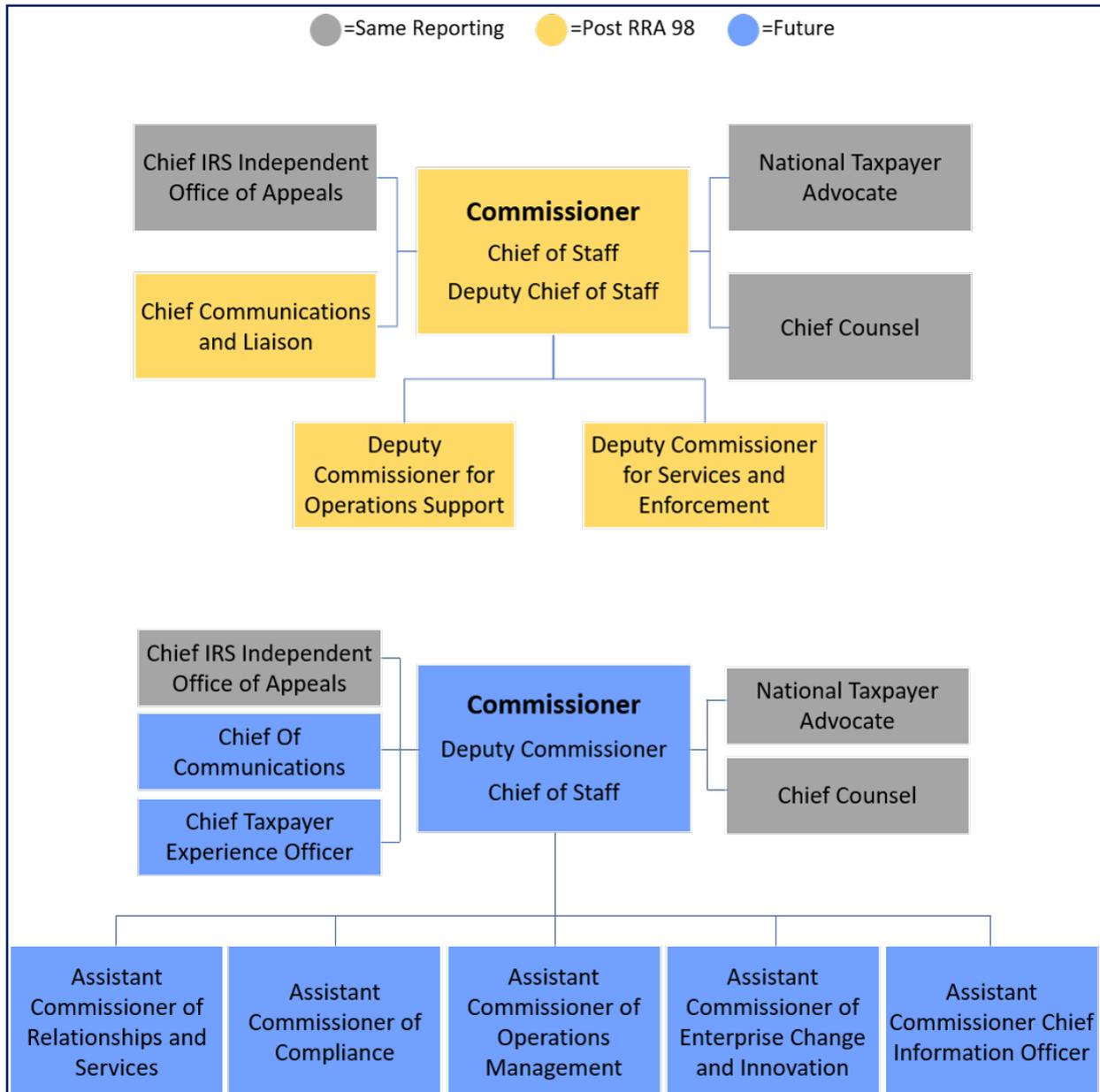
<sup>15</sup> Office of Management and Budget Circular A-11, *Preparation, Submission, and Execution of the Budget* (August 2021).

<sup>16</sup> GAO, GAO-12-542, *Streamlining Government: Questions to Consider When Evaluating Proposals to Consolidate Physical Infrastructure and Management Functions* (May 2012). Fundamental questions include what are the likely costs and benefits of the consolidation, is there sufficient reliable data, can the up-front costs be funded, *etc.*

<sup>17</sup> GAO, GAO-21-18, *IRS Reorganization: Planning Addressed Key Reform Practices, but Goals and Measures for the Plan Have Not Been Finalized* (Oct. 2020).

<sup>18</sup> GAO, GAO-12-542, *Streamlining Government: Questions to Consider When Evaluating Proposals to Consolidate Physical Infrastructure and Management Functions* (May 2012).

Figure 2: Comparison of the IRS’s Present and Proposed Future Structures



Source: TIGTA analysis of the TFA Report to Congress.

However, TIGTA determined that the IRS did not conduct data-driven, quantitative efficiency, or effectiveness studies that concluded the reorganization changes recommended were the best alternatives. Instead, management relied on their reviews of feedback, stakeholder reports, best practices, *etc.*, some of which included their own cost efficiency information.

In addition, the *TFA Report to Congress* does not contain specific and measurable performance goals or expected outcomes to help measure the effectiveness of the organizational redesign progress. The IRS created theoretical measures for its organizational redesign strategy without measurable goals. In contrast, the IRS identified specific measurable goals and outcomes for other TFA strategies (*e.g.*, taxpayer experience and training). For example, the Taxpayer

Experience Strategy has a specific goal to gain 2 percent in the percentage of taxpayers who are satisfied with their personal interactions with the IRS by Fiscal Year 2022.<sup>19</sup>

Until the IRS finalizes its preliminary plans to reorganize, TIGTA cannot determine whether the recommendations presented in the *TFA Report to Congress* would streamline its structure, including minimizing the duplication of services and responsibilities within the IRS in accordance with TFA § 1302(a)3.

Implementation of structural changes with insufficient detailed supporting analysis could lead to an inefficient use of resources. Potential effects may include higher costs from unnecessary changes; inefficiencies related to the selection of a lesser alternative; and organizational misalignment with the IRS's strategic plan, goals, and measures.

After meeting with IRS management regarding the issues identified, management stated that they plan to work with the Research, Applied Analytics and Statistics Division to integrate statistical analysis as part of the overall design strategy. The IRS plans to use data to support efficiency, or effectiveness evaluations to help inform its ongoing work to revise, reschedule, and finalize its recommendations to restructure and demonstrate that it selected the best alternatives. This additional analytical work could also help the IRS identify specific measurable performance goals (*e.g.*, cost savings, efficiency goals, timelines for implementation).

### **Requests for Organizational Change Were Not Completed and Approved Prior to Making Changes to the Organizational Structure**

According to the Internal Revenue Manual, an organizational change is any change to the IRS's structure, management structures, organizational mission or function, or business process (regardless of change in the workforce).<sup>20</sup> The Internal Revenue Manual requires the submission and approval of requests for organizational change (ROC) prior to making any organizational changes.<sup>21</sup> ROCs are required regardless of scope, as all organizational changes use ROCs to identify the need for change, gather and analyze data, consider alternatives, and prepare business cases to inform approving officials.<sup>22</sup>

The objective of an organizational change should be to enhance productivity and effectiveness in accomplishing the current and long-range goals of the IRS. Once a decision is made to change a business unit's current structure, it should be communicated and implemented in a

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<sup>19</sup> Publication 5426, *Taxpayer First Act Report to Congress*, pp. 127 and 39 (January 2021).

<sup>20</sup> The change to the organization may involve realignment (moving an employee from one organization to another), reorganization, or restructuring and may result in abolishment of current positions; creating new positions that did not previously exist in the IRS (*e.g.*, Taxpayer Experience Officer, TFAO or IRS NEXT Directors); changes to position titles, series and grades; or excess employees.

<sup>21</sup> Some ROCs require the approval of the IRS Commissioner, Deputy Commissioner(s), or may require Department of the Treasury level approval. ROC packages include the memorandum/business case request, current and proposed organizational charts for all affected organizations; Form 14036, *Notice to NTEU* (NTEU = National Treasury Employees Union), and any related notifications; certifications from the Chief Financial Officer and the Office of Equity, Diversity and Inclusion; current communications plan; Form 13839, *Note to Reviewer*, and Form 14074, *Action Routing Sheet*.

<sup>22</sup> Internal Revenue Manual 1.1.4.5, *Organizational Planning* (May 26, 2021).

## **Redesign Efforts for Most Taxpayer First Act Section 1302 Requirements Were Planned or Completed; However, Implementation Schedules and Reorganization Plans Need to Be Finalized**

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manner that supports the IRS's strategic vision, minimizes disruption to business operations, promotes efficiencies in the IRS, and ensures continuity of essential employee services.<sup>23</sup>

The IRS's ROC process is required before making organizational changes because it helps identify alternatives, select the most beneficial change(s), and document and support rationales for the selected change(s).<sup>24</sup> ROCs are required to contain a business case, or justification, to substantiate the need for the proposed changes and identify potential effects. For example, ROC business cases are required to include a description of the initiative, justification of proposed changes, cost and benefit analysis (if applicable), *etc.* If the IRS determines that a cost and benefit analysis is not applicable to a ROC, the Internal Revenue Manual requires that the IRS explain in the ROC why it was not applicable.

IRS management stated that they submitted a ROC after making organizational changes because they considered the associated offices (TFAO, IRS NEXT, and Taxpayer Experience) to be projects and did not intend on permanently staffing them until after ROC approval. However, actions taken by the IRS to change the organization prior to the ROC approval included, but were not limited to, the following:

- On September 5, 2019, the IRS's TFAO began functioning. The IRS published a separate TFAO mission, vision, and function. The TFAO was placed organizationally within the IRS Commissioner's Chief of Staff and had four employees whose salaries were paid under a newly established TFAO organization code.<sup>25</sup> The IRS also added two new TFAO employees after submitting the ROC, but before its approval.<sup>26</sup>
  - On February 5, 2021, the IRS issued a news release naming the second TFAO Director. When the IRS transitioned the TFAO to IRS NEXT on June 7, 2021, the TFAO Director became the Director of IRS NEXT.
- On January 27, 2021, the IRS created the new Taxpayer Experience Officer position to lead the Taxpayer Experience Office and named the Chief Taxpayer Experience Officer. The Chief Taxpayer Experience Officer reports directly to the IRS Commissioner.
- On July 2, 2021, the IRS assigned the IRS NEXT's executive team and presented the IRS NEXT's organizational chart.<sup>27</sup>

While making these and other organizational changes related to the TFA, the IRS began working on an ROC, and submitted it for consideration on August 25, 2021. The Secretary of the Treasury approved the IRS's ROC on November 4, 2021.

TIGTA determined that the approved ROC makes no mention of costs or benefits, nor does it provide an explanation as to why the IRS decided this information was not applicable. In addition, in the ROC, the IRS requested the creation of the Taxpayer Experience Officer position and the Director of IRS NEXT, both of which were already filled and functioning.<sup>28</sup> Making

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<sup>23</sup> Internal Revenue Manual 1.1.4.2, *Organizational Planning* (May 26, 2021).

<sup>24</sup> All ROCs must address specific factors and criteria or explain why they are not applicable.

<sup>25</sup> Per the Treasury Integrated Management Information System, for pay period number 17, which includes August 25, 2021.

<sup>26</sup> As of December 2021, the IRS payroll system shows IRS NEXT employees as still working in the TFAO.

<sup>27</sup> Internal Revenue Manual 1.1.4.2, 1.1.4.3, and 1.1.4.5, *Organizational Planning* (May 26, 2021).

<sup>28</sup> The Taxpayer Experience Officer and current Director, TFAO/IRS NEXT, have been serving in these positions since January 27, 2021, and February 5, 2021, respectively.

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changes to the IRS's organizational structure prior to obtaining approved ROCs could result in an inefficient use of resources.

During the IRS's last major reorganization (RRA 98), organizational changes were also made without completing the ROC process (*i.e.*, no formal business cases for the major reorganizations, no evidence of written Board approval, and only two of the organizational changes had any design documentation at all).<sup>29</sup>

Therefore, for any additional organizational changes, the IRS should submit and obtain approval for the ROCs prior to changing its structure. Such actions help to mitigate the risks associated with unplanned funding and budget issues; staffing changes (voluntary or involuntary); workforce relations issues/labor management obligations; workforce planning; succession planning; employee development; and noncompliance with applicable regulatory, policy, and procedure requirements.<sup>30</sup>

**Recommendation 1:** The Director, IRS NEXT, should ensure that requests for organizational change are properly prepared, submitted, and approved prior to implementing any additional changes to the IRS's organizational structure.

**Management's Response:** The IRS agreed with this recommendation and will ensure that requests for organizational change are completed in accordance with the Internal Revenue Manual.

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<sup>29</sup> TIGTA, Report No. 2016-IE-R005, *Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge* (Mar. 2016).

<sup>30</sup> Internal Revenue Manual 1.1.4.1 and 1.1.4.5, *Organizational Planning* (May 26, 2021).

## **Appendix I**

### **Detailed Objective, Scope, and Methodology**

The overall objective of this audit was to determine what progress the IRS has made toward addressing legislated provisions of the TFA with its organizational redesign strategy. To accomplish our objective, we:

- Analyzed the TFA legislation and the *TFA Report to Congress* and identified organizational redesign strategy changes and implementation milestones for the TFA provisions listed in the legislation.
- Interviewed appropriate IRS personnel (TFAO, IRS NEXT, Organizational Redesign Strategy Team, *etc.*) to identify plans and implementation schedules for TFA provisions related to the organizational redesign strategy.
- Evaluated the organizational redesign strategy changes and determined whether they addressed applicable legislated TFA provisions. Provisions that were not addressed were discussed with the IRS.
- Evaluated controls and assessed whether the IRS followed applicable guidance (*e.g.*, Office of Management and Budget, Internal Revenue Manual) for structural changes made within Federal agencies.
- Requested copies of the ROC related to the TFA organizational redesign strategy (*i.e.*, for the standup of the Taxpayer Experience Office) from IRS management and determined whether the ROC package and ROC business case were in accordance with Internal Revenue Manual requirements.
- Requested data and documentation (other than ROC packages) and evaluated the costs/spending, revenues, and projected goals of the organizational redesign strategy to determine whether the IRS's plans were sufficient to achieve those goals.
- Analyzed and evaluated the IRS's Integrated Master Schedule (contract milestones and other tools used to track tasks related to the organizational redesign strategy implementation) to determine detailed progress and scheduling related to the organizational redesign strategy.
- Requested documentation and data supporting goals and performance measures for changes related to the organizational redesign strategy.
- Analyzed performance measures related to the organizational redesign strategy and determined whether they addressed long-standing management challenges, created efficiencies, identified best alternative(s), *etc.*

### **Performance of This Review**

This review was performed with information obtained from the IRS NEXT Office at IRS Headquarters in Washington, D.C., and Atlanta, Georgia, during the period June through December 2021. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to

obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Heather M. Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations); Bryce A. Kisler, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations); Carl L. Aley, Director; Brian G. Foltz, Audit Manager; Catherine R. Sykes, Lead Auditor; and John Jarvis, Senior Auditor.

### **Validity and Reliability of Data From Computer-Based Systems**

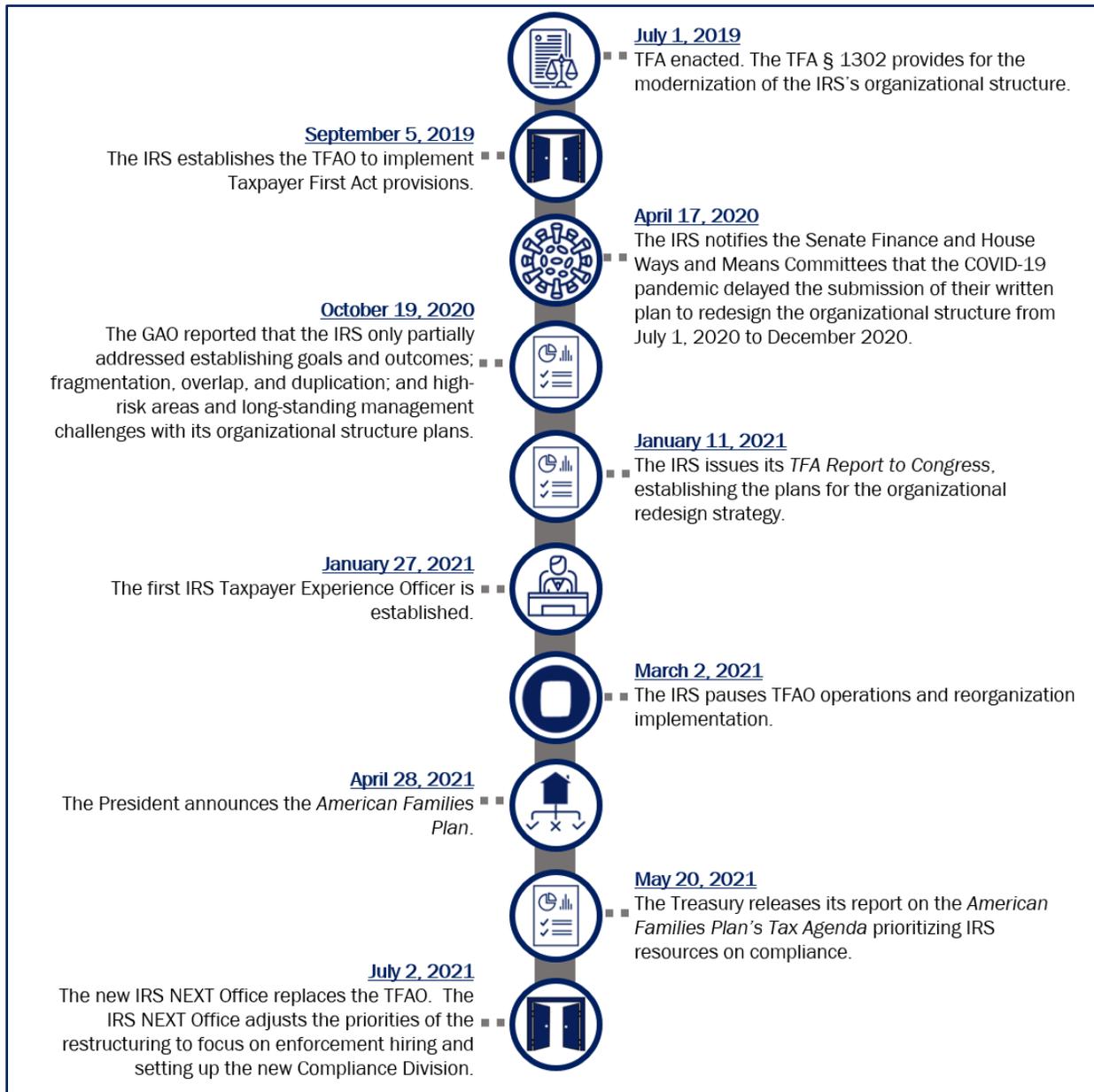
We performed tests to assess the reliability of data from the Treasury Integrated Management Information System. We evaluated the data by (1) validating that the date fields contained dates, name fields contained names, *etc.*, (2) reviewing existing information about the data and the system that produced them, and (3) reconciling the results to the IRS's organizational charts. We determined that the data were sufficiently reliable for purposes of this report.

### **Internal Controls Methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's policies, procedures, and practices related to implementation of TFA § 1302 and IRS organizational changes. We evaluated these controls by interviewing management and reviewing applicable guidance from the Office of Management and Budget and the Internal Revenue Manual.

## Appendix II

### Summarized Timeline of Taxpayer First Act Related Events



Source: TIGTA analysis of the TFA Report to Congress, IRS Announcements, and Treasury News.

## Appendix III

### Management's Response to the Draft Report



TAXPAYER FIRST ACT OFFICE

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

March 7, 2022

MEMORANDUM FOR MICHAEL E MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Heather C Maloy Heather C. Maloy  
Director, IRS NEXT Maloy

Digitally signed by  
Heather C. Maloy  
Date: 2022.03.07 14:19:26  
-05'00'

SUBJECT: Draft Audit Report – Redesign Efforts for Most Taxpayer First Act Section 1302 Requirements Were Planned or Completed; However, Implementation Schedules and Reorganization Plans Need to Be Finalized (Audit # 202210522)

Thank you for the opportunity to review and provide comments on the subject draft report. We appreciate your acknowledgement of the accomplishments we have made, and continue to make, in complying with Taxpayer First Act Section 1302(a)(1), Modernization of the Internal Revenue Service Organization Structure. We submitted to Congress a comprehensive written plan under Sections 1302(a) and (b) on January 11, 2021, which means that RRA 98 structure restrictions ended on January 11, 2022.

To complete the reorganization plans set forth under the Taxpayer First Act, IRS NEXT will continue progress on expanding the Cybersecurity Office to address high risk challenges and support tax administration. In addition, we will finalize and communicate the organizational structure to address fragmentation and duplication, finalize and communicate outcome goals and performance measures that are specifically identifiable to the risks in the administration of tax law, and identify additional reforms and comprehensive strategies that will create long-term gains in efficiency and effectiveness. Lastly, in recognizing that operational realities and emerging priorities can create a need for exigency in standing up new components of our organizational structure, we will review the Internal Revenue Manual and recommend how to address standing up an organization and selecting an executive team prior to the final submission, and approval of the formal Request for Organizational Change (ROC).

In November 2021, the Secretary of the Treasury approved the ROC's for the Taxpayer Experience Office and IRS NEXT. Executives for each organization were appointed before the completion of the ROC to direct and oversee the standup of the vital new organizations based on the Taxpayer First Act enacted by Congress on July 1, 2019.

As noted in your report, IRS completed TFA § 1302(a)5 by recommending that the Criminal Investigation Division not report directly to the Commissioner due to identified risks and challenges. In addition, under Section § 1302(a)2 we established the Taxpayer Experience

**Redesign Efforts for Most Taxpayer First Act Section 1302 Requirements Were Planned or Completed; However, Implementation Schedules and Reorganization Plans Need to Be Finalized**

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Office to develop long-term goals to prioritize taxpayer services to ensure that all taxpayers easily and readily receive the assistance that they need, while IRS continues to enforce tax laws in a fair and impartial manner.

Relative to organizational change, IRS plans to address newly emerging priorities such as a corporate approach to organizational redesign, business operations, and human capital initiatives. We will work with the Research, Applied and Statistics Division to integrate statistical analysis as part of the overall design strategy to streamline the IRS's structure to minimize duplication, and combat cybersecurity and other threats.

Our response to your specific recommendation is enclosed. If you have any questions, please contact me, or a member of your staff may contact Julia W. Caldwell, Project Director, IRS NEXT at 202-317-6289.

Attachment

**Redesign Efforts for Most Taxpayer First Act Section 1302 Requirements Were Planned or Completed; However, Implementation Schedules and Reorganization Plans Need to Be Finalized**

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Attachment

**RECOMMENDATION 1**

The Director, IRS NEXT, should ensure that requests for organizational change are properly prepared, submitted, and approved prior to implementing any additional changes to the IRS's organizational structure.

**CORRECTIVE ACTION**

IRS NEXT will ensure that requests for organizational change (ROC) are completed in accordance with the Internal Revenue Manual.

**IMPLEMENTATION DATE**

June 15, 2023

**RESPONSIBLE OFFICIAL**

Director, IRS NEXT

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control system

## Appendix IV

### Abbreviations

CI	Criminal Investigation Division
GAO	Government Accountability Office
IRS	Internal Revenue Service
ROC	Request for Organizational Change
RRA 98	Internal Revenue Service Restructuring and Reform Act of 1998
TFA	Taxpayer First Act
TFAO	Taxpayer First Act Office
TIGTA	Treasury Inspector General for Tax Administration



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Treasury Inspector General for Tax Administration

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Washington, D.C. 20044-0589

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