441 G St. N.W.
Washington, DC 20548

June 4, 2021

The Honorable Charles P. Rettig
Commissioner
Internal Revenue Service

Priority Open Recommendations: Internal Revenue Service

Dear Mr. Rettig:

The purpose of this letter is to provide an update on the overall status of the Internal Revenue Service's (IRS) implementation of GAO's recommendations and to call your personal attention to areas where open recommendations should be given high priority.[1]

In November 2020, we reported that on a government-wide basis, 77 percent of our recommendations made 4 years ago were implemented.[2] IRS's recommendation implementation rate was 88 percent. As of May 2021, IRS had 243 open recommendations. As operations return to normal from the Coronavirus Disease 2019 (COVID-19) pandemic, fully implementing these open recommendations could significantly improve IRS's operations.

Since our April 2020 letter, IRS has implemented nine of our 24 open priority recommendations. Specifically, IRS has:

- Incorporated information on revenue yields and costs into its enforcement resources allocation model to help make more informed decisions about allocating resources across enforcement efforts.
- Defined appropriate levels of telephone and correspondence service and wait times and outlined specific steps to manage service, and developed a customer service strategy that outlines proposals to improve service to taxpayers across all service channels.
- Implemented two recommendations to improve its information security program. IRS incorporated new instructions to its process for testing security controls and documenting results. In addition, IRS consistently implemented an established policy to ensure actions are implemented before closing them.
- Analyzed tax return data to determine if IRS should design and implement policies and procedures to require examiners to routinely identify individuals inappropriately receiving the premium tax credit (PTC) because of their eligibility for or enrollment in employer sponsored health insurance and notify them of their ineligibility for PTC. Based on the

[1]Priority open recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operations, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or fragmentation, overlap, or duplication issue.

[2]GAO, *Performance and Accountability Report: Fiscal Year 2020*, GAO-21-4SP (Washington, D.C.: Nov. 16, 2020).

cost-benefit analysis, which showed that IRS's current control system optimally balances the allocation of resources in relation to greatest risk, complexity, or other factors relevant to preventing improper payments of PTC, IRS decided not to implement additional policies and procedures.

- Prioritized foundational taxpayer authentication capabilities—which range in scope from efforts such as developing internally consistent policies and standards for identity-proofing to working with external partners to address fraud—based on multiple criteria, including expected benefits to taxpayers, potential for operational efficiencies, and known risks. These efforts will better position IRS to implement taxpayer authentication systems consistent with federal requirements.

- Developed a work plan that prioritized and scheduled skills assessments for mission critical occupations at the highest risk of skill gaps. This will help IRS determine ways to address those gaps.

- Established the framework to implement a formal comprehensive strategy concerning its nationwide coordination, consistency, and accountability for internal control over key areas of physical security.

- Developed a timeline with milestone dates and identified financial and human capital resources needed for implementing changes to its online authentication programs consistent with new National Institute of Standards and Technology (NIST) guidance.

IRS has 15 priority recommendations remaining from those we identified in our 2020 letter. We ask your continued attention to these remaining recommendations. In this letter we are elevating 10 new recommendations to our priority list. These recommendations are related to improving taxpayer services, enhancing strategic human capital management, and enhancing information reporting. This brings the total number of priority recommendations to 25 (see enclosure for the list of these recommendations).

The 25 priority recommendations fall into the following seven areas.

1. Improve payment integrity. The one recommendation in this area would improve payment integrity at IRS. In July 2017, we recommended that IRS assess the PTC program to determine whether it is susceptible to significant improper payments.[3] IRS partially agreed with this recommendation. In December 2019, IRS noted that while improper payment estimates were developed, they cannot be published because IRS needs additional years of data before it can develop a statistically valid estimate to assess the program's susceptibility to improper payments.[4] As of March 2021, IRS anticipates reporting an improper payment estimate and rate for the net PTC tax credit to the Department of the Treasury for the fiscal year 2021 financial

[3]This program should be assessed in accordance with federal statute and Office of Management and Budget (OMB) guidance. *See* Payment Integrity Information Act of 2019, Pub. L. No. 116-117, 134 Stat. 113 (Mar. 2, 2020) *codified at* 31 U.S.C. § 3321 note.

[4]OMB guidance directs IRS to develop a statistically valid estimate of improper payments. See OMB, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, M-18-20 (Washington, D.C.: June 26, 2018). IRS did not provide a timeframe for when it expects to have sufficient data to be able to do so. We did not evaluate the reasonableness of IRS's methodology or approach for determining the timeframe necessary for producing valid improper payment estimates.

report. Until IRS completes this assessment, Congress and other external stakeholders will continue to lack key payment integrity information for monitoring improper payments.

2. Reduce tax fraud. Five recommendations in this area would help IRS better defend itself and taxpayers against tax refund fraud and other noncompliance. In June 2018, we made one recommendation, which IRS agreed with, to improve its ability to authenticate taxpayers' identities. While IRS has prioritized its foundational taxpayer authentication capabilities, it needs to build on these efforts and fully implement NIST-compliant taxpayer authentication systems.[5] IRS's timely attention to this action will better position the agency to respond to known and unknown threats to the tax system.

In July 2018, we made two recommendations that could improve IRS's tax administration and enforcement activities by leveraging its key fraud detection program, the Return Review Program (RRP). We recommended that IRS implement a method to digitize information provided by taxpayers who file returns on paper. This could improve RRP's detection and selection of suspicious returns, reduce processing time, and provide support for other enforcement activities.

We also recommended that IRS analyze the costs and benefits of expanding RRP to support other enforcement activities, such as audit selection and underreporting. IRS agreed with these recommendations and is taking steps to implement them. Fully addressing these recommendations would help reduce processing time and support enforcement activities, among other things.

In January 2020, we made two recommendations to help IRS better prevent business identity theft refund fraud (business IDT). We recommended that IRS designate a dedicated entity to manage its business IDT efforts and develop a fraud risk profile for business IDT. Doing so will help IRS identify the inherent fraud risks of business IDT, assess the likelihood and impact of inherent fraud risks, determine fraud risk tolerance, and examine the suitability of existing fraud controls. IRS agreed with these recommendations. As of February 2021, IRS has taken initial steps to identify a dedicated entity to manage its business IDT efforts and assess some risks. However, it needs to take additional actions to provide oversight of business IDT efforts, and identify and address remaining risks. Continued efforts to fully address these recommendations will help IRS better combat the evolving threat of business IDT.

3. Improve information security. One recommendation would improve IRS's controls over information security. In May 2019, we recommended that IRS develop a governance structure or steering committee to coordinate all aspects of IRS's efforts to protect taxpayer information while at third-party providers. While IRS agreed with the intent of the recommendation, it did not agree to implement it. In January 2021, IRS executives reiterated the agency's stance as documented in a risk assessment tool, citing the need for additional explicit authority to establish security requirements for the information systems of paid preparers and others who electronically file. We continue to believe that IRS could implement this recommendation without additional statutory authority. Without this structure, it is unclear how IRS will adapt to changing security threats in the future and ensure those threats are mitigated.

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[5]National Institute of Standards and Technology, *Electronic Authentication Guideline, Special Publication 800-63-2* (August 2013), superseded by *Digital Identity Guidelines, Special Publication 800-63-3* (June 2017).

4. Improve audit effectiveness. Six recommendations in this area would improve some of IRS's key audit activities. We made two recommendations in September 2014 that could help determine and improve the effectiveness of audits of business partnerships (including for large partnerships). To fully implement these recommendations, IRS needs to improve how it defines large partnerships and to analyze the results of its audits. IRS agreed with these actions and officials said that they have begun re-examining how they select partnership returns for audit. IRS does not anticipate receiving results from its initial data-collection efforts that could help it determine how to implement these recommendations until the end of 2021 at the earliest. Taking these actions will allow IRS to plan and use resources better when auditing large partnerships.

We made three recommendations in June 2014 directing IRS to develop clear objectives for the correspondence audit program, ensure that program measures reflect the objectives, and link measures with IRS-wide compliance goals. IRS agreed to take action on them and has developed draft objectives, measures, and linkages to strategic goals. IRS needs to finalize its objectives and clarify the linkages between the objectives, measures, and strategic goals in a report that allows it to regularly track and assess program performance over time.

We also made a recommendation in February 2016 to consolidate aspects of IRS's referral programs' submission and review processes to increase coordination across overlapping programs. IRS generally agreed and plans to develop an online system to consolidate referral intake as part of its Enterprise Case Management (ECM) initiative.[6] As of March 2021, IRS did not have a timeline for developing the system. Without continued progress on efforts to consolidate referral intake, IRS faces continued inefficiencies in receiving and processing referrals. It also risks potential public confusion caused by trying to choose among multiple forms.

5. Improve taxpayer services. Four recommendations focus on IRS developing strategies that could significantly improve taxpayer service. In September 2018, we recommended that IRS establish time frames and monitoring procedures for the timely transfer of taxpayer appeals requests by examination compliance units to the Office of Appeals. IRS agreed and has established time frames for transferring appeal requests at four business operating divisions. Three IRS divisions have reporting procedures planned for monitoring timely appeal transfer, but one division has not provided a plan for monitoring its timeliness in transferring cases to the Office of Appeals. As of April 2021, IRS is working on a new reporting mechanism to track actual transfer times for examination appeals. Delays in transferring such requests can result in increased interest costs for taxpayers because interest continues to accumulate on the tax liability during the appeal process. Further, taxpayers unsure of the status of their appeals may call or write to IRS, tying up staff responding to inquiries about appeals delayed in transfer.

We made two recommendations in September 2020, that IRS use performance information to provide an improved experience to taxpayers receiving services from IRS. First, IRS should identify agency-wide and division performance goals that align with its strategic service goals and objectives for an improved taxpayer experience. Second, for these performance goals, IRS should identify performance measures with targets. IRS generally agreed with the recommendations and said that its report to Congress, pursuant to requirements of the Taxpayer First Act, would include actions to address both recommendations. While the plans included in its January 2021 report show progress, IRS needs to specify its performance goals

[6]ECM is designed to provide an enterprise solution for performing case management across IRS's business units.

and their related measures with targets.[7] Without such performance information, it will be challenging for IRS and stakeholders to assess progress made towards an improved taxpayer experience and providing top-quality service.

In March 2021, we recommended that IRS revise its estimates for resolving its backlog of work from the 2020 filing season. IRS disagreed with the recommendation. IRS stated that it continues to monitor and assess the 2020 filing season carryover paper inventory daily. It adjusts processing priorities based on constantly changing variables that affect the paper inventory backlog, such as social distancing requirements and shutdowns in functional areas due to reported positive COVID-19 tests among employees. However, the backlog also includes e-filed returns held for review. Without estimates for resolving the backlog, taxpayers and stakeholders, including Congress, do not have critical information about when IRS expects to process taxpayers' 2020 returns and deliver long overdue refunds.

6. Enhance strategic human capital management. Two recommendations in this area would help position IRS to systematically identify and recruit the workforce needed for the future, develop strategies for identifying and closing skills gaps, and more efficiently use overtime hours to meet objectives. In March 2019, we recommended that IRS fully implement its workforce planning initiative. IRS agreed and reported in March 2021 that it had established a workforce plan, including an enterprise strategy, and had initiated the associated workforce analysis needed to implement the initiative. Our review found IRS is on schedule to implement the workforce planning initiative and have a process in place to monitor and evaluate the results by December 2021.

In January 2020, we recommended that IRS develop and implement a strategy, in collaboration with its strategic workforce planning initiative, for the efficient use of overtime. IRS agreed with the recommendation, but stated that its existing process for overtime use and approval is sufficient and that it plans no further action. We maintain that such a strategy, in combination with IRS's strategic workforce planning initiative, would help ensure more efficient use of overtime.

7. Enhance information reporting. Six recommendations in this area focus on increasing information reporting requirements to address emerging issues and improving IRS's intake, processing, and use of information returns. In February 2020, we recommended that IRS take steps to increase third-party reporting on taxable transactions involving virtual currency. IRS agreed and in March 2021 informed us that IRS's Office of Chief Counsel and Treasury are developing guidance that will address third-party reporting on certain taxable transactions involving virtual currency. Issuing such guidance could help increase third-party reporting. This would provide IRS with better information about virtual currency transactions and could make it easier for certain taxpayers to complete tax returns. Without additional third-party reporting on virtual currency, IRS will continue to lack the data it needs to effectively detect and address noncompliance related to virtual currency.

In December 2020, we made five recommendations that would help IRS improve the intake, processing and use of information returns. For example, we recommended that IRS expand third-party information reporting to improve sole-proprietor noncompliance; update and integrate modernization plans for the systems that use information returns; systematically evaluate the suite of information returns; and develop a collaborative mechanism to coordinate among the

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[7] *Taxpayer First Act: Report to Congress*, IRS, January, 2021. The report addresses three provisions of the Taxpayer First Act, each of which included a requirement to report to Congress. Pub. L. No. 116-25, §§ 1101, 1302, 2402, 133 Stat. 981, 985–986, 993, 1014 (2019).

stakeholders who are responsible for the intake, processing, and use of information returns. IRS neither agreed nor disagreed with these recommendations, but outlined actions it plans to take to address them in its initial response. Fully implementing these recommendations would help IRS improve its intake, processing, and use of information returns to facilitate increased compliance and potentially reduce the tax gap.

In March 2021 we issued our biennial update to our High-Risk List, which identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.[8] One of our high-risk areas, enforcement of tax laws, centers directly on IRS.

Several other government-wide high-risk areas also have direct implications for IRS and its operation. These include (1) ensuring the cybersecurity of the nation, (2) improving the management of IT acquisitions and operations, (3) strategic human capital management, (4) managing federal real property, and (5) government-wide personnel security clearance process. We urge your attention to the enforcement of tax laws high-risk area as well as the government-wide high-risk issues as they relate to IRS. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget (OMB), and the leadership and staff in agencies, including IRS.

Copies of this letter are being sent to the Director of OMB, Secretary of the Treasury, and appropriate congressional committees including the Committees on Appropriations, Budget, Finance, and Homeland Security and Governmental Affairs, United States Senate; the Committees on Appropriations, Budget, Oversight and Reform, and Ways and Means, United States House of Representatives; and the Joint Committee on Taxation. In addition, the report will be available on the GAO website at http://www.gao.gov.

I appreciate IRS's continued commitment to these important issues especially during this exceedingly challenging time. If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Jessica Lucas-Judy, Director, Strategic Issues, at lucasjudyj@gao.gov, (202) 512-6806, or James R. McTigue Jr., Director, Strategic Issues, at mctiguej@gao.gov, (202) 512-6806.

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[8]GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, GAO-21-119SP (Washington, D.C.: Mar. 2, 2021).

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this letter. Our teams will continue to coordinate with your staff on all of the 243 open recommendations. Thank you for your attention to these matters.

Sincerely yours,

Michelle Sager
Managing Director, Strategic Issues

Enclosure(s) – 1

cc: The Honorable Shalanda Young, Acting Director, Office of Management and Budget
The Honorable Janet Yellen, Secretary, Department of the Treasury

Enclosure

Priority Open Recommendations to the Internal Revenue Service

Improve Payment Integrity

Improper Payments: Improvements Needed in CMS and IRS Controls over Health Insurance Premium Tax Credit. GAO-17-467. Washington, D.C.: July 13, 2017.

Recommendation: The Internal Revenue Service (IRS) should direct the appropriate officials to assess the program against applicable Improper Payments Information Act of 2002 (IPIA)-defined thresholds and conclude on its susceptibility to significant improper payments, and revise the scope of its improper payments susceptibility assessment for the premium tax credit (PTC) program to include instances in which advance PTC is greater than or equal to the amount of PTC claimed on the tax return. If the program meets the IPIA definition for being susceptible to significant improper payments based on this assessment, estimate and report improper payments associated with the PTC program consistent with IPIA requirements.

Action needed: IRS partially agreed with this recommendation. In December 2019, IRS concluded that the PTC program was susceptible to significant improper payments but needed additional years of data before it could develop a statistically valid estimate. In March 2021, IRS informed us that it anticipates reporting an improper payment estimate and rate for the net PTC tax credit to the Department of the Treasury for the fiscal year 2021 financial report. IRS indicated that it believes Treasury will include the improper payment estimate and rate in Treasury's Agency Financial Report. This report is scheduled to be issued on November 15, 2021. Until a valid estimate of improper payments is reported in Treasury's Agency Financial Report, Congress and other external stakeholders will continue to lack key payment integrity information for monitoring improper payments.

High-risk area: Enforcement of Tax Laws

Director: Beryl H. Davis, Financial Management and Assurance

Contact information: davisbh@gao.gov, (202) 512-2623

Reduce Tax Fraud

Identity Theft: IRS Needs to Strengthen Taxpayer Authentication Efforts. GAO-18-418. Washington, D.C.: June 22, 2018.

Recommendation: In accordance with the plan developed for implementing changes to its online authentication programs, the Commissioner of Internal Revenue should implement improvements to IRS's systems to fully implement the National Institute of Standards and Technology's (NIST) new guidance.

Action needed: IRS agreed with this recommendation and has taken steps to implement it as of March 2021. Efforts include taking steps to create a new online authentication platform to authenticate taxpayers' identities using external partners, consistent with NIST guidance. IRS has also worked with external partners to test its platform, including conducting a usability study to understand user experience. IRS plans to pilot the platform with external partners later this year. IRS's timely implementation of authentication tools that are consistent with NIST's guidance is critical to help the agency mitigate potential security weaknesses in its existing online authentication programs.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue Jr., Strategic Issues

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Tax Fraud and Noncompliance: IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement. GAO-18-544. Washington, D.C.: July 24, 2018.

Recommendation: The Commissioner of Internal Revenue should implement the most cost-effective method to digitize information provided by taxpayers who file returns on paper.

Action needed: IRS agreed with this recommendation. In January 2020, IRS reported that the agency plans to begin scanning and digitizing individual tax returns filed on paper beginning in July 2022. As of March 2021, IRS has reported that it completed the first phase of its IRS Digitization Strategy. Digitizing paper returns at intake could allow IRS to reduce processing time, use the same Return Review Program (RRP) fraud filters on all paper and electronic forms, and allow more pre-refund compliance checks or investigations, among other benefits.

Recommendation: The Commissioner of Internal Revenue should evaluate the costs and benefits of expanding RRP to analyze individual returns not claiming refunds to support other enforcement activities.

Action needed: IRS agreed with this recommendation, noting that an agency goal is to expand the use of RRP to improve tax compliance and enforcement. As of March 2021, IRS has analyzed labor and other costs associated with expanding RRP, but has not quantified the potential benefits. IRS told us it plans to analyze potential benefits in the future as the agency further develops RRP. A more thorough analysis of the benefits and costs of expanding RRP would help IRS identify opportunities to operate more efficiently—such as by streamlining the detection and treatment of fraud—and increase taxpayer compliance.

High-risk area: Enforcement of Tax Laws

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

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Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns. GAO-20-174. Washington, D.C.: January 30, 2020.

Recommendation: The Commissioner of Internal Revenue should designate a dedicated entity to provide oversight of agency-wide efforts to detect, prevent, and resolve business identity theft (business IDT) refund fraud, consistent with leading practices. This may involve designating one business unit as a lead entity, or leveraging cooperative relationships between business units to establish a business IDT leadership team. This entity should have defined responsibilities and authority for managing fraud risk.

Action needed: IRS agreed with the recommendation. In September 2020 IRS initially assigned oversight of its agency-wide efforts on business IDT to an executive steering committee. However, in February 2021, IRS officials stated that the agency is restructuring this executive steering committee and the restructured executive steering committee had not assumed the oversight role for business IDT. At that time, IRS officials stated that the agency is finalizing the responsibilities of the restructured committee, which will oversee IRS's agency-wide IDT efforts. IRS's continued attention to this recommendation—including ensuring that the committee has defined responsibilities and authority for managing fraud risk—will help coordinate its efforts to combat the evolving threat of business IDT.

Recommendation: The Commissioner of Internal Revenue should develop a fraud risk profile for business IDT that aligns with leading practices. This should include (1) identifying inherent fraud risks of business IDT, (2) assessing the likelihood and impact of inherent fraud risks, (3) determining fraud risk tolerance, and (4) examining the suitability of existing fraud controls.

Action needed: IRS agreed with the recommendation. In October 2020, IRS completed a fraud risk assessment of 35 business-related tax forms using six quantitative measures of IDT refund fraud risk. As a result of this effort, IRS identified seven business-related tax forms that pose a significant fraud risk but currently lack effective fraud controls. IRS officials stated that this information will be used to determine priorities for implementing new fraud filters, as appropriate. However, as of February 2021, IRS has not provided evidence of any actions it has taken to identify and assess other inherent fraud risks to business IDT, including those we highlighted in our January 2020 report. By continuing to identify and assess additional fraud risks to business IDT, IRS will be better positioned to establish risk tolerances and determine the sufficiency of existing fraud controls.

High-risk area: Enforcement of Tax Laws

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

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Improve Information Security

Taxpayer Information: IRS Needs to Improve Oversight of Third-Party Cybersecurity Practices. GAO-19-340. Washington, D.C.: May 9, 2019.

Recommendation: The Commissioner of Internal Revenue should develop a governance structure or other form of centralized leadership, such as a steering committee, to coordinate all aspects of IRS's efforts to protect taxpayer information while at third-party providers.

Action needed: IRS agreed with the intent of this recommendation but did not agree to implement it. In January 2021, IRS executives reiterated the agency's stance as documented in a risk assessment tool, citing the need for additional explicit authority to establish security requirements for the information systems of paid preparers and others who electronically file returns. IRS reported that to effectively establish data safeguarding policies and implement strategies enforcing compliance with those policies, a centralized leadership structure would require statutory authority clearly communicating the authority of IRS to do so. IRS stated that without such authority, implementing the recommendation would be an inefficient, ineffective, and costly use of resources.

We disagree that convening a governance structure or other centralized form of leadership would require additional statutory authority or be inefficient, ineffective, and costly. As we reported, IRS has seven different offices across the agency working on information security-related activities that could benefit from centralized oversight and coordination. These activities include updating existing standards, monitoring Authorized e-file Provider program compliance, and tracking security incident reports.

High-risk area: Enforcement of Tax Laws, Ensuring the Cybersecurity of the Nation

Director: Jessica Lucas-Judy, Strategic Issues

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Improve Audit Effectiveness

Large Partnerships: With Growing Number of Partnerships, IRS Needs to Improve Audit Efficiency. GAO-14-732. Washington, D.C.: September 18, 2014.

Recommendation: The Commissioner of Internal Revenue should track the results of large partnerships audits: (1) define a large partnership based on asset size and number of partners; (2) revise the activity codes to align with the large partnership definition; and (3) separately account for field audits and campus audits.

Action needed: IRS agreed with our recommendation. It defined large partnerships as having $10 million or more in assets, the same as large corporations. However, this definition is limited compared to large corporations. Specifically, IRS has eight asset categories for tracking large corporations but only one for large partnerships. IRS has not created more than one category for tracking large partnerships. However, it has revised its activity codes to create a category and a reporting and monitoring structure for its new definition to track the results from auditing large partnerships. Providing detail on audits by additional size categories of large partnerships would help IRS identify opportunities to better plan and use resources when auditing large partnerships. IRS officials said the agency has started efforts to improve selection of partnership returns for audit based on compliance risk.

These efforts are collecting data that will help IRS decide how to implement this and an additional recommendation we made to help determine and improve the effectiveness of partnership audits. In November 2020, IRS officials reported that these efforts have been delayed by initiatives related to the Coronavirus Disease 2019 (COVID-19) pandemic. In April

2021, IRS officials confirmed that initial results from these efforts are not expected until the end of 2021.

Recommendation: The Commissioner of Internal Revenue should analyze the audit results by these activity codes and types of audits to identify opportunities to better plan and use IRS resources in auditing large partnerships.

Action needed: IRS agreed with our recommendation. It created reports to regularly track audit results for large partnerships, such as dollar amounts, hours, and number of returns. To fully implement this recommendation, IRS needs to analyze audit results to identify opportunities to better plan and use its resources in auditing large partnerships. In January 2020, IRS officials said they planned to use these reports on audit results to do this analysis but the outcome may not be possible with the statutory changes governing partnerships. A more detailed definition of large partnerships would improve that analysis. IRS officials said the agency has started efforts to improve selection of partnership returns for audit based on compliance risk. These efforts are collecting data that will help IRS decide how to implement this recommendation. In November 2020, IRS officials reported that these efforts have been delayed by initiatives related to COVID-19. In April 2021, IRS officials confirmed that initial results from these efforts are not expected until the end of 2021.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue Jr., Strategic Issues

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IRS Correspondence Audits: Better Management Could Improve Tax Compliance and Reduce Taxpayer Burden. GAO-14-479. Washington, D.C.: June 5, 2014.

Recommendations: IRS should clarify the desired results of the correspondence audit program and its linkages to IRS-wide activities by

1. establishing formal program objectives;
2. ensuring that the program measures reflect those objectives; and
3. clearly linking those measures with strategic IRS-wide goals on ensuring compliance in a cost-effective way while minimizing taxpayer burden.

Action needed: IRS agreed to take action on these three recommendations. As of March 2021, IRS officials had developed draft objectives, measures, and linkages to strategic goals. However, IRS had yet to formally document these draft items. In addition, IRS had not created a report that clarifies linkages between the draft objectives, measures, and strategic goals and regularly tracks program performance over time. Until these linkages are clarified, formally adopted, and regularly tracked, IRS will not have assurance that its program measures reflect progress toward the program objectives as well as IRS's strategic goals.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue Jr., Strategic Issues

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IRS Referral Programs: Opportunities Exist to Strengthen Controls and Increase Coordination across Overlapping Programs. GAO-16-155. Washington, D.C.: February 23, 2016.

Recommendation: IRS should direct the referral programs to coordinate on a plan and timeline for developing a consolidated, online referral submission. This could better position IRS to leverage specialized expertise while exploring options to further consolidate the initial screening operations.

Action needed: IRS generally agreed with our recommendation. In December 2020, IRS prioritized development of a secure online public referral intake system as part of its Enterprise Case Management (ECM) workplan. As of March 2021, ECM staff held two initial development meetings to identify the information needs and features needed to support multiple referral programs. IRS does not have a timeline for developing the system to consolidate intake for its multiple public referral programs. Without continued progress, IRS faces ongoing inefficiencies in receiving and processing referrals. It also risks potential public confusion caused by trying to choose among multiple forms. We will continue to assess these efforts as they are further developed.

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues

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Improve Taxpayer Services

Tax Administration: Opportunities Exist to Improve Monitoring and Transparency of Appeal Resolution Timeliness. GAO-18-659. Washington, D.C.: September 21, 2018.

Recommendation: The Commissioner of Internal Revenue should establish time frames and monitoring procedures for timely transfer of taxpayer appeals requests by examination compliance units to the Office of Appeals.

Action needed: IRS agreed with this recommendation. All four IRS business operating divisions have a corrective action plan. They also had established and documented time frames for timely appeal transfer as of March 2021. While three of them have reporting procedures planned for monitoring timely appeal transfer, one division has not provided a plan for monitoring its timeliness in transferring cases to the Office of Appeals. IRS needs to assess whether the planned monitoring actions will result in timely transfer of examination appeals.

As of April 2021, IRS is working on a new reporting mechanism tracking the time elapsed from taxpayer request for appeal to when it is received by the Office of Appeals. Preliminary data in 2020 indicated that the actual transfer times for examination appeals were longer than the established time frames. Delays in transferring such requests can result in increased interest costs for taxpayers because interest continues to accumulate on the tax liability during the appeal process. Further, taxpayers unsure of their appeal status may call or write to IRS, tying up other IRS staff to respond to inquiries about appeals delayed in transfer.

High-risk area: Enforcement of Tax Laws

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Taxpayer Service: IRS Could Improve the Taxpayer Experience by Using Better Service Performance Measures. GAO-20-656. Washington, D.C.: September 23, 2020.

Recommendation: The Commissioner of Internal Revenue should identify agency-wide and division performance goals that align with IRS's strategic service goals and objectives for an improved taxpayer experience.

Recommendation: The Commissioner of Internal Revenue should identify performance measures with targets for improving the taxpayer experience that link with the related performance goals.

Action needed: IRS generally agreed with both of these related recommendations. In January 2021, IRS released a report to Congress that identified a new framework of strategic goals and objectives for improving the taxpayer experience and some high-level service performance measures with targets for improving the taxpayer experience. However, the report did not specify related performance goals aligned with strategic goals for assessing progress in improved taxpayer experience outcomes, particularly in the divisions that provide taxpayer services. Without performance goals, IRS cannot have a clear picture of what specific actions would improve the taxpayer experience. IRS would also be unable to determine the actions that would align with its strategic goal and objectives for providing top-quality service to taxpayers.

IRS's report also did not link measures with targets to performance goals aligned with strategic goals for improving taxpayer services. IRS plans to continue identifying new measures to inform efforts to improve the taxpayer experience. These new measures will also need targets. Without clear linkages between performance measures with targets and related performance goals, IRS managers and staff providing taxpayer services do not know how their day-to-day activities can contribute to improving the taxpayer experience. Without targets for the measures, it will be difficult for IRS to know whether performance is improving to desired levels.

High-risk area: Enforcement of Tax Laws

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Tax Filing: Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season. GAO-21-251. Washington D.C.: March 1, 2021.

Recommendation: The Commissioner of Internal Revenue should revise IRS's estimates for resolving its backlog of work from the 2020 filing season.

Action needed: IRS disagreed with this recommendation. IRS said it continues to monitor and assess the 2020 filing season carryover paper inventory daily, and that it adjusts processing priorities based on constantly changing variables that affect the paper inventory backlog. These variables include social distancing requirements and shutdowns in functional areas due to reported positive COVID-19 test results.

We agree that monitoring inventory levels is a useful management tool. However, the backlog of work includes more than paper inventory, such as millions of e-filed returns suspended for errors or potential identify theft. IRS addressed its unopened mail backlog in mid-December 2020. It is now in a position to better estimate the effort required to resolve the backlog of unprocessed returns, returns held for review due to errors or suspected identity theft, and taxpayer correspondence. Doing so would help IRS identify potential resource needs, including staffing, and provide taxpayers and stakeholders, including Congress, critical information about when IRS expects to process taxpayers' 2020 returns and deliver long overdue refunds.

High-risk area: Enforcement of Tax Laws

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Enhance Strategic Human Capital Management

Internal Revenue Service: Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission. GAO-19-176. Washington, D.C.: March 26, 2019.

Recommendation: The Commissioner of Internal Revenue should fully implement the workforce planning initiative, including taking the following actions: (1) conducting enterprise strategy and planning, (2) conducting workforce analysis, (3) creating a workforce plan, (4) implementing the workforce plan, and (5) monitoring and evaluating the results.

Action needed: IRS agreed with this recommendation. As of March 2021, IRS reported it had established a workforce plan, including an enterprise strategy, and had initiated the associated workforce analysis needed to implement the initiative. Our review of the workforce plan found IRS is on schedule to implement the plan and have a process in place to monitor and evaluate the results by December 2021. Full implementation of the initiative will provide a comprehensive inventory of IRS's current workforce that will allow IRS to develop competency and staffing requirements to conduct agency-wide activities associated with identifying and addressing skills gaps.

High-risk area: Strategic Human Capital Management

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2019 Tax Filing: IRS Successfully Implemented Tax Law Changes but Needs to Improve Service for Taxpayers with Limited-English Proficiency. GAO-20-55. Washington, D.C.: January 15, 2020.

Recommendation: The Commissioner of Internal Revenue should direct the Wage and Investment division to develop and implement a strategy, in collaboration with its strategic workforce planning initiative, for the efficient use of overtime.

Action needed: IRS agreed with this recommendation, but stated that its existing process within the Wage and Investment division for the use and approval of overtime is sufficient, so it would not take any further action. However, as we reported in January 2020, offices in the Wage and Investment division had exceeded their overtime allocations in several of the preceding years. We continue to believe that such a strategy, in collaboration with IRS's strategic workforce planning initiative, would help ensure an efficient use of overtime. If not well managed, overtime can be expensive and inefficient, and can contribute to skills gaps and negatively affect employee morale.

High-risk area: Enforcement of Tax Laws

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Enhance Information Reporting

Virtual Currencies: Additional Information Reporting and Clarified Guidance Could Improve Tax Compliance. GAO-20-188. Washington, D.C.: February 12, 2020.

Recommendation: The Commissioner of Internal Revenue should take steps to increase third-party reporting on taxable transactions involving virtual currency, which could include clarifying IRS's interpretation of existing third-party reporting requirements under the Internal Revenue Code and Treasury Regulations, or pursuing statutory or regulatory changes.

Action needed: IRS agreed with this recommendation. In March 2021, IRS stated that it expected to issue guidance to address third-party reporting under section 6045 of the Internal Revenue Code on certain taxable transactions involving virtual currency by December 31, 2021. Guidance aimed at increasing third-party reporting would address the intent of the recommendation. Increased third-party reporting could improve tax compliance by providing IRS with better information about virtual currency transactions and by making it easier for certain taxpayers to complete tax returns. In general, the extent to which taxpayers accurately report their income is closely aligned with the amount of information that third parties report to those taxpayers and to IRS.

High-risk area: Enforcement of Tax Laws

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Tax Administration: Better Coordination Could Improve IRS's Use of Third-Party Information Reporting to Help Reduce the Tax Gap. GAO-21-102. Washington, D.C.: December 15, 2020.

Recommendation: The Commissioner of Internal Revenue should research, evaluate, and develop potential recommendations to expand third-party information reporting to include more information on sole proprietors' income and expenses.

Action needed: IRS neither agreed nor disagreed with this recommendation. IRS officials reported that IRS will further research and evaluate the tax administration benefits and taxpayer burdens of expanding third-party information reporting for sole proprietors' income and expenses. Further, upon conclusion of its research and evaluation, IRS will also prepare a briefing document for Treasury and offer its support in developing any recommendations that Treasury chooses to pursue. Without research into options to increase information reporting for sole proprietorships, IRS is missing an opportunity to help address a significant part of the tax gap.

Recommendation: The Commissioner of Internal Revenue should revise the 2017 Information Returns Systems Modernization plans by evaluating changes in the environment, assessing risks to systems and programs, and detailing how the agency plans to address issues in the intake, processing, and use of information returns across business units.

Recommendation: The Commissioner of Internal Revenue should submit a revised information returns system modernization plan to Congress that describes how it integrates with IRS's broader information technology modernization efforts, the resources needed to achieve effective and timely modernization, and the proposed schedule and scope of the effort.

Action needed: IRS neither agreed nor disagreed with these two related recommendations. Officials reported that IRS will submit an Information Return System Modernization plan to Congress that leverages the 1099 Internet Platform required by section 2102 of the Taxpayer First Act as the foundation of information return modernization efforts.[9] As part of the agency's broader modernization effort, it is important that IRS can explain to Congress and other decision makers the critical need to modernize the information reporting system, as well as the proposed scope, schedule, and resource requirements needed to implement such a project. Without a plan that provides an overall picture of what IRS is investing in, it will be difficult for Congress and other decision makers to understand the funding needs, as well as the benefits that can be expected from such an investment. Because some of the costs being incurred by IRS today are for foundational modernization efforts, it is even more important that the agency develop a strategy explaining the long-term benefits expected from this work.

Recommendation: The Commissioner of Internal Revenue should develop a plan and schedule to systematically evaluate the suite of information returns with a goal of improving compliance and reducing fraud and reporting burden. The evaluation should consider factors such as filing requirement thresholds, deadlines for filing, corrections and amendment data, and the potential to consolidate similar forms, and include recommendations for needed changes.

Action needed: IRS neither agreed nor disagreed with this recommendation. Officials reported that IRS is considering the type of evaluation or study that would be appropriate to address the recommendation. Reviewing the entire suite of information returns regularly and proactively—

[9]Pub. L. No. 116-25, § 2102, 133 Stat. at 1010.

instead of conducting reactive reviews—could help IRS achieve administrative efficiencies and improve tax compliance. Such proactive reviews could help IRS better achieve its stated goal of advancing data access, usability, and analytics to inform decision-making and improve operational outcomes.

Recommendation: The Commissioner of Internal Revenue should develop a collaborative mechanism to coordinate among the internal stakeholders who are responsible for the intake, processing, and use of information returns, as well as to improve outreach to external stakeholders in relation to information returns.

Action needed: IRS neither agreed nor disagreed with this recommendation. Officials reported that IRS is currently developing a new organizational structure and design, as required by the Taxpayer First Act, which will provide for collaboration and coordination on the delivery of service-wide programs, such as those involving information returns. Without a collaborative mechanism to develop, implement, and lead a coordinated approach to using information returns, IRS risks missing opportunities to improve the effectiveness of its development, intake, processing, and use of information returns.

High-risk area: Enforcement of Tax Laws

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