MODERNIZING AMERICAÕS TAX AGENCY

IRS ORGANIZATION BLUEPRINT

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Chapter 1 Overview

Public Expectations and Mission

In 1952, the IRS was created in its current form to collect federal taxes according to the law without political or corrupt influence. Successful in this purpose, the IRS today collects $1.7 trillion, which is more than 26 times its collections in 1952. Corruption cases are few and are vigorously investigated and prosecuted, and the agency is strongly insulated from political influence.

Over the last 47 years, the volume and complexity of IRS operations expanded tremendously. The number of returns filed has more than doubled, the number of pages in the Tax Code has expanded from 812 to approximately 3,500, and approximately 9,500 changes to the Tax Code were made. The IRS today deals directly with more Americans than any other institution, private or public.

For an agency that fulfilled its established purpose so well, the IRS has been the subject of a great deal of study and criticism in the last several years. The studies identified a wide range of problems: inadequate technology and failure of technology modernization programs, poor service to taxpayers, violations of taxpayer rights, failure to follow established procedures, lack of adequate training and resources for IRS employees, and inappropriate use of enforcement statistics, to name some of the most prominent.

The IRS Restructuring and Reform Act of 1998 (RRA '98), which passed with bi-partisan support, incorporated many of the recommendations found in the studies that preceded it. The direction given to the IRS was clear: it must do a better job in meeting the needs of taxpayers. As required by the RRA '98, this direction is expressed in the new IRS mission statement:

> *Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.*

This mission statement describes the role of the IRS, as well as the public's expectations as to how the IRS should perform it. The United States Congress passes tax laws and requires taxpayers to comply with them. It is the role of taxpayers to understand and meet their tax obligations, and most do since roughly

98 percent of the taxes collected are paid without active intervention by the IRS. It is the role of the IRS to help the large majority of taxpayers who are willing to comply with the tax law, while seeing to it that the minority who are not willing to comply are not allowed to burden their fellow taxpayers. The IRS must perform this role to a top quality standard, which means that all of its services should be seen by the people who receive them as comparable in quality to the best they get elsewhere.

Some observers have questioned whether the new mission statement underemphasizes the obvious need to collect taxes. On the contrary, the mission statement calls for the IRS to be more effective in all aspects of its mission, including application of the law to those who are unwilling to voluntarily comply.

Establishing a new mission for the IRS and clarifying the public's expectations are essential and meaningful steps in meeting those expectations. However, achieving this mission requires fundamental change in many aspects of an institution that has been built over many years. This change must produce success in the new mission, while retaining the essential elements that created success in the past. Further, this change must take place while the IRS continues to administer a very large, complex and ever-changing tax system. Since the IRS will strive to perform at a level of quality achieved elsewhere in the economy, a major part of this change is guided by proven private and public sector best practices.

We refer to this whole process of change as "modernization," because it involves building on the essential components that made the IRS successful in the past while bringing them up to date in a way designed to achieve the new mission. This entire process is summarized on the following page.

“Modernization” will require change on five major fronts: revamping business practices; establishing customer-focused operating divisions, creating management roles with clear accountability; instituting a balanced performance measurement system; and overhauling the entire technology base. While all of these changes are critical to the success of true reform at the IRS, this paper will focus on the two change efforts related to creating management roles with clear accountability and establishing customer-focused operating divisions. The focus of this document is also illustrated on the next page in Figure 1-1.

Figure 1-1: Modernizing America's Tax Agency

Internal Revenue Service

MISSION STATEMENT

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

GUIDING PRICIPLES

- Understand and solve problems from taxpayer's point of view
- Enable managers to be accountable - *knowledge, responsibility, authority, action*
- Align measures of performance to all organizational levels
- Foster open, honest communication
- Insist on total integrity

GOALS

- Service to Each Taxpayer
- Service to All Taxpayers
- Productivity Through a Quality Work Environment

Revamped Business Practices	Customer Focused Operating Divisions	Management Roles with Clear Responsibility	Balanced Measurement of Performance	New Technology

Focus of this document

Goals

While the new mission statement and clarification of the public's expectations of the agency are fundamentally important, it is critical in any large institution to define specific goals needed to achieve the mission. As illustrated on the previous graphic, the IRS has formulated three strategic goals. If progress is made on all three of these goals, we can be confident that the IRS is moving forward to achieve its mission and to meet the public's expectations for the agency.

Top quality service to each taxpayer

The first strategic goal is to provide top quality service to each taxpayer with whom the IRS deals, one at a time. The IRS has millions of interactions with taxpayers each year, from the very simple to the very complex. The IRS provides forms, information and filing procedures to taxpayers who must file a return. This process should be made ever easier and clearer, reducing the chances of error and the time and effort required by taxpayers. In other instances, the IRS may intervene, in the form of an audit or a collection action, and may inform the taxpayer that the agency believes more taxes are owed. In these cases, taxpayers should be informed promptly and treated professionally and with full consideration of their rights.

We will measure success in achieving this goal by the response of taxpayers to the service they receive from the IRS. As part of the new IRS performance management system, taxpayers who receive specific kinds of service will be surveyed and asked to rate the service. These transactional surveys can then be summarized to measure the overall trend in taxpayer satisfaction with IRS service. In addition, the overall ratings given to the IRS by taxpayers, as compared to other private and public sector institutions with which they deal, will be a key long-term strategic measure of success in achieving this goal. Finally, taxpayer dissatisfaction, as measured by taxpayer complaint and compliment trends, will be an important indicator.

We began implementing the new balanced measures system in the operational components of the IRS in 1999. Work will begin on strategic measures in 2000.

Top quality service to all taxpayers

The second strategic goal is service to all taxpayers. We must apply the law with integrity and fairness to all, so taxpayers who do not comply are not allowed to place a burden on those who comply. This aspect of IRS service is important both to protect revenues flowing to the Treasury and as a matter of fundamental fairness. Our tax system depends on each person who is voluntarily meeting his or her tax obligations having confidence that his or her neighbor or competitor is also complying. Therefore, when taxpayers do not voluntarily meet their tax obligations, the IRS must use enforcement powers to collect the taxes that are due.

The overall measure of success in this goal is the total collection percentage. The collection percentage is the fraction of taxes that are actually paid as compared to those that would be paid if everyone paid what was due under the law. Another indicator of success for this goal is the uniformity of compliance, representing the relative degree of compliance among various economic sectors, different geographic areas and different demographic segments. This is important for actual and perceived fairness of the tax administration system.

While we do not have reliable, up-to-date measures of overall compliance, the best extrapolations of previous studies suggest that noncompliance of all kinds equated to about $195 billion in FY 1997, which works out to about $1,600 per individual tax return. This same data indicates compliance is also quite uneven. For example, taxpayers who have primary income reported by third parties are, on the whole, more compliant than those who rely mostly on self reporting of income. These factors indicate that there is ample opportunity for improvement on this strategic goal.

Productivity through a quality work environment

The third strategic goal of the IRS is to increase productivity by providing a quality work environment for its employees. The IRS must not only provide top quality service to taxpayers, but it must do so efficiently, using the fewest possible resources.

Many private sector organizations demonstrated that succeeding in this area requires providing employees at all levels with high-quality technology tools, adequate training, effective management and active engagement in the goals of the organization. This is especially true in service organizations in which most front-line employees interact directly with customers. It is essential that employees clearly accept ownership of the goals of the organization, are given the support they need to provide good service to their customers and are able to communicate upward effectively about the problems and obstacles they perceive stand in the way of good service.

The right work environment will help unlock employee potential. Companies and organizations that excel in customer service invariably have employees who feel respected as individuals and valued by management for the contribution they make to the overall service effort. A positive work place is free of discrimination, does not tolerate artificial ceilings and barriers to advancement, affords equal opportunity and recognizes employee performance and potential. It is also a work place that is highly inclusive and seeks to make use of the diverse experience and talents of all employees.

Benefits

Taxpayers and employees will benefit if the IRS achieves its three goals. If the IRS is able to achieve these three strategic goals, the benefits to taxpayers and employees should be concrete and noticeable, although they will take time to become apparent. This is one of the most important challenges. The IRS cannot succeed unless it achieves a high level of performance on all three goals. It cannot be successful if it collects taxes but does not provide top quality service to each taxpayer or neglects to respect taxpayer rights. Equally, the agency cannot be successful if it provides good service but allows compliance to decline and thereby fails to collect taxes. And, since resources are severely limited, it can only achieve these service goals by increasing productivity and utilizing effectively the skills of the workforce.

While this need to achieve multiple goals is a challenging one, it is not unique to the IRS. Almost every business in the private sector must make a profit in order to stay in business.

Guiding Principles

In order to achieve the IRS' strategic goals, many changes and actions over many years will be required. Actions will be taken at all levels, from front-line employees to top managers. While each change and each action that moves the IRS toward its goals is valuable, it is useful in the midst of such great change to articulate some principles that guide as well as link our efforts. Articulating a list of principles does not imply that there were no principles guiding the IRS in the past or that this list is all inclusive. Instead, it serves to ensure the importance of the principles that are especially useful in the IRS today to guide our actions toward our strategic goals. These principles are a link between our strategic goals and the tangible changes we make and actions we take to achieve the goals.

- ***Understanding the customer's point of view and use this understanding to prevent and solve problems and provide quality service.*** This principle is especially important at this point in IRS history, as it represents a significant shift in emphasis. This shift, from an internal focus to a customer focus, is one that many organizations undertook in the last 15 years and has powerful and pervasive implications.

- ***Enable managers to be accountable, with the requisite knowledge, responsibility and authority to take action to solve problems and achieve IRS goals.*** As the IRS has grown and become more complex over the years, it has sometimes been difficult for managers to fulfill this principle, to the frustration of taxpayers, managers and employees alike. Lack of adequate knowledge by managers of the substance of a problem, or lack of authority to solve a problem, fuels this frustration.

    – Managers at all levels will be expected to understand the substance of the matters for which they are responsible, see that quality work is performed and take action on solving problems within their domain.
    – Higher management must provide appropriate guidance, structure, training, management support and tools so that their subordinate managers can be accountable and, then, expect them to rise to the challenge.
    – A much greater level of meaningful communication between those responsible for policy and those responsible for execution will also be essential.

- ***Align measures of performance at all levels.*** The lack of alignment of performance measures between managers and employees in recent years has been one of the sources of IRS problems in service to taxpayers and has undermined trust between employees and managers. Everyone in the IRS shares responsibility for fulfilling the mission and making progress toward the IRS' strategic goals. Every employee is also evaluated against some standard of performance, which in turn is the basis for awards and promotions. It is vital that the standards used to measure and evaluate performance at all levels be aligned so as to encourage and reward performance that advances the IRS' strategic goals. It is equally important to avoid measures or standards that reward inappropriate actions or are subject to manipulation.

- ***Foster open, honest communication.*** It is not possible to solve problems that one does not know about or refuses to acknowledge. The more difficult or important the problem, the more essential it is for those at higher levels to come to grips with it as soon as possible. Open, honest communication at all levels is one of the most powerful principles of management for a large organization like the IRS. Problems should be identified, acknowledged, addressed and used as a learning tool for the future.

- ***Insist on total integrity.*** As an agency that succeeded admirably in this purpose, the principle of integrity is not new to the IRS. Now, this IRS must stress “total integrity." Total integrity means each employee should perform all of his or her duties in accord with the public interest and not with regard to any personal interest. This concept includes, but is broader than, avoiding traditional offenses of corruption or political influence. It encompasses all matters of public interest, such as taxpayer rights, use of government resources, access to confidential information, internal and external reporting, personnel practices, procurement and travel activities, acceptance of gifts and conflicts of interest while employed or afterwards.

Business Practices and Strategies

The way the IRS interacts with taxpayers is defined by its business practices, such as how filing is done, what notices are sent under what circumstances, the way phones are answered, the way collections of balances due are carried out and the way examinations are conducted. These business practices have historically been carried out by the IRS' functional disciplines, principally Examination, Appeals, Collection, Criminal Investigation, Submissions Processing and Customer Service (the latter being an amalgam of functions, including examination and collection, which have in common that they deal with the taxpayer by phone or mail).

Closely related to business practices are IRS strategies that guide such practices, such as how returns are selected for examination, what kinds of compliance issues to emphasize and how to encourage electronic filing. Strategies are ways of deciding how best to use limited resources to achieve defined goals.

Many IRS practices are codified in the Internal Revenue Manual and in various rulings and regulations. Both strategies and practices are also constrained by, and to a considerable degree determined by, the established organization structure and the installed technology base, the two principal instruments through which the IRS executes its business practices and strategies. These interacting factors - business practices, strategies, organization and technology - are so tightly joined and interdependent that it is not possible to make fundamental improvements in any of them without addressing all of them in an integrated fashion. This is a key reason why past efforts to adopt very promising improvements in compliance and customer service practices have not been fully implemented, despite important successes on a limited basis. Conversely, programs to improve technology, while accomplishing important incremental improvements, have not succeeded in replacing the old and inadequate base of technology on which the IRS depends.

By revamping its business practices and strategy in ways that were successful in the private and public sectors (and often on a limited basis at the IRS), the IRS can make major strides toward all three strategic goals. Full implementation of these changes is a major undertaking and will take place over a period of years, depending heavily on requisite changes in the organization structure and technology.

As you will see, this paper illustrates the establishment of new senior management teams, streamlined organizational structures and end-to-end accountability so the IRS can make lasting improvements in business processes and strategies. This will not happen overnight, but revamping the organization structure is clearly the first start.

Organization and Management

The previous IRS structure did not adequately support taxpayer demands. The organization structure is the vehicle through which decisions are made and actions carried out. The IRS structure as of September 1, 1998, is shown on the next page in Figure 1-2. It was built around districts and service centers, the basic organizational units established many years ago and evolved over decades. There were 33 districts and ten service centers. Each of these 43 units was charged with administering the entire tax law for every kind of taxpayer, large and small, in a defined geographical area. Consequently, every taxpayer was serviced by both a service center and a district, sometimes more than one. Within each of these units, work was actually carried out by functional disciplines, principally Examination, Appeals, Collection, Criminal Investigation, Submissions Processing and Customer Service, the latter being an amalgam of collections, examination and general tax law and account information services provided by mail and telephone.

1998 IRS Organizational Structure

Service centers and districts each performed these functions for the same taxpayer, the responsibility shifting depending on whether the work was done by phone, mail or in person. For example, in the collection area, there are three separate kinds of organizations spread over all 43 operational units that use four separate computer systems to collect taxes. Each of these three units and four systems collects from every kind of taxpayer, from individuals to businesses.

Overseeing these operational units were four regions and a national office, which also operates three large computing centers. There were eight intermediate levels of staff and line management between a front-line employee and the Deputy Commissioner, who is the only manager besides the Commissioner who had responsibility over all aspects of service to any particular taxpayer.

This structure no longer enabled the IRS to achieve its strategic goals. The cumbersome structure, matched by an inadequate technology base, represented the principal obstacles to modernizing IRS business practices and strategies and to delivering dramatic improvements in service and productivity.

Modernized IRS Organizational Structure

The IRS' modernized structure is similar to one widely used in the private sector: organized around customers' needs, in this case taxpayers. Just as many financial institutions have different divisions that serve retail customers, small to medium businesses and large multinational businesses, the taxpayer base falls naturally into similar groups. This concept has been closely studied since it was first proposed in early 1998. The top-level structure is shown on page 1-12 in Figure 1-3.

Figure 1-2: 1998 IRS Organization

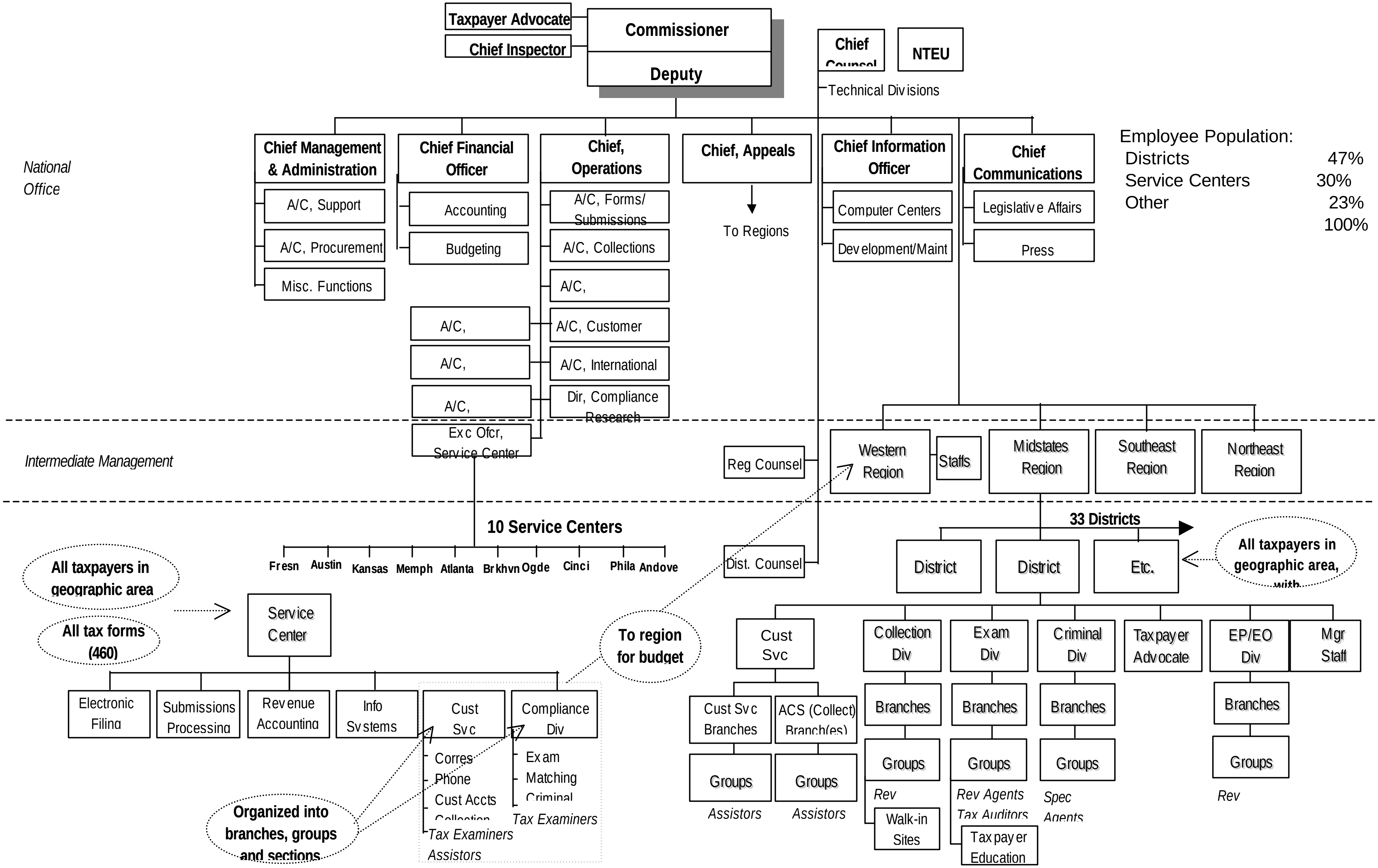
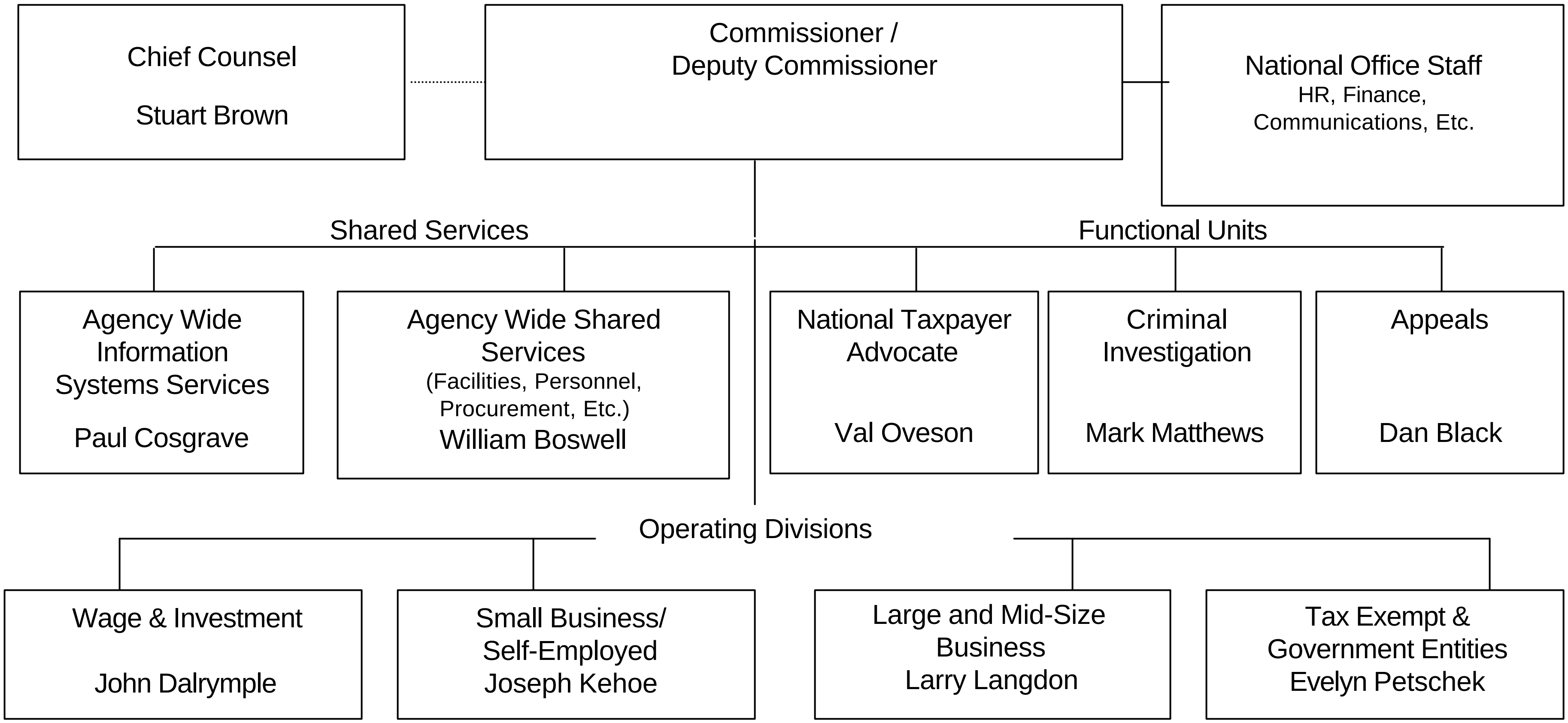


Figure 1-3: Future IRS Organization



The key operational units are four operating divisions, each charged with full end-to-end responsibility for serving a set of taxpayers with similar needs. These operating divisions are supported by two service organizations: Information Systems and Agency Wide Shared Services (providing common services such as facilities and procurement). Appeals and the Taxpayer Advocate are nationwide organizations that provide separate specialized independent channels for taxpayers. Criminal Investigation will have sole responsibility for investigation of criminal violations of the tax law and, for the first time, will operate as a line unit within the IRS. Chief Counsel provides tax advice, guidance and legislative services to all components of the IRS. A smaller national office will assume an overall role of setting broad policy, reviewing plans and goals of the operating units and developing major improvement initiatives.

The needs and problems of the taxpayers served by each of these operating divisions are very different, as shown below in Figure 1-4.

Figure 1-4: Taxpayer Characteristics

	Wage & Investment	Small Business & Self-Employed	Large & Mid-Size Business	Tax Exempt & Government Entities
Number of filers	88 million	45 million	210,000	2.4 million
Number of individual taxpayers	116 million	———	———	———
Total tax liability (billions)	$380	$790	$466	$103
Average tax liability per filer	$4,310	$20,231	$2,231,274	$42,698
Gross cash paid (billions)	$46	$915	$712	$221
Avg. # of transactions w/IRS per filer/year	1-4	4-60	60+	60+
Percent preparing own returns	59%	20%	———	———
Assets regulated	———	———	———	$7 trillion
Average number of income tax forms	1.1	2.7	3.5	1.7

* *Please note: numbers are estimated and subject to change*

The first of the four operating divisions will serve some 88 million filers. This group represents 116 million ***individual taxpayers***, including those who file jointly, with wage and investment income only, almost all of which is reported by third parties. Most of these taxpayers deal with the IRS only once a year, when filing their return, and most receive refunds. Collection problems are limited since they pay only $46 billion in cash directly to the IRS, the balance of their liability being paid through withholding by their employers. Compliance issues are focused on a relatively limited range of issues, concentrated on dependent exemptions, credits, filing status and deductions. Roughly 60 percent of these taxpayers file their own returns, depending directly on the IRS or volunteer groups for education and assistance.

The second group of taxpayers includes ***fully or partially self-employed individuals and small businesses***. This includes about 45 million filers. This group has much more complex dealings with the IRS than the wage and investment taxpayers. They have four to 60 transactions with the IRS per year and pay the IRS directly $915 billion in cash, representing nearly 44 percent of the total cash collected by the IRS. This amount includes personal and corporate income taxes, employment taxes, excise taxes and withholdings for employees, each of which has filing and technical requirements. Since business income and a range of taxes are involved, compliance issues are also complex. The possibilities for errors, resulting in collection and compliance problems, are greatest in this group because of lack of withholding or information reporting and the large amount of cash paid. The result is much more frequent dealings with IRS compliance functions.

Large and mid-size businesses, comprising only about 210,000 filers, pay the IRS $712 billion in cash. This group includes corporations with assets over $5 million. While collection issues are rare, many complex issues such as tax law interpretation, accounting and regulation, many with international dimensions, frequently arise. At least 20 percent of these taxpayers interact with IRS compliance functions each year, and the largest taxpayers deal with the IRS continuously.

The ***tax-exempt and government entities*** sector, including pension plans, exempt organizations and governmental entities, represents a large economic sector with unique needs. Comprising 2.4 million filers, this sector ranges from small local community organizations to major universities and huge pension funds. Although generally paying no income tax, this sector pays over $220 billion in cash in employment taxes and income tax withholdings and controls about $6.7 trillion in assets. The IRS is charged with administering detailed and complex provisions of law that are generally not intended to raise money, but rather to ensure that these entities stay within the policy guidelines that enable them to maintain their tax-exempt status.

Each operating division will have a tailored structure

Each of the operating divisions will be structured in a way to most effectively meet the needs of the taxpayers they serve. The Small Business and Self-Employed division, dealing more frequently with taxpayers on more complex issues, will have a compliance field organization, including both examination and collection groups, reporting to a multi-functional manager. The Large and Mid-Size Business division, which deals regularly with taxpayers on complex issues, will be predominantly a field organization that will be structured into five industry groups. The Tax Exempt and Government Entities division will have support structures for each type of taxpayer it will serve: exempt organizations, pension plans and governmental entities, with common supporting elements.

The centralization of management information systems resources under the ***Chief Information Officer*** and of other common services under a shared services organization will provide for efficient and standardized common services where appropriate.

The ***Chief Counsel*** will establish a senior legal executive as the Division Counsel for each operating division to participate fully in the plans and activities of the operating division management and to provide high-quality legal advice and representation.

The ***Appeal***s organization will remain an independent channel for taxpayers who have a dispute over a recommended enforcement action.

The ***Taxpayer Advocate Service*** will be geographically distributed to provide local contact with taxpayers, and also have a taxpayer advocate in each operating division to identify systematic problems in the division.

Following the recommendations of the year-long study by Judge William Webster, ***Criminal Investigation*** (CI) will become a line unit reporting directly to the Commissioner and Deputy Commissioner. Operating as a nationwide line unit with 35 Special Agent in Charge (SAIC) offices, CI will closely coordinate its activities and strategies with the operating divisions and will be supported by dedicated attorneys from Chief Counsel.

The reduction in layers of management and the number of separate major units will free up some personnel resources to increase support for customer education and assistance programs. Similarly, the reduction of separate operational units and the centralization of management of key functions such as processing, customer assistance and collection within each division, will ease standardization of business practices and introduction of new technology.

Modernized organization conforms to our guiding principles

As seen through our guiding principles, the benefits of this new organization structure as compared to the current structure are apparent.

The modernized organization is built around specific groups of taxpayers with relatively similar needs. It is an inherently customer-focused organization, with each operating division responsible for creating and executing business practices and strategies to meet those needs.

The modernized organization sets forth clear, end-to-end responsibility and authority for a top official, supported by a small top-management team, to serve a set of taxpayers. Equally important, since the taxpayers served are reasonably homogeneous in their needs, it will be possible and expected for the managers at all levels to be knowledgeable in the substantive problems and issues that arise in administering the tax law in their division.

In the modernized organization structure, much of our complex tax law will not be relevant or important for the particular issues in each division, allowing the managers to focus on that which is important for their taxpayers. For example, the management of the Wage and Investment Division, although responsible for serving 75 percent of all taxpayers, will generally not have to be concerned with the 83 percent of the tax code that ordinarily does not apply to taxpayers for which it is responsible. Therefore, we can expect managerial accountability for understanding the problems in their area of responsibility and for taking effective action to reach our strategic goals. The Commissioner, Deputy Commissioners and the national office staff, in turn, will be better able to perform their proper role of helping the operating units set appropriate strategic goals and overseeing their performance in meeting them, rather than engaging in detailed operational issues.

This structure is specifically designed to facilitate direct and meaningful two-way communication, both vertically and horizontally, within the organization.

The top management of the agency and of each major division will consist of a set of teams, each of which will be linked to the next level. For example, the agency top management will consist of the Commissioner, Deputy Commissioners, key staff executives and the heads of each major operating division, while top management of each major operating division will consist of its head, deputy head and its top four to six staff and line executives. The total number of management layers from the front-line employee to the top official in the operating unit will generally be about half the number found today. In addition, many cross-unit councils and networks of individuals with special expertise will be created (e.g., human resources, finance, collections, examination, research, public affairs, etc.), further helping an interchange of best practices.

Development of meaningful measures of performance that relate directly to achieving our overall strategic goals is difficult in the current structure because the operational units are too small and too heterogeneous. For example, it is not meaningful to measure overall compliance at the district level. On the other hand, the IRS as a whole is too large and diverse for such overall measures to be useful except as broad indicators. The modernized organization structure will ease the development of strategic measures for each major operating division that are both meaningful and aligned with each of the three overall strategic goals. In addition, the clear separation in the compliance functions of responsibility for compliance strategy, including selection of returns for audit, from execution will advance the use of appropriate operational measures.

Integrity in any organization is achieved primarily by clearly articulating shared values and expectations, reinforced by consistent leadership and decision-making, rather than by structure. Nevertheless, the modernized structure will contribute to achieving the principle of total integrity in two ways: by clarifying the role of the national office as one of oversight rather than operations and by establishing the Inspector General for Tax Administration as a totally independent agency within the Treasury Department.

Clear management roles redefined to achieve goals

Closely related to the modernization of the organization structure is defining the skills and experience required for senior executives. The IRS has been a leader in the federal government in developing executives. The demanding process by which executives are selected and developed is very successful in producing leaders who thoroughly understand the IRS organization and practices. The drawback is that almost all executives have gained all their principal experience within the IRS.

There are many similarities between IRS activities and those of other private and public sector organizations, and the IRS has much to gain by synchronizing our best practices with the best of these organizations. Doing this effectively requires some selective recruiting of executives from outside the IRS. The current IRS organization makes it difficult to recruit and to assimilate outside executives and also makes it hard for IRS executives to fully learn and draw upon best practices from the outside.

The modernized organization, modeled after well-established structures and practices in other organizations, creates roles that are more comparable to those on the outside. This increases the possibility of selectively recruiting external executives with appropriate skills and experience. This model also makes the IRS more attractive to potential executive recruits. Their skills and experience will complement the essential skills and experience of executives developed internally, to the benefit of both. For example, there has historically been a Commissioner and a Deputy Commissioner at the top of the agency. We expect that there will be a similar senior management team for each operating division, with the possibility that one might be an executive recruited from the outside and one drawn from the inside. Over the last eighteen months, the IRS has selected virtually all top leaders of the new organizations. These new appointees are named later in this paper in each of their respective operating unit chapters.

As the new operating divisions are established, an important task will be forming top management teams. These management teams must include individuals with the broad range of experience and track record needed to lead each unit in the challenging dual task of managing current operations while modernizing business practices and technology to achieve our new mission and strategic goals. A modernized structure with redefined management roles is one of the essential components needed to achieve our mission and strategic goals. This new structure will make it possible to modernize our business practices and our technology in order to deliver improved service and higher productivity.

Information Technology

For any information-intensive service-oriented enterprise, such as the IRS, information technology has become, and will continue to be, a key resource on which all organizational performance depends. Hardly any large-scale business can sustain itself without effective, efficient information systems. The IRS is no different, yet is faced with some truly unique, world-class challenges that it must overcome in order to fulfill its mission.

Information technology currently in use

The IRS' installed inventory of information technology is the principal tool that IRS front-line workers and managers use to deliver services to taxpayers and to manage the organization. Nearly all IRS employees depend on the IRS computer systems every day to do their jobs, including over 70,000 individuals who use these systems to provide direct service to taxpayers. In terms of resources, the cost of IRS staff and information technology makes up nearly the entire budget, with staff costs comprising 70 percent and information technology making up 18 percent.

The IRS technology inventory is very large and diverse, comprising at present approximately 147 mainframe computers from 19 vendors, approximately 1,620 mid-range computers from 55 vendors, and over 100,000 individual computers. These computers run over 8,700 vendor-supplied software products and 82 million lines of IRS-maintained computer code. There are four major wide area data networks and 1,182 local area networks. The IRS voice network processes 182 million phone calls per year.

IRS core data systems are fundamentally deficient

While large in size, many of the IRS' information technology problems are similar to those of other large organizations that have installed technology piecemeal over a long period of time without a strong focus on professional management of information technology resources from the top. However, the IRS also has a very special problem that is a serious, on-going risk and a fundamental barrier to achieving its strategic goals.

The main system used to provide taxpayer account information was developed in the 1960s. It consists of a series of very large tape files, one set for individual taxpayers and another for business taxpayers. This 40-year-old system simply does not provide employees and taxpayers with even the basic information expected of a service provider.

Since nearly all IRS systems and procedures require data on taxpayer accounts, the entire IRS inventory of systems is built on a fundamentally deficient foundation. Further complicating this matter, the size of this inventory and databases is comparable to the largest in the world.

Given this situation, the IRS must replace nearly its entire inventory of computer applications and convert its data on every taxpayer to new systems. This must be done in conjunction with redesigned business practices, while continuing to provide service to taxpayers and to respond to ongoing tax law and other changes. This is a vast, complex and risky undertaking that will require many years to accomplish.

Modernizing IRS systems

It is important to understand the kind of process needed to modernize IRS' systems. This process has sometimes been compared to designing and building a new airliner or a huge office building. While there are some similarities, this comparison fails to adequately convey the nature of the IRS technology modernization program. A better metaphor would be a project to redesign and rebuild a large, densely populated city, such as New York City, complete with rebuilding all the subways, utility lines, surface transportation and tall buildings, all without delaying or injuring any residents or businesses and while accommodating ongoing growth and changes in the daily pattern of living and working. Such a program is far too big, dynamic and complex to be implemented or even designed in detail all at once.

The approach that the IRS is taking to deal with this monumental task is to establish an overall architecture for a set of new systems that will accommodate all essential tax administration functions according to modern standards of technology and financial management. Achieving this new system architecture must then be accomplished by defining a sequence of targeted and manageable size projects that meet important and specific needs while, at the same time, working to complete the overall architecture. During this process, the new and old systems must co-exist and must exchange data accurately for an extended period of time until data is gradually converted from old systems to new ones.

Given this situation, the existing inventory of installed operational systems, commonly called the "legacy systems," must not only be maintained to reflect annual tax law and other business changes, but it must also accommodate additional changes in order to bridge to and from new technology systems and convert taxpayer data from old to new formats. Therefore, the demands on the resources and management of the legacy systems staff will increase, not decrease, for the coming years as a result of technology modernization.

In 1997, the IRS published a "technology modernization blueprint," which described a detailed target architecture, including technical, functional and data architecture. This blueprint was an important and valuable step in the process of technology modernization.

During 1999, a principal objective was to update the blueprint to reflect the new plan for organization and business practices and, given limited capacity, to decide on the major priorities for implementation.

The speed of implementation of the technology modernization blueprint is subject to three major limiting factors:

- Capacity to design and develop new business practices and systems;
- Capacity of the organization to manage the process; and
- Capacity to make changes in the legacy systems needed to support ongoing operations and temporary integration with new systems.

Of the three factors, the capacity to manage the process and to change the legacy environment are the most constraining. Hence, planning of the technology modernization with the ongoing management of the existing environment is critical.

Organizing to manage information technology

Because of the close inter-relationships, programs to modernize IRS technology both depend on and enable modernization of the organization and business practices. With respect to the organization, there are two important dimensions: how the IRS is organized to manage information technology itself, and how the operational units that manage IRS programs work with information technology to improve business practices and achieve our strategic goals. Improvements in both dimensions are essential in order for modernizing IRS technology to succeed.

Improvements in information technology organization are essential to achieve professional, high-quality results in resource use and in managing technology programs, including modernization of core business systems and management of the legacy systems.

Improvements in IRS business organization are essential to create business owners who have the knowledge, authority and commitment to develop improved and consistent business practices. This will also enable them to work in partnership with the information technology organization to develop and deploy appropriate technology that supports modernized business practices.

Discussed in greater detail later in this paper, the management of essentially all information systems resources was centralized under the Chief Information Officer in October 1998. This was a first step toward creating a professionally managed information technology organization that will provide high-quality, efficient service to all IRS operating units, treating the IRS operating units as customers.

The establishment of IRS operating divisions, as described throughout this document, will enable the appropriate business owner to revamp business practices and work with the information technology organization to modernize supporting technology.

Performance Measures

The techniques that an organization uses to measure its performance go to the heart of what the organization really values. In the IRS, as elsewhere, what the organization values is communicated through a variety of means, both explicit and implicit, including what behavior is rewarded, ignored or punished. Quantitative measures, being apparently precise and objective, are an extremely powerful device with great influence on behavior.

The importance of enforcement revenue as a measure of IRS performance created a dilemma and a controversy that persisted for years. The dilemma was created by the fact that each specific enforcement action must be guided by law as applied to the specific facts and circumstances of the case and, therefore, it has long been considered inappropriate to give "quotas" or quantitative enforcement goals to an individual enforcement officer.

In the 1990s, an attempt was made to increase the emphasis on enforcement revenue by establishing a quantitative performance index to rank the performance of the IRS district offices, an index in which enforcement statistics comprised about 70 percent of the weight of the index. This index was a very important factor in evaluating the performance of the district management. However, by law and regulation, these same measurements were not supposed to be used to evaluate front-line employees. As is now known, this approach resulted in a misalignment of measures for managers and employees, in turn causing a range of serious problems including widespread violations of the regulations on use of statistics.

Establishing a balanced measurement system

It is essential to establish appropriate quantitative performance measures for the IRS and its major component operations. This is required by the Government Performance and Results Act and is essential to the proper operation of any large organization. For this reason, an integral part of the overall IRS modernization program is the establishment of balanced performance measures that support and reinforce achievement for the IRS' restated mission and overall strategic goals.

A critical aspect of establishing an appropriate balanced measurement system is establishing the measurements based on what we need and want to measure in order to achieve our strategic goals and mission, rather than simply what is most easily measured. This balanced measurement system must define quantities that are relevant to each of the strategic goals and that indicate, in total, progress on all three goals. As in most good organizations, the process of measurement can be constantly refined, but the concept of what is being measured remains stable.

Also critical to the measurement system is following the guiding principle that measures must be aligned at all levels, from the top to the front-line employee. In developing measures for each organizational level, it is important that each component of the balanced measurement system reflect responsibility at that organizational level. At the top of the organization, management has control over strategies and allocation of resources. At the mid-levels, managers have less control over these variables but do have control over the effectiveness of training, coaching and guidance of employees. At the individual level, each employee has control over his or her own individual work and self-development.

An overview of the balanced measures system being implemented at the IRS is shown on the next page in Figure 1-5. As seen in the matrix, there will be quantitative measurements keyed to each of the three strategic goals at both the strategic level and the operational level. In general, quantitative measures will not be used at the individual employee level.

Figure 1-5: Measuring Performance at the IRS

- **MEASURES THAT MEASURE WHAT WE REALLY WANT.**
- **BALANCED MEASURES DERIVED FROM THREE CORPORATE GOALS.**
- **MEASURES ALIGNED AT ALL ORGANIZATIONAL LEVELS.**

Goals	Strategic Management Level	Operational Management	Front-Line Employees
Service to each Taxpayer • Make filing easier • Provide first quality service to each taxpayer needing help with his or her return or account • Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due	• Overall customer satisfaction with service/treatment • Customer dissatisfaction (complaints) • Customer satisfaction compared to other organizations	• Satisfaction with particular service • Dissatisfaction with particular service	• Service to taxpayers and treatment of taxpayers incorporated in critical elements
Service to all Taxpayers • Increase fairness of compliance • Increases overall compliance	• Overall compliance percentage • Increase in compliance • Uniformity of compliance • Allocation of compliance resources-dollars vs. resources	• Quality of particular cases/events (EQMS/CQMS) • Quantity of particular cases/events	• Case quality and time management incorporated in critical elements
Productivity through a quality work environment • Increase employee job satisfaction • Hold agency employment stable while economy grows and service improves	• Overall employee satisfaction with working environment • Overall workload vs. size of workforce	• Employee satisfaction with particular working environment	• Now: none • Future: Teamwork contributes to improving work environment (TQO)

Progress Update

Much work remains to be done on the measurement process. The IRS completed balanced measures development for the Examination, Collection and three Customer Service product lines in calendar year (CY) 1998. In CY 1999, additional balanced measures were approved for: Tax Exempt and Government Entities, Large and Mid-Size Business, Appeals, Taxpayer Advocate Service, Research, Statistics of Income and additional Customer Service product lines. These measures are undergoing final design and implementation. Other measures teams underway in CY 1999 that are expected to have approved balanced measures in early CY 2000 include: Information Systems, Criminal Investigation, Counsel, Submission Processing and Agency Wide Shared Services.

Strategic measures for all of the operating units and for the IRS as a whole must be defined and implemented. In part, the strategic measures depend on assembling data on overall compliance, which will take longer to assemble.

Most importantly, the IRS must learn how to use balanced measures as a tool to achieve a high level of performance on all three of our strategic goals.

Planning, Priorities and Risks

The IRS is undertaking massive change to achieve a restated mission and strategic goals that closely follow the expectations of Congress and the American people. These changes are comprehensive and are made up of business practices and strategies, organization and management, information technology and performance measures.

This process, referred to as "modernization," represents a fundamental redesign of the way the agency works, a challenging process for any organization. These changes must take place while current, large-scale operations continue uninterrupted, including ongoing changes to implement new tax laws.

Risks

The amount of change required for modernization, coupled with current complex operations, means that there is significant risk that unanticipated problems will arise, particular plans or milestones may have to be changed, and operational errors will occur. When these events occur, time and money will be needed to address them.

Given the current situation at the IRS, there is no low-risk plan. Any attempt to retain the status quo or make modest incremental changes would increase the gap between the IRS' ability to deliver required services and what the public and Congress expect, while imposing increasing direct and indirect costs on the public for administering the tax system. In addition, the information technology on which the IRS critically depends is fragile and deficient and cannot be fixed short of a near total replacement. Yet, success in modernization of technology can only be achieved with the appropriate management and organization structure and a program to modernize business practices.

Although there are inherent risks in the modernization process, knowing that they exist means that they can be managed and mitigated so that no setback is fatal, and we can be reasonably confident of ultimate success. In this regard, two items are critical:

- Setting overall priorities in light of the limited organizational capacity; and

- Establishing effective management over each major change process.

Organizational capacity and priorities

The IRS, like any organization, has limited capacity to manage and absorb change. These limitations arise from such things as the capacity of the top managers to understand, plan and make correct decisions about the many complex issues that arise; the capacity of managers and employees throughout the organization to learn many new ways of doing business, new practices and technology; limitations on the number of subject-matter experts in highly specialized areas, ranging from tax law to technology; time required to consult outside and inside stakeholders; and time required to resolve disagreements. Because the IRS is a public agency that provides an essential service, capacity to make change rapidly is further limited by the need to ensure that essential services, such as the filing season, are never jeopardized and the financial integrity of the revenue stream is maintained. The inherent limitations of organizational capacity and the need to manage risk make it essential to set overall priorities in light of the overall goals

Even before the redefined mission and modernization program were undertaken, the IRS organizational capacity was stressed to the maximum in an attempt to respond to thousands of individual recommendations from studies and proposals, as well as legislative mandates and tax law changes. This reactive process used up all available capacity without addressing the fundamental problems.

In order to deal with this issue, a set of programs was established to manage activities and priorities in an orderly way in each major area of change with an overall sequence that attempts to maximize the use of available organizational capacity, while gradually expanding it. This sequence aims at delivering on essential near-term operational requirements and improvements in service delivery while carefully planning and implementing longer-term changes.

Risks and schedules

An essential aspect of managing risk in this change program is properly managing and communicating the schedules and dates for accomplishing particular change events.

In this huge change process, there will be hundreds of specific changes implemented on particular dates. For example, an organizational change occurred when customer service sites began reporting to a single customer service field organization headquarters instead of a district or service center; a new business system and process implementation occurred when the centralized call-routing software began to route incoming telephone calls to call sites around the country; and a technology change occurred when the mainframe computer programs for the Andover Service Center began executing on a consolidated computer in Martinsburg rather than on local computers in Andover.

Every change of this kind carries with it risk, and the decision as to when and how to proceed must be carefully evaluated and reevaluated in light of all information available at each point in time. Every specific project that composes the overall change program should be recognized as a learning experience in which more detailed and complete information becomes available over time. Proper risk management depends on constantly using this information to set and reset schedules. Failure to manage risks and schedules in this flexible way enormously increases the likelihood of failures and frequently ends up delaying, rather than accelerating, actual progress.

The role of high-level planning and the presentation of overall milestones, such as those presented in this paper, are to allow for the setting of priorities and the initiation of more detailed planning and implementation projects.

Given the nature of this change process, it is extremely important for management to keep all key stakeholders informed on a regular basis and to explain the intent of presenting various milestones and schedules. It is important for stakeholders to understand the nature of this process, and to evaluate the program based on overall progress towards the strategic goals, rather than placing undue significance on the date on which particular events occur.

Management process

Since the IRS is undergoing extensive change in each of the dimensions described above while current operations continue uninterrupted, an appropriate management process must be established. Each of the dimensions of change affects various parts of the existing operations and requires both high-level leadership and decision making to address major issues and intensive daily management of massive levels of detail and analysis. Finally, each dimension of change requires special expertise and knowledge of best practices used in other private and public sector organizations around the country.

To manage these changes, the IRS established a tailored management process for each area of change. In each change area, an executive steering committee acts as the top-level governing body. The executive steering committee consists of the Commissioner and the senior executives responsible for all the major areas affected by the change. In addition, the Assistant Secretary of the Treasury for Management and the President of the NTEU are members of each committee.

The purpose of these executive steering committees is to provide consistent direction and prompt decision making on all major issues that affect progress in the change areas. Under the general direction of the executive steering committee, there is a program office headed by a senior executive that manages the on-going program and also provides staff support to the committee. The program office maintains plans, performs analyses and provides detailed management and guidance to whatever organizational components within the IRS are necessary for implementation of changes. In most of the change areas, organizational capacity is augmented and knowledge of best practices is provided by an experienced lead contractor.

Since the Commissioner, the two Deputy Commissioners, Chief Information Officer and other top executives are common members of these executive steering committees and also supervise all ongoing operations, high-level communications and coordination are facilitated.

An essential aspect of this change program is very active, ongoing, two-way communications within the organization at all levels and with outside stakeholders, including Congress, Treasury and numerous outside groups with an interest in IRS matters. In each change program, an important function of the program office and of the top executives is developing communications materials and personally meeting with many individuals and groups. This activity is coordinated through an overall modernization communications program managed by the Chief, Communications and Liaison.

Chapter 2 Wage and Investment

Taxpayer Characteristics

The new Wage and Investment Division will serve approximately 116 million customers, including those who file jointly, accounting for 88 million returns with wage and investment income only. These are taxpayers filing a 1040 tax return with no accompanying schedules C, E, F or 2106 and no international activity. Almost all of the income for this group of taxpayers is reported by third parties, and the vast majority of taxes are collected through third party withholding. Most of these taxpayers deal with the IRS only once a year and the majority of these taxpayers receive refunds.

Due to cooperation from taxpayers as well as third party reporting of information and withholding, the W&I taxpayers are highly compliant. When compliance issues do arise, they are often the result of a taxpayer's confusion regarding the tax law or a personal event outside their control, and they are often detected through technology-based matching programs.

The bulk of W&I taxpayers (roughly 85%) earn under $50,000 per year with 28% of them earning less than $10,000 per year. Only 2% earn greater than $100,000. Over half of the 116 million W&I taxpayers prepare their own tax returns without assistance from a paid preparer. This presents a great opportunity for the IRS to provide top quality service to a large number of taxpayers who otherwise would not receive assistance.

Goals, Principles and Objectives

Redesign efforts have been focused on building a new organization structure that provides more education and assistance to W&I customers and enables them to understand and satisfy their tax responsibilities. The most fundamental change is the customer segment based structure resulting in four operating divisions. This new structure will provide end-to-end accountability for managers and employees, and allow employees to become very knowledgeable of the unique needs and characteristics of the specific taxpayers they serve.

Over the last year, IRS employees from around the country have worked together on teams to finalize the design of the new Wage and Investment Division. The Phase IIA teams, took the initial design concept laid out in Phase I and designed a preliminary organization structure all the way to the front line. For Phase IIB, the teams focused on:

- Defining the W&I Headquarters' roles and responsibilities, organization structure and staffing
- Developing service delivery models and staffing required for providing taxpayer assistance through new geographically dispersed field offices
- Determining the best channels through which to provide compliance-related support and activities
- Creating a new organization structure with fewer layers of management for the Customer Accounts Services; and
- Finalizing the geographic footprint for the new Stakeholder, Partnership, Education and Communication (SPEC) organization.

As we move into Phase III, most of the design work should be complete and the teams will focus primarily on implementation. The teams will finalize the staffing for the entire W&I organization and start building the new organization through hiring new staff, realigning existing staff, preparing facilities and shifting responsibilities from today's structure to the new operating division.

Once the new operating division is in place, W&I will begin longer-term initiatives to improve business processes to offer tailored products/services, build new supporting technology and develop methods for compliance activities that are more effective and less burdensome to taxpayers who want to voluntarily comply.

Short Term Impacts – Organizational Change

In the short term, most of the impacts will be seen and felt by the IRS employees. For the remainder of fiscal year 2000, there will be significant reorganization of staff and shifting roles and responsibilities. For example, new job opportunities will become available in the "pre-filing" organization, and roles and responsibilities of the current National Office will be decentralized into the operating divisions.

Long Term Impacts – Taxpayer Interactions

The ultimate goal of the reorganization is to improve service to the taxpayers. For W&I, with a largely compliant taxpayer base, this means placing greater emphasis on proactive education and assistance. W&I will analyze taxpayer needs so that IRS better understands how to help them comply.

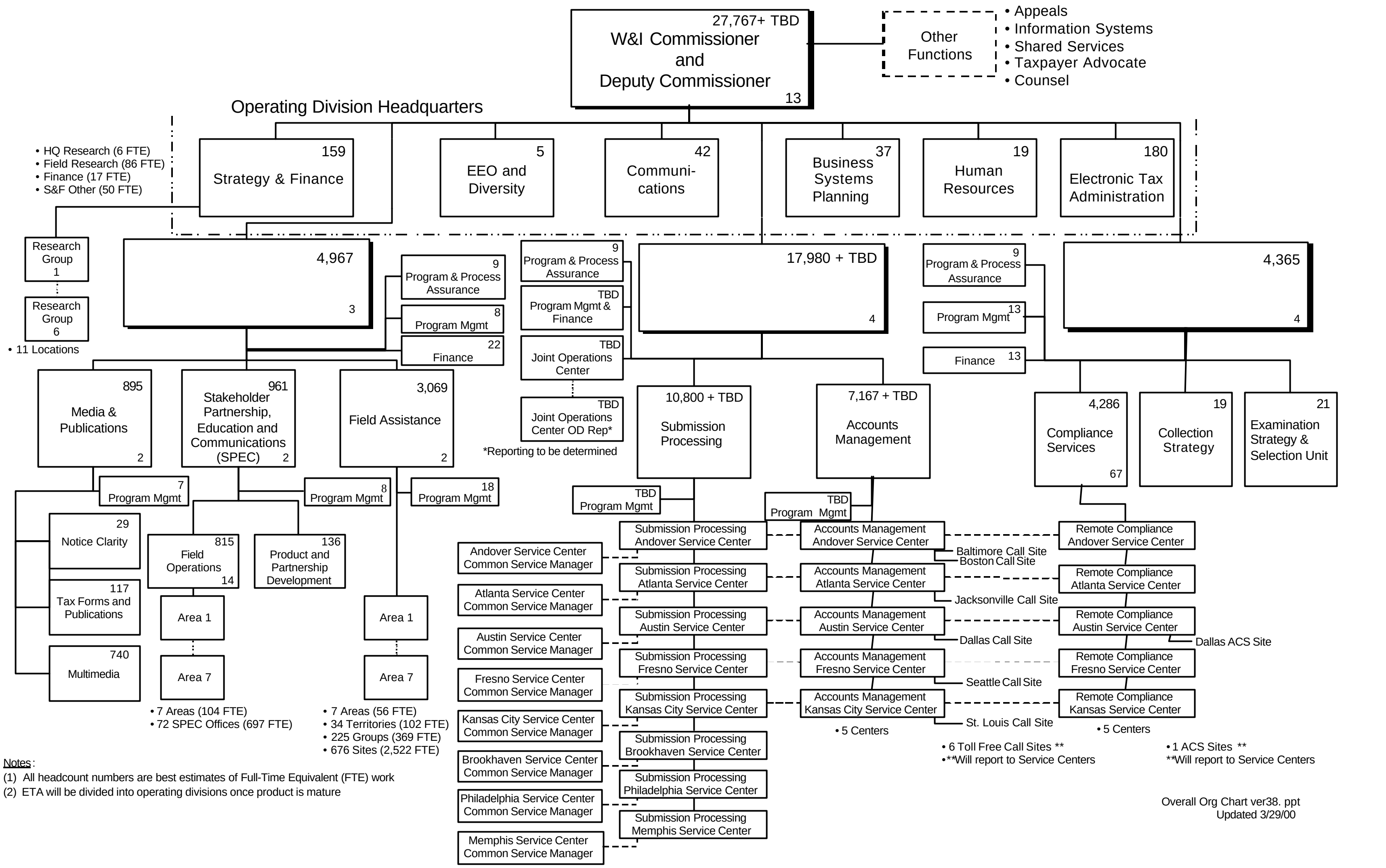
Much of the design effort has been focused on this ultimate goal but will not be evidenced by taxpayers for a few years. For example, the new Field Assistance structure will provide new channels for taxpayers to access the IRS, such as kiosks in shopping malls and mobile van units to reach remote areas. These efforts have relatively long lead times, and are currently targeted to be implemented in time for the 2002 filing season.

Organizational Structure

As illustrated in Figure 2-1, the Wage & Investment (W&I) Division comprises three operating units - Communications, Assistance, Research and Education (CARE) "pre-filing"; Customer Account Services (CAS) "filing"; Compliance "post-filing" and the headquarters.

- **CARE's** primary role is education. Prior to a taxpayer filing, the IRS must provide easily understood translations of the tax code, answer basic tax law questions and provide taxpayer service through a variety of vehicles including: partnerships with stakeholders, face-to-face interactions and written correspondence.
- During filing, **CAS** processes returns submitted by roughly 116 million taxpayers and validates that the proper amount has been paid.
- A much smaller number of taxpayers may at some point have a delinquent payment or an examination issue and be contacted by the **Compliance** staff.

Figure 2-1: Wage & Investment Division



Notes:
(1) All headcount numbers are best estimates of Full-Time Equivalent (FTE) work
(2) ETA will be divided into operating divisions once product is mature

Senior Management Team

The concept of a W&I senior management team, focused on providing overall strategic and operational direction to service its approximately 116 million customers, is a profound change in the way the IRS views its relationship with its largest customer base.

In the W&I Division, senior managers will focus on the mission of serving the W&I customer segment. Focused solely on its mission of providing world class service to this customer segment, the members of the senior management team will be much more interdependent on the success of one another. For example, changes in compliance strategy will be viewed holistically across all W&I units to determine how the changes impact both internal operations <u>and</u> service to the customer. Strategic direction as well as operational decisions will be made in the context of service to the customer base.

Named Commissioner in December 1999, John Dalrymple brings 25 years of experience to the position. Dalrymple was named the IRS Chief Operations Officer in August 1998 after serving two years as Deputy Chief Operations Officer. He began his career with the IRS as a revenue officer in 1975 and has held management positions in several IRS district offices. John Duder, former President of Customer Solutions Inc, was named as Deputy Commissioner in March. He brings unique leadership and business skills and 13+ years of private sector experience with AT&T. John Dalrymple's internal expertise combined with John Duder's external perspective and experience will provide W&I with very strong leadership.

The new W&I Commissioner and Deputy Commissioner are now in the process of interviewing for key executive management positions throughout the operating division. Some of the positions have been selected and announced. They are:

- Tyrone B. Ayers – Director, Communications, Assistance, Research and Education (CARE)
- John R. (Ron) Watson – Director, Customer Account Services (CAS)
- A. Jane Warriner – Director, Compliance
- Mary E. Davis – Director, Strategy and Finance
- Robert E. Barr – Director, Electronic Tax Administration/ E-Business Executive Officer
- Mark Pursley – Director, Accounts Management
- Sherrill Fields – Director, Diversified Electronic Filing
- Jo Ann H. Blank – Director, Individual Electronic Filing Operations
- Stephen H. Holden – Director, ETA Modernization Executive
- Raymona Stickell – Director, Multimedia Production

- Sheldon Schwartz – Director, Tax Forms and Publications
- Jimmy Smith – Director, Submission Processing
- Carol Stender-Larkin – Submission Processing Field Director Andover
- Terry O'Brien – Submission Processing Field Director Atlanta
- Estelle R. Tunley – Submission Processing Field Director Austin
- James C. Gaither – Submission Processing Field Director Brookhaven
- Jerald H. Heschel II – Submission Processing Field Director Memphis
- Christopher J. Egger – Submission Processing Field Director Philadelphia
- Margaret J. Connell – Accounts Management Field Director Andover
- Ronda Hon - Accounts Management Field Director Fresno
- Gwen A. Krauss – Compliance Field Director Atlanta
- James M. Grimes – Compliance Field Director Fresno
- Monte Simonsen – Compliance Field Director Kansas City
- William Zachery – Director, Exam Selection and Strategy Unit

One of the driving forces that will facilitate the close relationship between senior-level managers is the use of a balanced measurement system. Senior managers will be measured on their ability to work closely together to ensure the success of the entire division. W&I will be fully supported by internal partners: Appeals, Counsel, Criminal Investigations, Information Systems, Shared Services and the Taxpayer Advocate. Senior representatives from these organizations will also be part of the W&I senior management team.

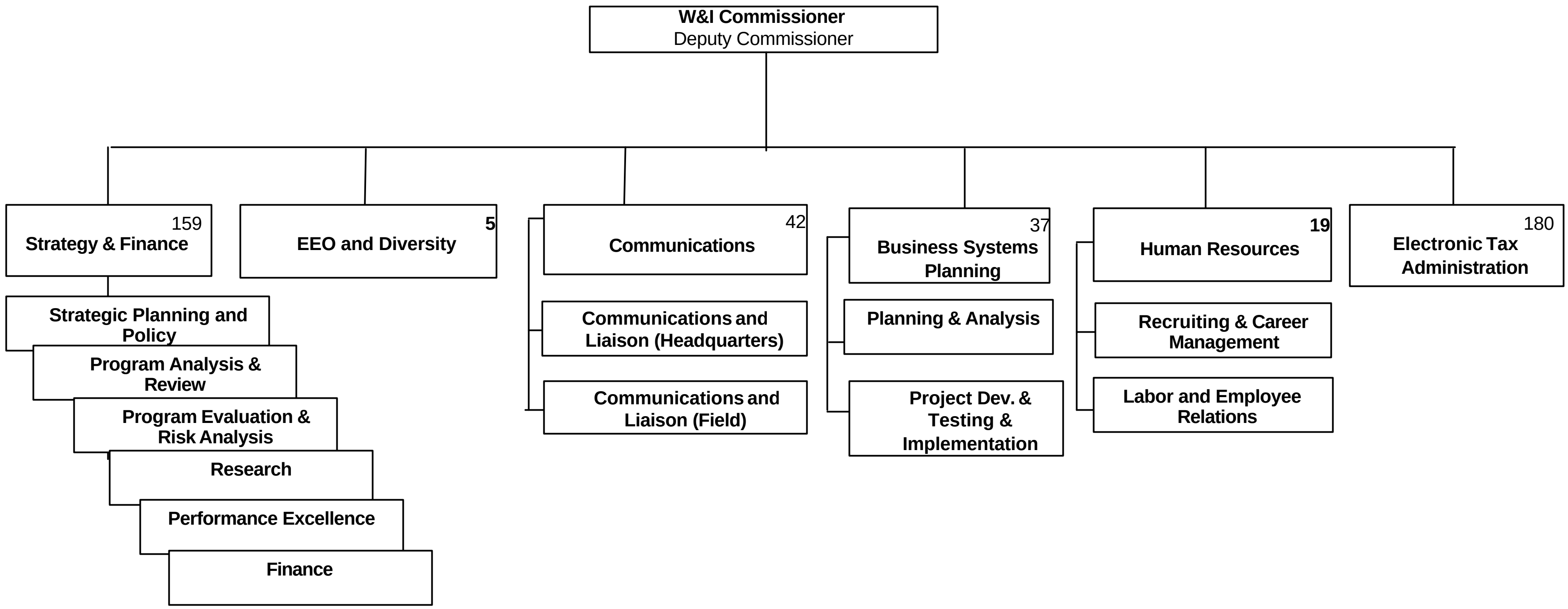
Cooperation with and full solicitation of the partners' input will be accomplished through geographic and national councils that will cross both functional and operating division boundaries.

W&I Headquarters

The W&I Headquarters, located in Atlanta, will provide overall strategic and operational direction to the W&I operating units while providing internal support processes that can best be provided at the operating division headquarters level. The headquarters of W&I will provide only those services that cannot be provided practically at lower levels of the organization. This philosophy largely reflects the IRS organizational direction of moving accountability closer to the front-line organizations.

The critical operations of W&I Headquarters include the following staff functions: Strategy and Finance, Equal Employment Opportunity and Diversity, Human Resources, Communications and Business Systems Planning and Electronic Tax Administration.

Figure 2-2: Wage & Investment Headquarters



Strategy and Finance

The Strategy and Finance organization provides W&I with division-wide management of strategic planning, policy development and research. Strategy and Finance will focus on improving service to customers through the application of strategic and tactical research aimed at identifying customer needs and developing programs to address these needs. This function will incorporate feedback from internal and external customers, employees and business units. In this role, this function sets the strategic direction and develops goals for all W&I business units. This will require demographic research and constant analysis of trends in customer characteristics and needs. This research function will have 10 locations organized into 5 groups. Additionally, this group is responsible for:

- Providing staff support to the W&I Executive Planning Council and others dealing with strategic leadership.
- Managing the program analysis and review process to assess and monitor division performance against plan expectations.
- Preparing the W&I balanced scorecard and developing systems to capture measures data.
- Managing the program evaluation and risk analysis processes. Evaluating proposed programs for their investment potential in achieving division goals. Assessing risks with ongoing programs.
- Providing guidance to management on quality improvement methods.
- Overseeing the process for maintaining Total Quality Organization certification.
- Providing support to the National Partnership Council and represents the office in coordinating NTEU activities.
- Conducting demographic and sociological research.
- Conducting sub-segmentation at national and local levels.
- Coordinating and collaborate with internal and external customers.
- Assessing of the “voice of the customer”.

- Formulating W&I's budget submission.
- Consulting with the W&I Human Resources office**,** securing funding for the overall W&I Training Plan.
- Managing the resource distribution process including the development of a financial plan that supports the program priorities of W&I.
- Managing the financial resources for W&I including tracking resource usage against targets.
- Establishing financial policies, procedures and controls for W&I in conjunction with overall Service guidelines and procedures.
- Providing to W&I management the necessary financial information that reflects the status of budget execution**.**
- Managing the overall management controls/accountability program in W&I. Ensures necessary coordination and support for internal/external financial audits.
- Conducting division-wide financial review and develops recommendations with operating units to achieve a balanced financial plan.
- Providing advice and assistance to operating units in developing and executing sound business cases.

EEO and Diversity

W&I will have a dedicated staff that establishes and implements EEO policies, procedures and programs for the Division that conform with overall service guidelines. This staff will also perform various tasks including:

- Advising the W&I Commissioner and other W&I management officials on EEO and Diversity issues, including complaint resolution.
- Establishing and implementing EEO policies, procedures, programs and recruitment strategies for the division in conformance with overall Service guidelines.
- Overseeing the W&I EEO and Diversity Advisory Committee.
- Providing training to W&I staff on EEO-related matters and issues.
- Preparing reports and conducting analyses of key workforce-related trends or actions to identify any practices, regulations and procedures that may perpetuate discrimination.

- Establishing division policy on reasonable accommodation, sexual harassment and other EEO-related issues, and ensuring that it is appropriately implemented.
- Coordinating special emphasis activities relating to women and minorities.
- Representing W&I on the EEO and Diversity Council.
- Developing and monitoring the W&I affirmative employment plan in accordance with service wide policy and the management directives of the Equal Employment Opportunity Commission.
- Developing and monitoring EEO service level agreements (SLAs) with Agency Wide Shared Services.
- Developing W&I's EEO Annual Business Plan.
- Conducting, on a timely basis, necessary inquiries into alleged discrimination and recommending remedial relief in an expeditious manner.
- Developing a substantial relationship with the recognized employee groups as major stakeholders in division Diversity initiatives and special emphasis programs.

Communications and Liaison

The Communications and Liaison function, located at the W&I Headquarters, is the main point of contact for relaying W&I-related information to both internal and external stakeholders. Among the C&L group's main responsibilities within W&I are overseeing the Division's communications strategy, including marketing and media relations and coordinating related activities with the National Communications and Liaison office. The group will also provide information and analyses to support hearings, inquiries and budget formulation activities. In addition, this group will serve as the central point of contact on all W&I matters related to Fed-State and Disclosure.

Business Systems Planning

The Business Systems Planning group, also part of W&I Headquarters, gathers and articulates business needs for Information Technology (IT) projects, applications and legacy systems. Responsibilities include assessing IT solutions to address gaps in business processes, creating business cases for new IT projects and evaluating requests for information services. This group will create a close partnership with the Division Information Officer (DIO) who reports to the Chief Information Officer. Through this partnership, the W&I needs and services will be coordinated with all appropriate IT staff. Some related tasks include:

- Planning and analyzing business needs for new projects. Develops business cases. Prioritizes business needs and process changes.
- Formulating Information Technology plans and budgets. Manages and/or monitors funds for business systems modernization projects.
- Developing and testing projects. Oversees business involvement in systems testing. Establishes information systems performance measures.
- Implementing and overseeing modernization projects. Develops and monitors the Implementation Action Plan. Evaluates the results of the project on W&I operations.
- Providing support to senior leadership by providing business expertise to complement Information System's knowledge of technology change.
- Developing and negotiating Service Level Agreements (SLA) with support functions. Assesses the effectiveness of support received.

Human Resources

The W&I Human Resources staff will ensure continuous performance improvement and individual development through competency and skill building, conducting needs assessments and prioritized resource allocation. The staff will develop education strategies and design curriculum that focuses on the development of W&I key competencies. The primary responsibility of this staff is to ensure that W&I personnel are technically competent to meet customer needs. Some of the support activities required include:

- Supporting the Division Commissioner's partnership endeavors with the National Treasury Employees Union (NTEU) throughout W&I and serving on the W&I Partnership Council.
- Serving as the W&I representative on the Human Resources Policy Council.
- Developing and implementing policies, guidelines and procedures for the division within parameters set by National Strategic Human Resources.
- Working in concert with the W&I operating units, designing and developing an integrated division-wide training plan.
- Proposing and allocating the training budget to W&I operating units.
- Interfacing with the successor to the Joint Requirements and Resources Oversight Board (JRROB).
- Working in concert with all W&I business units, developing and overseeing an integrated human resources strategy including forecasts of future needs.
- Providing workforce planning and strategic recruitment support to the W&I operating units.
- Providing Labor Relations advice and negotiation support for division-wide initiatives.
- Overseeing position management and career management activity support within W&I.
- Securing and overseeing organizational development support for W&I operating units.
- Coordinating special activities such as Combined Federal Campaign and Savings Bond Campaign.
- Administering annual training and certification requirements, e.g. UNAX, P-1-20, Section 1203, etc. Monitoring the Office of Government Ethics financial reporting requirements for the operating units.
- Overseeing and managing the performance management process including monitoring of appraisals and awards within W&I.
- Overseeing the Employee Satisfaction Survey process for the W&I Division.

Electronic Tax Administration

The mission of Electronic Tax Administration (ETA) is to revolutionize how taxpayers transact and communicate with the IRS. ETA provides the mechanisms for taxpayers, practitioners, payers and other information exchange partners to file returns, make payments, exchange correspondence and retrieve forms, publications and other information from the IRS electronically with minimum reliance on paper.

Other ETA responsibilities include:

- Overseeing existing ETA programs;
- Supporting ETA information technology development efforts;
- Improving taxpayer awareness of ETA products and services through marketing campaigns;
- Administering the Electronic Tax Administration Advisory Committee and the E-Business Steering Committee; and
- Establishing and supporting national- and field-based Account Managers who will service the needs of Electronic Return Originators (EROs), financial institutions, large and small employers and payroll service providers who distribute ETA products and services to taxpayers.

Process-Based Organizational Segments

The three major functional organizations (CARE, CAS and Compliance) are process-based; that is, they have organizational structures that manage the full life cycle of interaction with W&I customers. This provides full accountability for a discrete taxpayer segment with unique characteristics and needs.

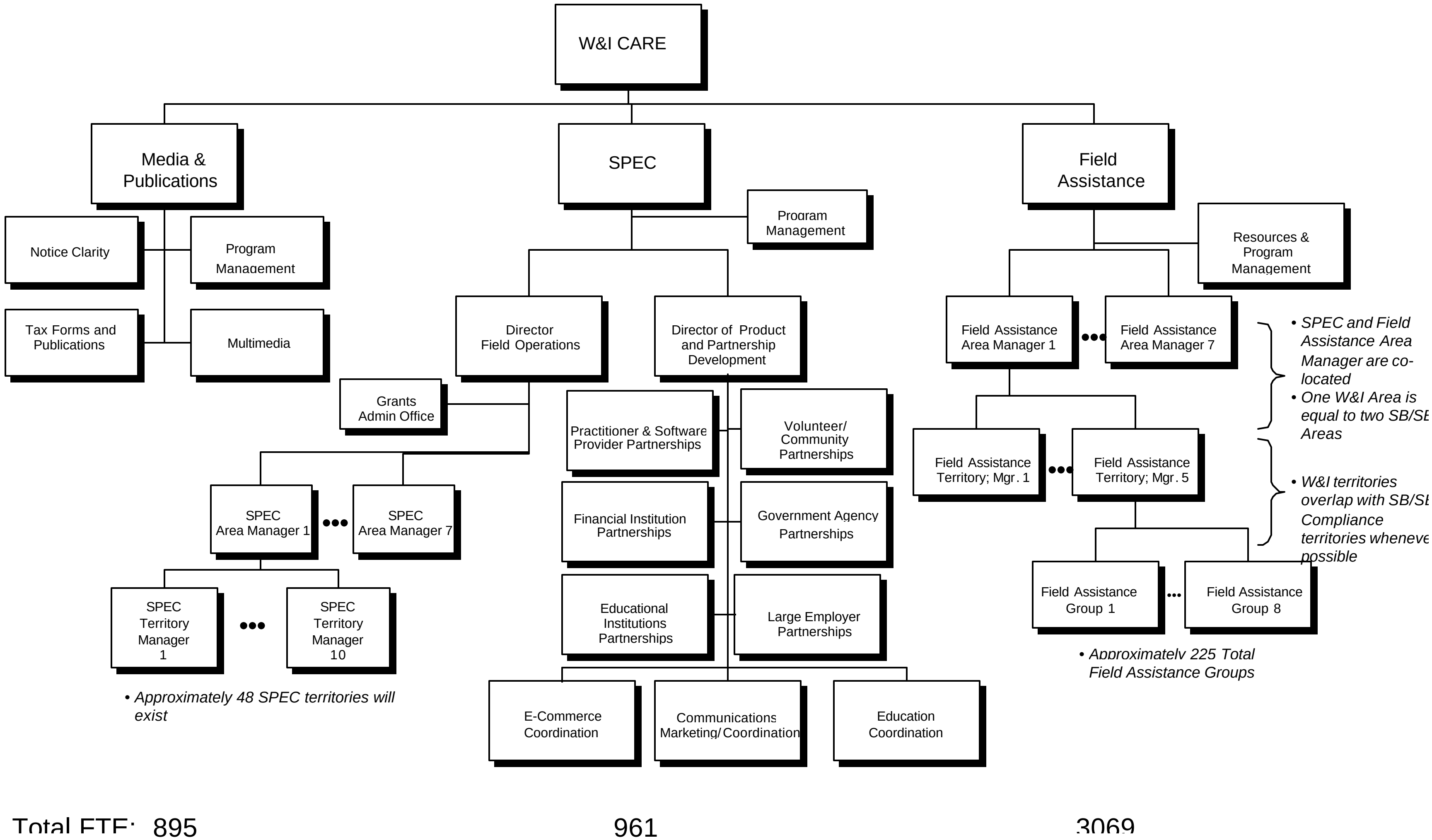
Communications Assistance, Research and Education (CARE)

CARE will focus on providing taxpayers with the information, support and assistance they need in order to understand and fulfill their tax obligations. To best serve its customers CARE will be organized around three sub-units: Tax Publications, Stakeholder, Partnership, Education and Communication (SPEC) and Field Assistance as illustrated in Figure 2-3.

Media and Publications

The Media and Publications group will consist of three groups: a new capability to focus on Tax Publications Redesign, the current Tax Forms and Publications and the current Multimedia. At stand-up the Multimedia group and Tax Forms and Publications will move into W&I intact. They will maintain their current structures and functionality. The new capability will focus on redesigning current forms, publications and notices to better meet customer needs and communicate requirements. These groups will also work with Counsel to develop needed clarification of tax law and published guidance.

Figure 2-3: Communications, Assistance, Research and Education (CARE) Organization Structure



Stakeholder, Partnership, Education and Communication (SPEC)

SPEC will assist W&I customers in satisfying their tax responsibilities by building and maintaining partnerships with key stakeholders who will, in turn, deliver new tailored products and services to the intended audience (e.g., customers needing assistance with return preparation). These partnerships will allow the IRS to reach more customers with educational products and assistance than they could otherwise reach by delivering these products and services directly. SPEC will be responsible for developing educational materials for use in pre-filing, filing and post-filing customer interactions, developing products for use in marketing and working with local and national media to ensure that taxpayers are aware of tax law changes and IRS services.

To fulfill these roles, SPEC will deploy Account Managers and Marketing Specialists at the group level to establish local partnerships. At the Headquarters level, National Account Managers will be organized around six stakeholder groups: volunteer and community organizations, government agencies, educational institutions, large employers, financial institutions and practitioners software and service providers. To ensure service at the highest standard, account managers will draw on the functional expertise provided by three national coordinators: education, e-commerce and communication/marketing.

SPEC major responsibilities include:

- Building and managing partnerships with key stakeholder groups to market and deliver educational products and services
- Developing marketing programs
- Developing education programs and materials
- Developing mass media materials

SPEC will manage approximately 40+ groups that cover every state and major metropolitan area in the United States. The footprint is designed to provide SPEC access to partners whose resources can be leveraged to serve W&I customers at a local level. The footprint was based on criteria such as: concentration of potential partners, concentration of customer segments (particularly those requiring assistance), maintaining a presence in each state and location of current facilities and staff. The recommended footprint will consist of home offices where sufficient customer and partner presence exists and satellite offices where a full-scale presence is not practical.

Whenever possible, SPEC offices will be co-located with Field Assistance Offices. SPEC is a primary driver for reducing peak demand on the Field Assistance organizations by effectively leveraging community partnerships. With each coming year, the need to provide peak support to Field Assistance will decline but, in the interim, SPEC will be a key source of detailed-in staff during peak periods.

Seven Area offices, co-located with Field Assistance Area offices, will provide support for the group offices and will assist the groups in customizing products to local characteristics. The SPEC Headquarters will provide a central location to develop a range of products that address customer needs. Headquarters will also fulfill managerial and oversight roles for the SPEC organization. This structure will enable SPEC to develop products at a national level, customize the products to satisfy regional needs and preferences, and deliver them through established local channels.

Field Assistance

Field Assistance will provide comprehensive, face-to-face assistance for taxpayers that require this mode of interaction. Most W&I customers have no compliance issues and, of those that do, most can be resolved remotely via telephone or written correspondence. Therefore, the face-to-face assistance provided must be capable of delivering cross-functional, customer-focused problem solving and education to those customers who want to voluntarily comply but require assistance. In addition, some face-to-face exams will be required for a small percentage of taxpayers whose returns can be more effectively examined in this way. Field Assistance major responsibilities include:

- Providing assistance in the preparation of returns as well as resolution of less complex accounts and compliance issues for taxpayers that require face-to-face assistance
- Deploying new strategies to reach taxpayers, especially in rural areas, such as mobile sites
- Selecting locations for assistance sites
- Working closely with Counsel to clarify tax law and guidance

To fulfill these roles, a new W&I Tax Resolution Representative (TRR) position will be created. This new IRS position will institutionalize the success of IRS "Problem Solving Days" into our daily interaction with customers. Problem Solving Days have been widely accepted by both employees and taxpayers as being highly successful in terms of resolving taxpayer problems. In these special events, taxpayers visit convenient locations to meet face-to-face with a team of IRS experts with a wide variety of skills. With the new TRR, the knowledge of the team of experts is now resident in one position.

The TRR will provide assistance, education <u>and</u> compliance support to taxpayers and will provide 100% of W&I's field compliance support. The TRR will be trained with cross-functional skills and knowledge needed to resolve the vast majority of tax law questions and routine compliance issues, such as responding to a notice or establishing an installment agreement. Cases involving complex examination issues or requiring enforcement action will be subcontracted to the SB/SE Division. Small business taxpayers will be supported by specialized Field Assistance staff and managers, a hotline to handle more complex SB/SE inquiries and, in some cases, temporarily or permanently assigned SB/SE staff.

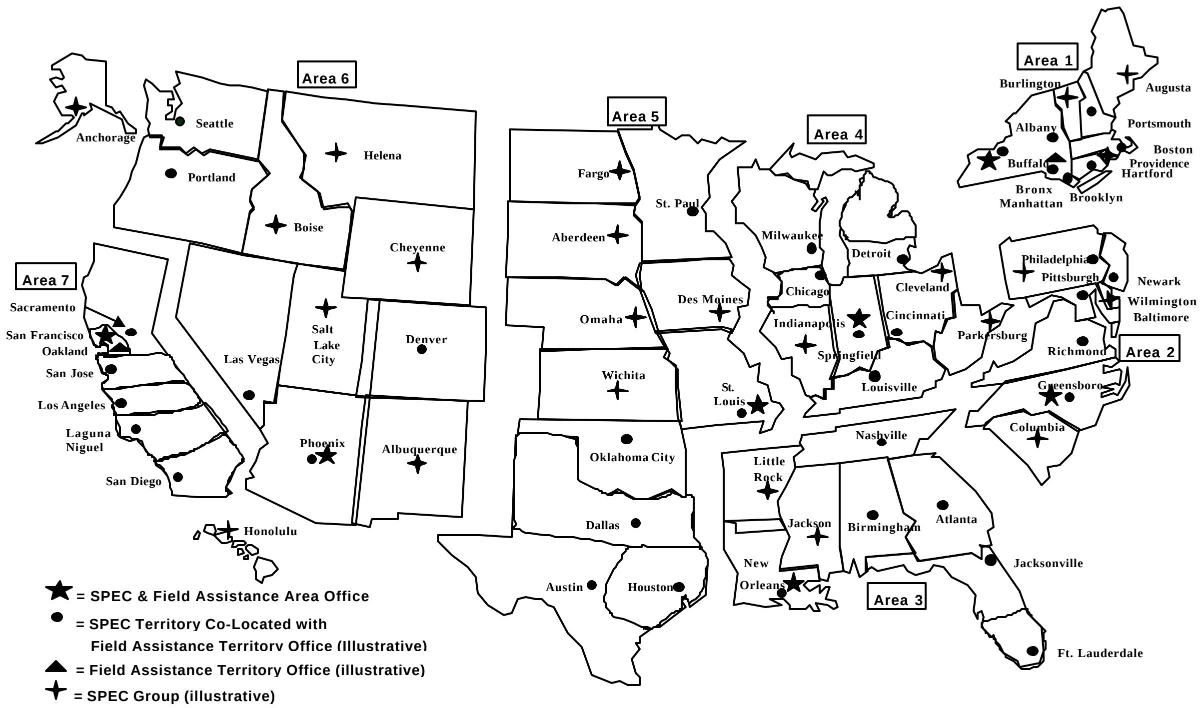
The decision to assign W&I compliance responsibilities to Field Assistance was made in part to provide localized resources for compliance work that requires face-to-face support. However, another significant driver was to reduce the seasonality in Field Assistance demand. Today, approximately 2000 people are "detailed in" to Field Assistance during the period from early January through the end of April (the tax season). Because compliance work can be handled in non-peak periods, TRRs can conduct compliance activities during non peak. This allows for an increase in full-time Field Assistance staff while also reducing the need to detail-in.

TRRs will work in Taxpayer Assistance Centers (TAC), which will be full-service sites and will replace the current walk-in services offered at current IRS locations. In addition to expanding services at current locations, new Taxpayer Assistance Centers will be conveniently located for taxpayers in shopping malls, community group locations and local government offices. Field Assistance service coverage will be increased by introducing a variety of facility types ranging from large, conventional walk-ins to self-serve kiosks in local malls. Service will even be provided through mobile units that travel to rural areas and to locations where large concentrations of target customers are likely to be present.

By deploying facilities of various sizes, Field Assistance will increase service coverage. Approximately 85% of the target population will have access to service within 45 minutes, and over 96% of the population will have access within 75 minutes.

The field structure for CARE is based on seven Area offices for SPEC and Field Assistance. These Area offices are further divided into Territories. Figure 2-4 illustrates this base field structure.

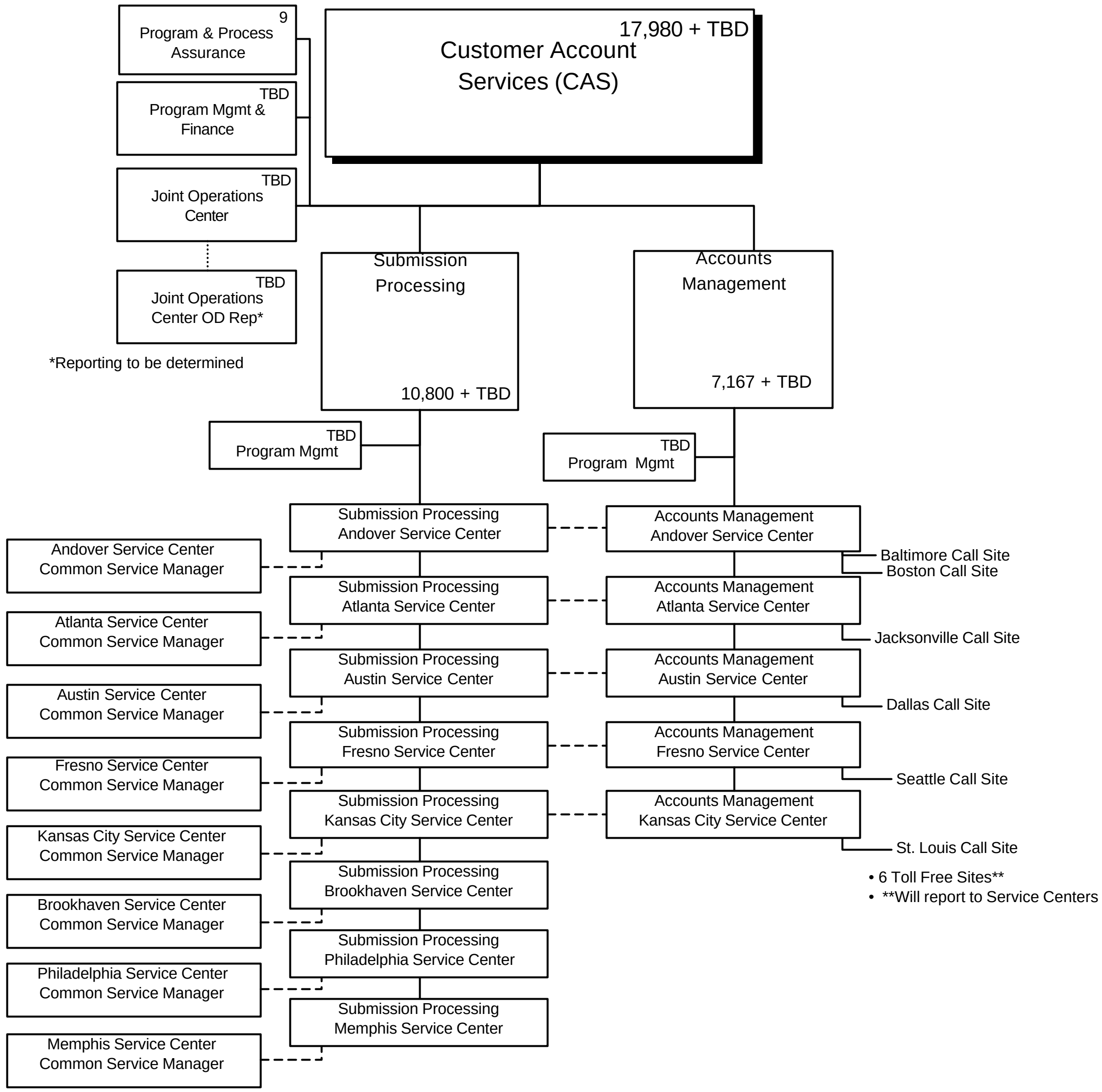
Figure 2-4: Wage & Investment Areas



Customer Account Services (CAS)

CAS, located at the eight service centers (Andover, Atlanta, Austin, Fresno, Kansas City, Philadelphia, Memphis and Brookhaven), is responsible for taxpayer relationships through the filing process, including processing tax return submissions, payments and refunds. In addition, CAS is responsible for providing taxpayers with the information on the status of their returns or refunds and for resolving the majority of issues and questions about settling their accounts. These responsibilities naturally divide into two sub-units: Processing and Accounts Management (AM). AM will manage the telephone inquiries of the W&I customer base.

Figure 2-5: Customer Account Services (CAS) Organization Structure



Submission Processing

Submission processing activities include processing of paper and electronic returns, tax payments and refunds. Taxpayers should notice little difference in these interactions, other than the ongoing migration toward electronic commerce. However, new opportunities will become available for employees in this area. Dual-role positions may be created by training employees who currently work in the "pipeline" responsible for receipt and processing of taxpayer returns to work in remote compliance functions during the off-season. This new employment opportunity could (1) help to prepare pipeline employees for diminished workload due to the growth of e-file; (2) yield a more permanent service center workforce; and (3) meet the increased demands for remote compliance resources in W&I. In the long run, this will also improve customer service as individual employees will enjoy a fuller understanding of the range of customer interactions with the IRS.

Phase IIB design teams developed a detailed organization structure for each of the service center Processing organizations. This structure seeks to group activities together to minimize disruption to the processing flow while facilitating better communication among the management levels. The proposed structure has two support functions: Planning and Analysis and Common Services, and five Technical functions: Receipt & Control, Document Perfection, Data Conversion, Input Correction and Processing Support.

- Planning and Analysis is responsible for developing work plans and staffing plans in preparation for the filing season, analyzing program delivery and monitoring execution.
- Common Services will address needs related to personnel and facilities across each site, coordinating with Processing, Accounts Management and Compliance.
- Receipt & Control groups incoming correspondence and routes it to the appropriate area.
- Document Perfection Area corrects any errors in return information before returns are key punched into the system, resolves issues related to taxpayer name, address and taxpayer identification number (TIN); and assigns every return a document location number.

- Data Conversion Area enters taxpayers data into an automated system.
- Input Correction Area resolves any errors resulting from mistakes made during the data conversion process.
- Processing Support Area includes follow-on functions responsible for processing taxpayer payments, filing returns and matching returns with data entered into the automated system to identify errors before notices are sent.

Accounts Management

Account Management activities include responding to customer technical and account inquiries, resolving customer account issues, providing account settlement (payment) options and working related issues. Accounts representatives will be able to provide tax law, account resolution and payment information across several platforms (phone, paper, electronic), which will shift in response to changing customer demands. Because W&I accounts representatives will face a more limited set of issues due to the homogeneous nature of the tax base, these employees will become more effective across a broader range of functions, thereby improving their own job satisfaction as well as the service to customers.

Phase IIB design teams developed a detailed organization structure for each of the service center Accounts Management organizations. The W&I taxpayers characteristics and the workload characteristics drive the creation of the Accounts Management structure. W&I taxpayers, by definition, are a fairly homogeneous group and therefore their interactions with Accounts Management will be limited to a very narrow set of issues.

Additionally, the CAS organization structure is significantly different from today's service center structure and incorporates a unique new position at each site known as the Common Services Manager. Under the new design, the existing service center will be divided into four different organizations: Processing, Accounts Management, Compliance and Common Services. The Common Services Manager will coordinate the interface with support organizations such as Shared Services and Information Systems on behalf of the site and will provide the staff support to the Service Center Council.

The Service Center Council will be the primary integrative mechanism, providing coordination and cooperation across organizations as well as unified, consistent policies and procedures for crosscutting issues that affect the entire site. This would include facilities concerns, recruitment and sharing of employees.

Compliance

The W&I Compliance function manages the relationship with taxpayers who have a high risk of not paying or whose return has a high risk of noncompliance. This organization will utilize risk-based approaches to collection actions and examinations, design and conduct examination programs, and prioritize and follow up on collection cases.

The application of risk-based approaches to examination and collection will be a new model for the IRS. A risk-based approach to collection and examination will position the Service to more clearly differentiate between those taxpayers who are attempting to comply but need assistance versus that very small segment that intentionally does not comply. Unlike our current systems, this differentiation allows the Service to select varying approaches based on each taxpayer's circumstances. The Service thus positions itself to move from a "one size fits all" approach to a philosophy of "the right treatment, for the right taxpayer, at the right time."

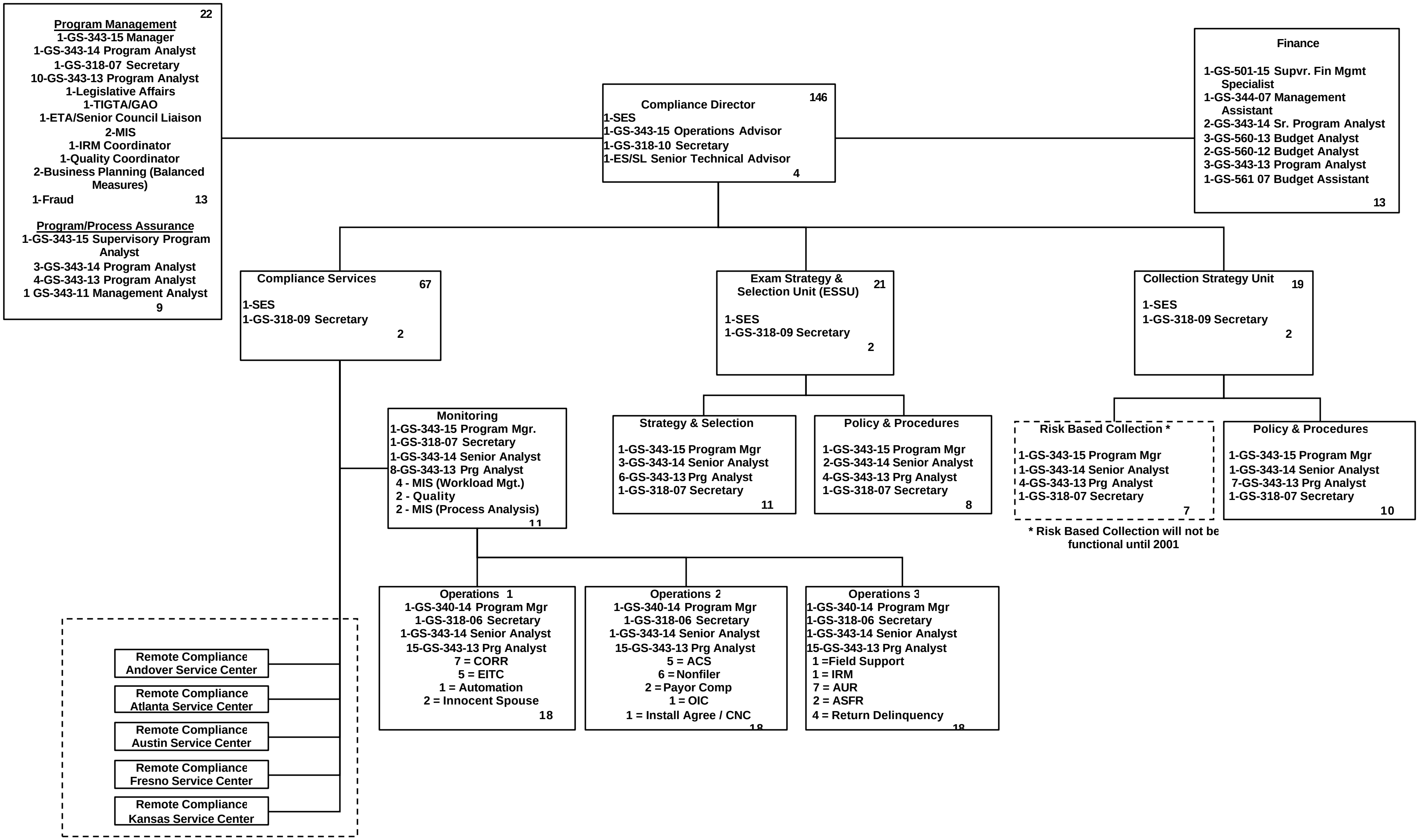
Another key role that Compliance will play is to provide feedback to the CARE organization on how to improve customer service and communication. Since the compliance process brings many customer service issues to light, it is in the best interest of W&I to capitalize on this knowledge to improve its performance. There are several options for providing input to the CARE organization to enhance customer service and satisfaction. For example, formal councils may be established to ensure regular interaction between CARE and Compliance. Other options range from utilizing *ad hoc* groups to enlisting Compliance personnel in the design of new CARE programs and services.

Significant effort will continue to determine the appropriate integrative mechanisms to facilitate this feedback loop along with other critical relationships. Several key interactions have been identified as requiring integrative mechanisms and preliminary linkages have been outlined. The major relationships will be with SB/SE compliance, Field Assistance, CID and Appeals.

Compliance activities for W&I taxpayers will be centrally managed at the five service centers (Andover, Atlanta, Austin, Fresno and Kansas City). The Phase IIB design teams developed a detailed organization structure for each of the service center Compliance organizations. The design recommendation differs from the Phase IIA recommendation. The Phase IIB team recognized that the Compliance structure at the service center level needs broad-based leadership to manage anticipated developments, such as blending activities across functional lines, the introduction of risk-based compliance techniques and new customer-focused activities. Given the planned moved to risk-based systems, the Phase IIB teams also felt that the new organization should not reconstruct Examination and Collection silos. Therefore, Exam and Collection were combined under the leadership of a Compliance Executive at each site. This modernized approach to compliance emphasizes compliance as an integrated activity.

The Compliance Operating Unit will also be supported by four offices: Compliance Services, Compliance Policy Unit, Exam Strategy and Selection Unit and Program Management. The following figure represents the Compliance Organization.

Figure 2-6: Compliance Organization Structure



Note: Compliance Remote Sites will not become part of W&I structure until FY 2001.

Compliance Services

Under the direction of the Compliance Services Field Director, this unit will provide fair and equitable treatment to those taxpayers that require contact. The Remote Examination and Collection functions will use effective and efficient techniques for timely interaction with taxpayers.

Collection Strategy Unit

Collection Strategy will provide significant and continuous oversight and coordination of policy within the Compliance Operation Division and between other W&I operating units:

- To identify trends and develop strategies designed to address the needs of the W&I taxpayers through a comprehensive approach including tax compliance, education, outreach, and quality assurance.
- To conduct research and analysis in setting short and long-range goals and develop risk based models.

Exam Selection & Strategy Unit (ESSU)

ESSU was created to improve overall exam activities. This unit will bring the selection of every return for examination to the national level and separate this decision from those who actually conduct the exam. The ESSU will develop processes and procedures to ensure that standard criteria are applied and audit trails exists. Risk-based exam selection strategies and models will also be developed and maintained within this group to drive overall W&I compliance strategies and objectives.

Program Management

Program Management will provide support to the Compliance Operating Unit by coordinating the communication of issues from organizations outside of Compliance:

- Serve as the primary liaison with Legislative Affairs, TIGTA, GAO, ETA, and Council.
- Assist the Director of Compliance by addressing Balanced Measures and Quality issues.

Geographic Footprint

The geographic footprint of the Wage & Investment Division will consist of a headquarters, located in Atlanta, Georgia, and a national geographic footprint comprised of SPEC and Field Assistance areas, territories and groups, as well as Customer Account Services functions currently located in service centers and customer service sites.

Figure 2-4 located previously in this section illustrates the W&I national geographic footprint. Seven areas are shown on the map with headquarters located in Buffalo NY, Greensboro NC, New Orleans LA, Springfield IL, St. Louis MO, Phoenix AZ and San Francisco CA.

Implementation Schedule

In December 1999, John Dalrymple was named the W&I Commissioner, and in March 2000 John Duder was selected as the W&I Deputy Commissioner. In mid-2000, the remainder of the headquarters staff will have been recruited and selected. In January 2002, customers will be filing tax returns with W&I Service Centers, and employees in the W&I Service Centers will be exclusively dedicated to W&I work. Figure 2-7 and Table 1 (on the next page) illustrate the W&I high-level implementation plan as well as a description of each major milestone.

Figure 2-7: W&I Implementation Plan

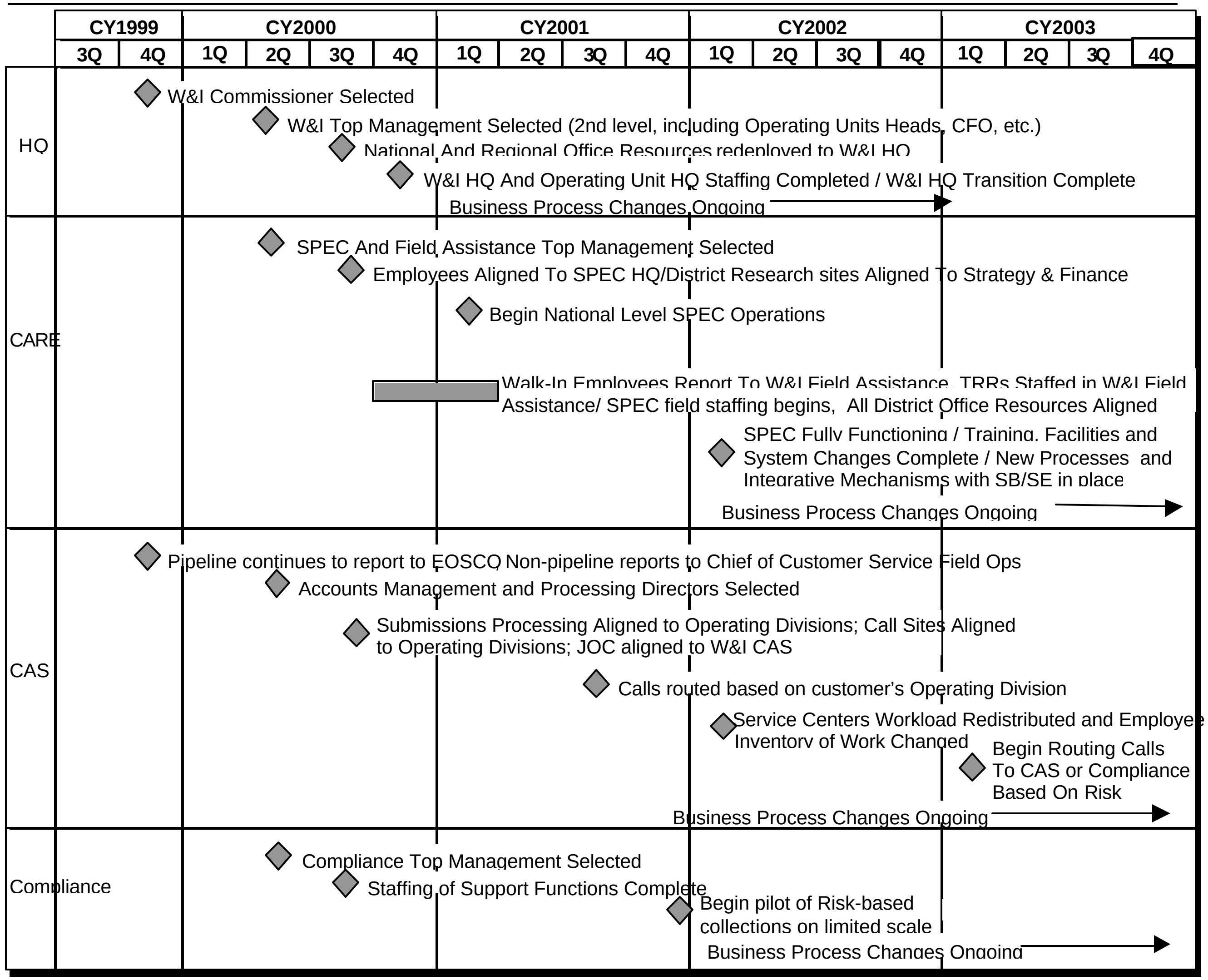


Table 1: Description of W&I Major Milestones

Timeline	Initiative
2Q CY 99:	Phase IIB kick-off, initially focusing on driving the design down to the front line and refining estimates of headcounts, training, etc.
4Q CY 99:	The W&I Commissioner in place and the Customer Service Field Operations established. Submissions Processing will continue to report centrally (EOSCO).
2Q CY 00:	The second level of W&I senior management in place, including the leaders of CARE, CAS and Compliance Operating Units.
3Q CY 00:	W&I headquarters will be staffed. Leaders of the following sub-operating units will also be in place: Tax Publications, SPEC, Field Assistance, Processing, Accounts Management, Compliance.
3Q CY 00:	Staffing for SPEC and Field Assistance management for the field will have been completed. SPEC headquarters staff, Compliance support functions will have been recruited and selected by this time.
4Q CY 00:	The transition to the W&I Headquarters will have been completed and selected field employees will begin to align to W&I.
1Q CY 01:	Alignment of field and service center employees to W&I will be completed. Also, SPEC (National Level) can begin operations.
3Q CY 01:	Call routing to operating divisions will begin at this time.
1Q CY 02:	Organizations such as SPEC and Field Assistance will be fully functioning by this time. For filing season 2002, customers will file in new service centers and a small pilot of risk-based collections will begin.
1Q CY 03:	Call routing to Customer Account Services or Compliance using a customer risk assessment will begin at this time.

Chapter 3 Small Business/ Self-Employed

Taxpayer Characteristics

The Small Business/Self-Employed (SB/SE) Division serves approximately 45 million taxpayers. These taxpayers include fully or partially self-employed individuals and small businesses. This group has much more complex dealings with the IRS than wage and investment taxpayers. They have four to 60 routine transactions with the IRS per year and pay the IRS nearly $559 billion in cash, representing nearly 40% of the total cash collected by the IRS. This amount includes personal and corporate income taxes, employment taxes, excise taxes and withholdings for employees, each of which has filing and technical requirements. Since business income and a range of taxes are involved, compliance issues are also complex. The probability for errors, resulting in collection and compliance problems, are greatest in this group because of the lack of withholding or information reporting and the large amount of cash paid. The result is much more frequent dealings with the IRS.

Small Businesses

Approximately 7 million small businesses will be served by this operating division, including corporations and partnerships with assets less than or equal to $5 million. These businesses are separate legal entities, requiring separation from their owners' and managers' personal obligations. These taxpayers generally file forms 1120S (S-corporation), 1065 (partnerships) and 1120 (small-incorporated businesses). A significant portion of this group's tax liabilities is employment taxes. Small business employment taxes are approximately one-third of their total tax obligations with the other two-thirds comprised of income tax obligations (including estate and gift taxes).

Small businesses are often corporations and face some of the complicated tax issues of large corporations, but usually do not have the financial resources to have tax professionals on staff. While compliance issues with large businesses stem heavily from differences in tax law interpretation, compliance issues in small businesses are varied and include a lack of understanding of the tax law requirements, lack of adequate accounting practices and resources and cash flow problems. For these reasons, small businesses require specialized service from the IRS, with greater emphasis on working with small businesses and their representatives to educate and develop less burdensome and more practical means of complying.

Self-Employed and Supplemental Income Earners

The SB/SE Division also serves approximately 33 million self-employed and supplemental income earners with business-like characteristics. These taxpayers are individuals filing income tax form 2106 (business expenses) and schedules C (self-employed), E (rental properties and royalties) and F (farmer). Although these taxpayers are individual filers and, therefore, have characteristics similar to those in the Wage & Investment (W&I) Division, they have much more complicated tax issues. Self-employed and supplemental income earners have substantial differences with wage earners including: substantially higher incomes (nearly four times the average tax obligation and filing over twice as many forms and schedules per return), requiring roughly twice as much time to prepare returns and a much heavier reliance on paid tax preparers. These factors not only increase the sophistication of the tax returns but also increase the demand for IRS expertise. For this reason, these taxpayers have been included with complicated small business taxpayers.

Although not completely the same, small businesses and self-employed/supplemental income earners have much in common. Both share the following characteristics: 1) relatively limited resources for record keeping, 2) close relationships between business and personal transactions, 3) similar size of operations, and 4) frequent interactions with the IRS.

Other SB/SE Taxpayers

The SB/SE Division will also have responsibility for servicing a third set of taxpayers – estate and gift taxpayers, fiduciary returns and all individual taxpayers with international tax returns. These taxpayer groups were included in the SB/SE customer base primarily because:

- The SB/SE geographical footprint facilitates the hands-on documentation and valuation needed;
- SB/SE information systems already have access to the historical records of these complex individual filers; and
- The specialized legal knowledge required for these tax issues pertain in large part to small business ownership.

In addition, SB/SE will have responsibility for processing all tax returns, including income tax, employment tax and excise tax returns, submitted by taxpayers serviced by the Large & Mid-Size Business (LMSB) and Tax Exempt & Government Entities (TE/GE) Divisions. This service will be provided to LMSB and TE/GE using an internal service agreement.

Lastly, SB/SE will support customer service needs of U.S. citizens living abroad through LMSB's International Posts of Duty (PODs) and will continue to process all individual tax returns at a centralized service center. This will provide accountability and a single point of contact for all processing of these returns.

Goals, Principles and Objectives

During Phase IIA, the SB/SE design team worked to better understand their customer base by researching customer characteristics, interviewing external stakeholders, and meeting and surveying internal managers and employees with expertise in providing service to SB/SE taxpayers. They also studied best practices in both the private and public sectors. The SB/SE team then designed the basic organizational structure and illustrated the need for new business processes to support its customer base. The Modernization Executive Steering Committee approved this design and the basic concepts associated with the business process changes.

In Phase IIB, a new team of IRS executives, managers and employees began work to take the skeleton organization structure and build it to the front-line employee level. This was a difficult task due to the need to minimize the movement of over 40,000 employees, while restructuring the organization to fit the new design. The team was successful in providing far more detail to the design and will be submitting shortly it to the Commissioner for approval. At that time, the National Treasury Employees Union (NTEU) will be provided with the staffing and personnel data for each and every SB/SE location and work unit across the country. Shortly after notification to NTEU, employees will receive a notification regarding the overall changes to the organization structure. It is anticipated that by July 2000, employees will understand how the organization affects them personally.

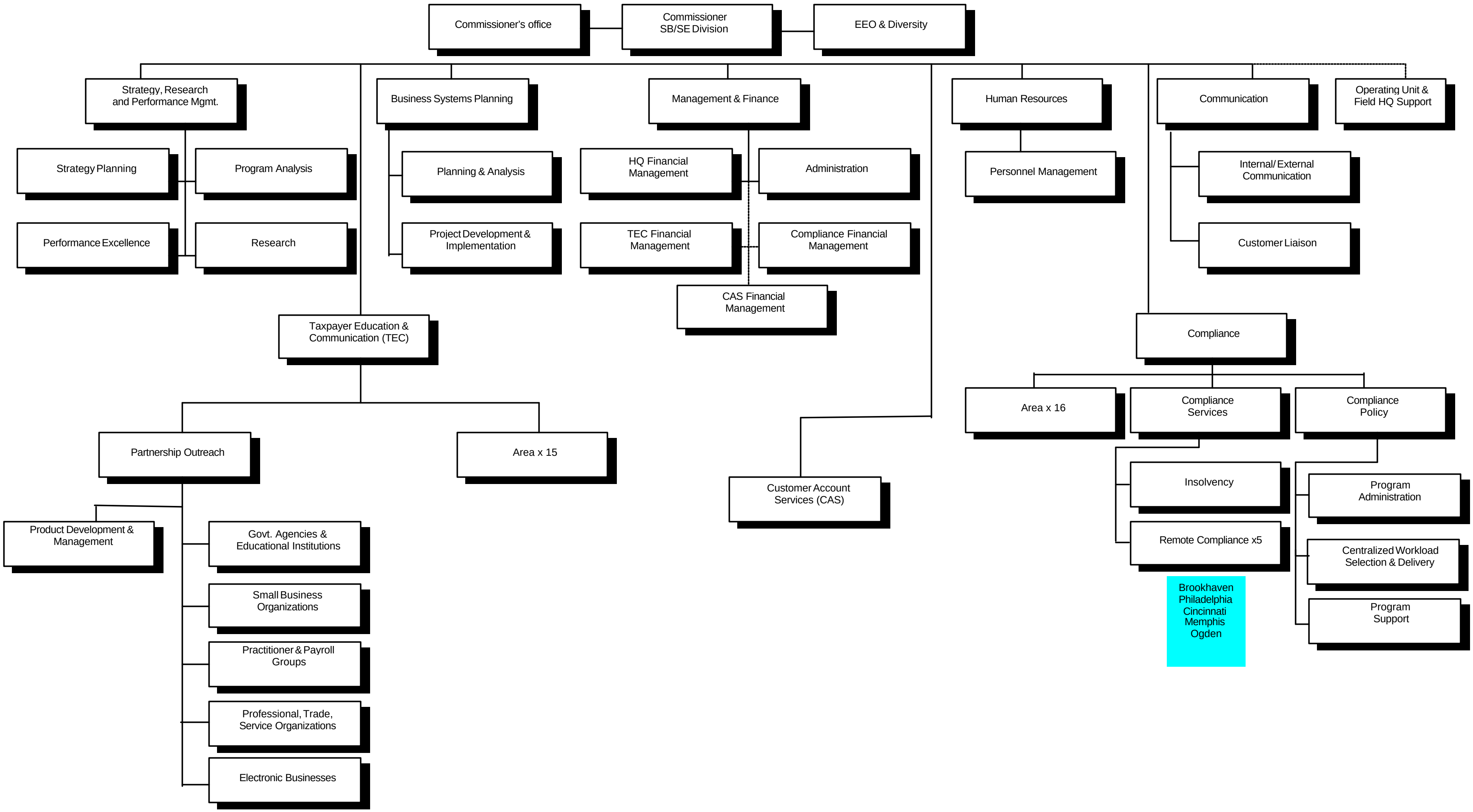
Due to the complexities associated with reorganizing the most geographically dispersed organization structure within the IRS, SB/SE will be one of the last units to be implemented. Over the previous quarter, the SB/SE goals were to:

- Appoint the Operating Division Commissioner and Deputy Commissioner;
- Design the organization down to front-line level
- Design the organizational structure of specialty taxes (e.g., excise tax, gift tax);
- Resolve all other outstanding organizational design issues needed to obtain Commissioner's approval before the end of the 2nd FY 2000 quarter;
- Perform transition planning;
- Recommend transition strategies and plans as well as socialize/ communicate to stakeholders; and
- Coordinate key planning issues.

Organization Structure

Small businesses, self-employed and supplemental income earners, while having more complex tax issues, are best suited for a process-based organization structure similar to that of the Wage and Investment Division. It is important to establish an organization and a management team that is accountable for every component of customer service. To accomplish this, the SB/SE Division will be staffed by approximately 37,000 employees and organized around three major processes called **operating units:** "pre-filing" (Taxpayer Education and Communication), "filing" (Customer Account Services) and "post-filing" (Compliance). The organization for these three processes is illustrated on the next page in Figure 3-1.

Figure 3-1: SB/SE Organization Structure



Senior Management Team

In today's IRS structure, management is focused on "functions" such as Customer Service, field Collection and field Examination work, which act independently of each other. This functional structure worked well for the current organization, but does not lend itself to an organization focused on delivering excellence to discrete customer segments. The SB/SE Division will require a much higher level of interaction with its customers at its senior management level.

The SB/SE Commissioner and Deputy Commissioner have been selected to lead the SB/SE team. Recently named Commissioner, Joseph Kehoe comes to the IRS after a 25-year career with Pricewaterhouse Coopers, where he provided professional consulting services to both private and public sector clients. He served as Global Service's Industry Leader and Managing Partner. His consulting experience has been in Business Process Reengineering Operations, Strategy and Change Management. Dale Hart, the new Deputy Commissioner, has over 33 years of experience with the IRS, serving in virtually every level of management. Dale's contribution to the Modernization effort is also noteworthy as she was the lead executive in designing the new Agency Wide Shared Services organization.

The SB/SE senior management team also includes the heads of its three major functional organizations (TEC, CAS and Compliance) and the heads of its staff functions (Strategy, Research and Performance Management, Management and Finance, Communication, EEO & Diversity, Business Systems Planning and Human Resources). The new SB/SE Commissioner and Deputy Commissioner are now in the process of interviewing for key executive leadership positions throughout the operating division. Some of the positions have been selected and announced. They are:

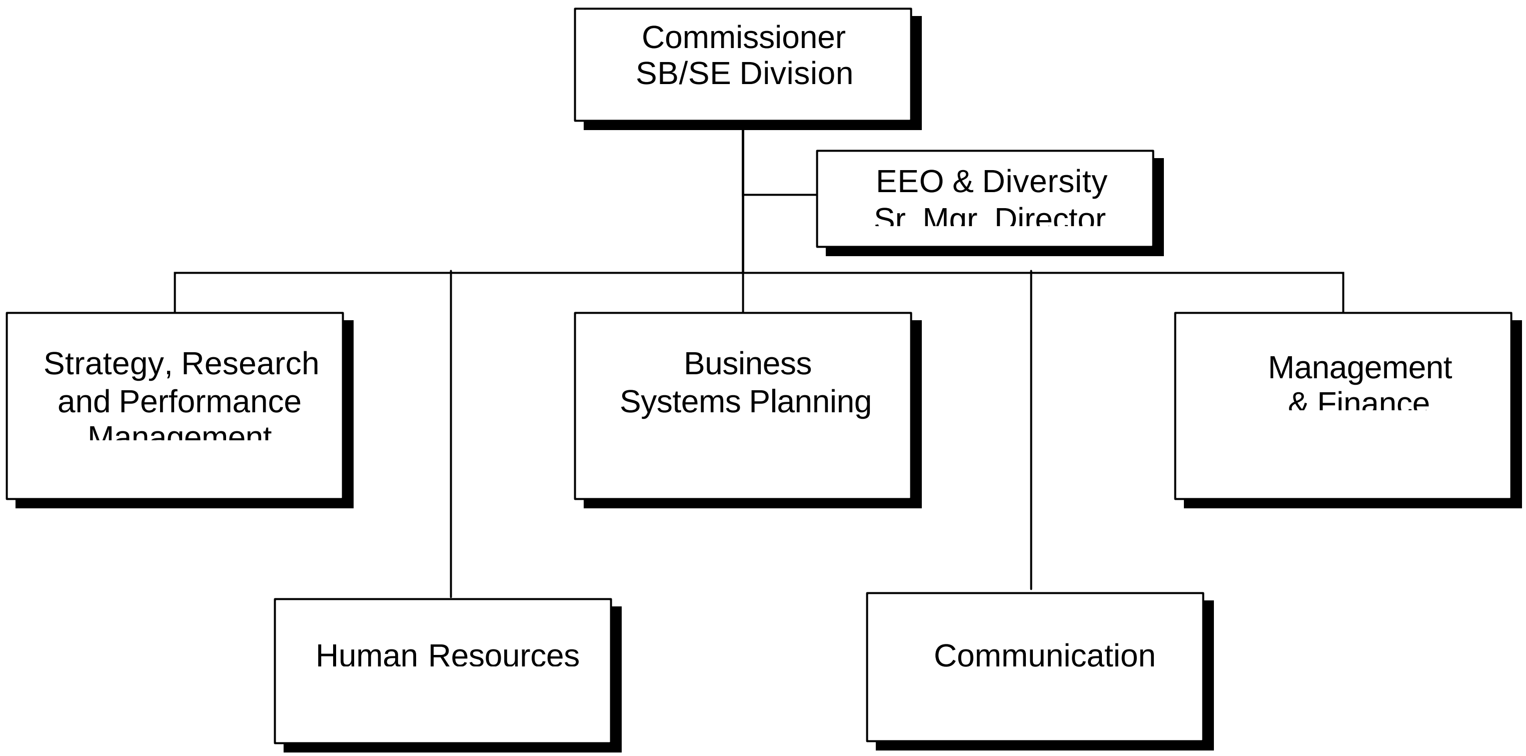
- Gerald J. Songy – Director, Taxpayer Education and Communication
- Robert L Hunt – Deputy Director, Taxpayer Education and Communication
- John A. Ressler – Director, Customer Account Services
- Brien T. Downing – Deputy Director, Customer Account Services
- Glenn E. Henderson – Director, Compliance
- Thomas R. Hull – Deputy Director, Compliance
- Charles W. Peterson – Director, Strategy, Research and Performance Management
- Robert C. Wilkerson – Director, Business Systems Planning
- Richard J. Morgante – Director, Management and Finance

This top management team will develop service and compliance strategies that best address the needs of SB/SE taxpayers. The Taxpayer Education and Communication (TEC) unit will develop targeted educational materials to communicate through channels and partnerships most appropriate for SB/SE taxpayers. Compliance can then address the same topics in post-filing activities, assess taxpayer behavior and provide feedback to TEC, which will then modify the educational approach as necessary. This constant feedback loop is essential to best understand and address the needs of this taxpayer segment. In addition, SB/SE will work closely with Counsel to ensure that guidance is issued, alert the Taxpayer Advocate and Appeals of the issue and possible workload impact, and work with IS to develop technology enhancements to achieve this strategy.

Headquarters

SB/SE Headquarters will provide strategic leadership to all three components of the SB/SE organization. The headquarters will provide one central contact point for small business customers, develop and monitor unique SB/SE business processes, and control and manage activities such as capital budgeting, forecasting and financial management for the SB/SE organization. All three of the SB/SE processes will be supported by headquarters, which will perform all necessary support activities. Figure 3-2 illustrates the entire SB/SE headquarters structure including: the Commissioner's staff support, Management and Finance; Communication; Strategy, Research and Performance Management; Human Resources; Business Systems Planning; Equal Employment Opportunity and Diversity.

Figure 3-2: SB/SE Division Headquarters



Strategy, Research and Performance Management

Strategy, Research and Performance Management will develop the SB/SE strategic plan, develop and implement balanced measures, ensure performance excellence, conduct research and coordinate across operating units. This unit will identify and analyze emerging trends affecting SB/SE. This includes gathering customer needs and analyzing trends and demographics in filing, payment and reporting patterns by customers to support strategic planning and to develop internal policy and program decisions. In this role, this function sets the strategic direction and develops goals for all SB/SE business units. Additionally, this group is responsible for:

- Providing staff support to the SB/SE Executive Planning Council and others dealing with strategic leadership.
- Managing the program analysis and review process to assess and monitor division performance against plan expectations.
- Developing SB/SE balanced scorecard and systems to capture measures data.
- Managing all the research activities and needs of the SB/SE Division and conducting strategic and tactical research on customer educational needs.
- Managing the program evaluation and risk analysis processes. Evaluating proposed programs for their investment potential in achieving division goals. Assessing risks with ongoing programs.
- Providing guidance to management on achieving performance excellence.

The high priority of the Research function will be, via market-based research, to identify the educational needs and demographic trends of SB/SE taxpayers. In addition, it will determine SB/SE customer satisfaction with TEC and SB/SE services and programs to ensure that high quality service is being provided to SB/SE taxpayers. To conduct this research, teams will be built around specific topics and issues utilizing both permanently assigned staff and temporary team members that are technical experts from other parts of the organization (e.g., CAS, Compliance, HQ, etc.). These teams will perform internal and external research to identify the characteristics and needs of SB/SE customers.

Research will work with TEC Partnership Outreach and the Taxpayer Education field force to provide strategic direction for education programs, as well as ensure that these programs are meeting customer needs. They will partner with SB/SE Compliance and CAS to identify emerging issues that require proactive education services. They will also partner with other IRS research operations (e.g., W&I research, LMSB research, HQ research) as necessary to perform joint research and ensure overall effective customer service.

Management and Finance

Management and Finance will manage the overall SB/SE budget process and administrative accounting. The following represents some of the duties and responsibilities of this staff.

- Developing the integrated budget submission for the entire SB/SE organization and responding to inquiries from external stakeholders (Department of the Treasury, Office of Management and Budget, and Congress).
- Managing the resource distribution process, including the development of a financial plan that supports the program priorities of SB/SE.
- Managing the financial resources for SB/SE, including tracking resource usage against targets.
- Establishing financial policies, procedures and controls for SB/SE in conjunction with overall Service guidelines and procedures.
- Managing the authorized staffing pattern and issuing reports to ensure adherence to the authorized staffing pattern.
- Providing reports to the SB/SE operating units to help them monitor and track expenditures.
- Managing the overall Federal Managers Financial Integrity Act program in SB/SE.
- Serving as SB/SE liaison with Agency Wide Shared Services on facilities issues.
- Monitoring the Office of Government Ethics reporting requirements.
- Managing contractual relationships with IS, AWSS and other operating divisions and functions.

Human Resources

The SB/SE Human Resources staff will ensure continuous performance improvement and individual development through competency and skill building and conducting needs assessments and prioritized resource allocation. The staff will develop education strategies and design curriculum that focuses on the development of SB/SE key competencies. The primary responsibility of this staff is to ensure that SB/SE personnel are technically competent to meet customer needs. Some of the support activities required include:

- Fostering partnerships with NTEU throughout SB/SE and serving on the SB/SE/NTEU Partnership Council.
- Serving as the SB/SE representative on the Human Resources Policy Council.
- Developing and implementing policies, guidelines and procedures for the division within parameters set by the National Strategic Human Resources.
- Working in concert with the SB/SE operating units to design, develop and oversee an integrated human resources strategy.
- Designing, developing and overseeing an integrated training plan.
- Proposing and allocating the training budget to the SB/SE operating units.

- Providing labor relations, workforce planning and strategic recruitment guidance and support.
- Conducting negotiations with NTEU.
- Overseeing and managing the performance management process, including monitoring of appraisals and awards.

Communication

The Communication function, located at the SB/SE Headquarters, is the main point of contact for relaying SB/SE-related information to both internal and external stakeholders. Among the Communication function's main responsibilities within SB/SE are overseeing the Division's communications strategy, including marketing and media relations, and coordinating related activities with the National Communications and Liaison office. This group will serve as the central point of contact on all SB/SE matters related to FedState and Disclosure.

EEO and Diversity

SB/SE will have a dedicated staff that establishes and implements EEO policy, procedures and programs for the Division in conformance with overall Service guidelines. This staff will also perform various tasks including:

- Advising the SB/SE Commissioner and other SB/SE management officials on EEO and Diversity issues, including complaint resolution.
- Establishing and implementing EEO policies, procedures, programs and recruitment strategies for the Division in conformance with overall Service guidelines.
- Overseeing the SB/SE EEO and Diversity Advisory Committee.
- Providing training to SB/SE staff on EEO-related matters and issues.
- Preparing reports and conducting analyses of key workforce-related trends or actions to identify any practices, regulations and procedures that may perpetuate discrimination.
- Establishing Division policy on reasonable accommodation, sexual harassment and other EEO-related issues, and ensuring that it is appropriately implemented.
- Coordinating special emphasis activities relating to women and minorities.
- Representing SB/SE on the EEO and Diversity Council.
- Developing and monitoring the SB/SE affirmative employment plan in accordance with Servicewide policy and the management directives of the Equal Employment Opportunity Commission.
- Developing and monitoring EEO Service Level Agreements (SLAs) with Agency Wide Shared Services.
- Developing SB/SE's EEO Annual Business Plan.
- Conducting, on a timely basis, necessary inquiries into alleged discrimination and recommending remedial relief in an expeditious manner.

- Developing a substantial relationship with the recognized employee groups as major stakeholders in division diversity initiatives and special emphasis programs.

Business Systems Planning

The Business Systems Planning group, also part of the SB/SE Headquarters, gathers and articulates business needs for Information Technology projects, applications and legacy systems. Responsibilities include assessing IT solutions to address gaps in business processes, creating business cases for new IT projects and evaluating requests for information services. This group will create a close partnership with the Division Information Officer (DIO) who reports to the Chief Information Officer. Through this partnership, the SB/SE needs and services will be coordinated with all appropriate IT staff. Some related tasks include:

- Planning and analyzing business needs for new projects. Developing business cases. Prioritizing business needs and process changes.
- Formulating Information Technology plans and budgets. Managing and/or monitoring funds for business systems modernization projects.
- Developing and testing projects. Overseeing business involvement in systems testing. Establishing information systems performance measures.
- Implementing and overseeing modernization projects. Developing and monitoring the Implementation Action Plan. Evaluating the results of the project on SB/SE operations.
- Providing support to senior leadership by providing business expertise to complement Information System's knowledge of technology change.
- Developing and negotiating Service Level Agreements (SLA) with support functions. Assessing the effectiveness of support received.

Process-Based Organizational Segments

The three major organizations (TEC, CAS and Compliance) are process-based; that is, they have organizational structures that, together, manage the full life-cycle of interaction with SB/SE customers. This provides end-to-end accountability for a discrete taxpayer segment with unique characteristics and needs.

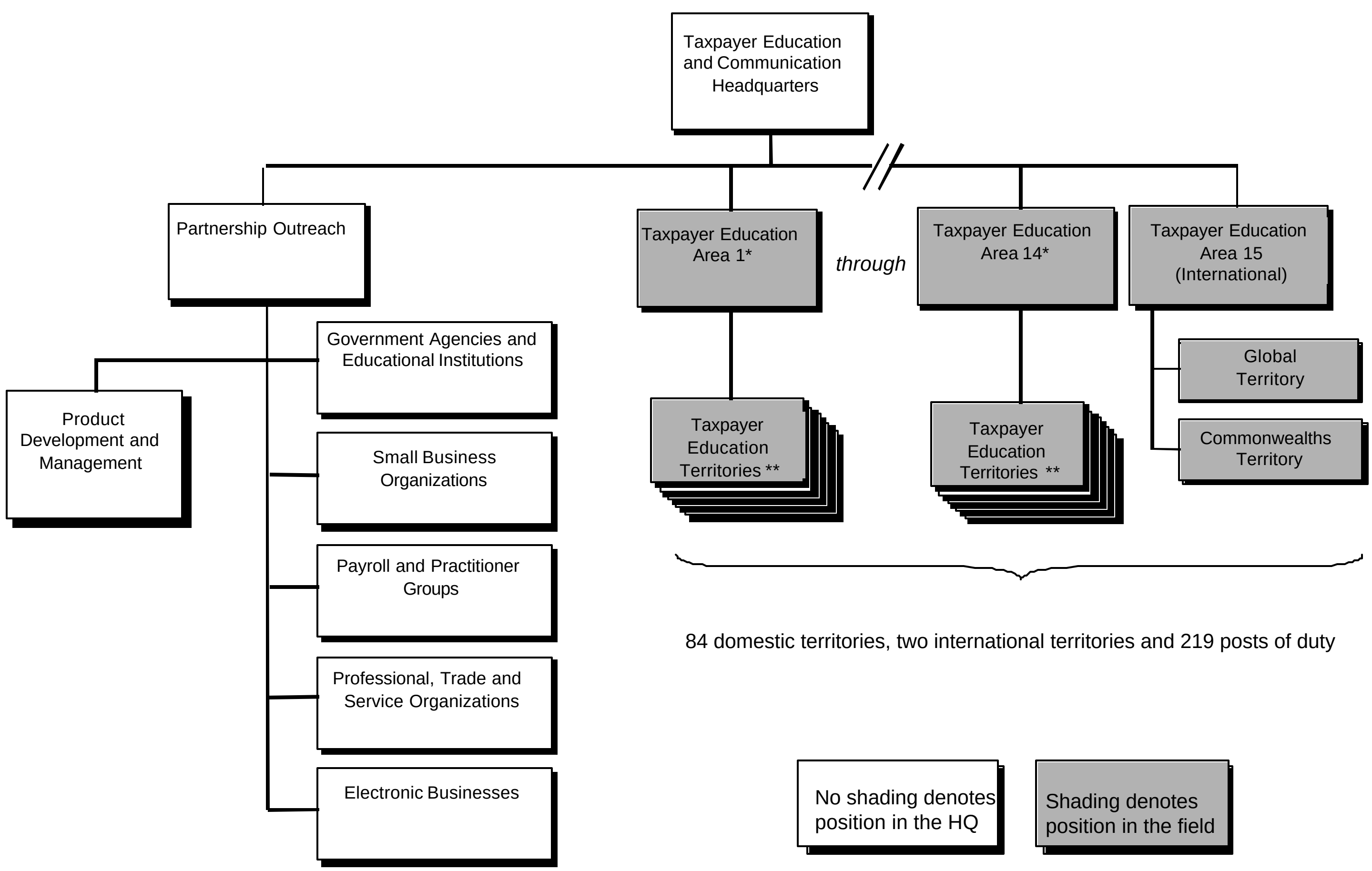
Taxpayer Education and Communication Organization

Taxpayer Education and Communication (TEC) will be a customer-focused organization that educates and informs SB/SE taxpayers about their tax obligations by:

- Conducting strategic and tactical research on customer educational needs;
- Developing products and services focused on these needs;
- Working with external partner organizations to educate the members and customers of these partner organizations;
- Delivering educational products and services; and
- Collecting and analyzing customer and partner input and feedback to improve products and services.

Taxpayers will benefit with improved end-to-end accountability for educating taxpayers, consistent policy setting and program guidance, and timely and effective communication with taxpayers and employees throughout the SB/SE organization. The Taxpayer Education and Communication organization will have two components: 1) Partnership Outreach and 2) Taxpayer Education Areas. The Taxpayer Education and Communication organization is illustrated below in Figure 3-3.

Figure 3-3: Taxpayer Education Communication (TEC) Organization



* There will be 15 Taxpayer Education Areas: 14 Domestic and 1 International. The domestic Area boundaries mirror SB/SE Compliance Area boundaries with the exception of Southern California.

TEC Product Development and Management will work with Research, TEC area offices, Partnership Outreach units and external and internal partners to design, develop and refine products and services to meet the needs of SB/SE customers and partners to help insure that SB/SE customers understand and meet their tax obligations. The Phase IIB team conducted baseline research and developed a basic model for determining what initial products and services are needed for SB/SE customers. This new framework is shown below in Figure 3-4 and on the next page in Figure 3-5.

Figure 3-4: Products and Services Based On Customer Needs and Characteristics

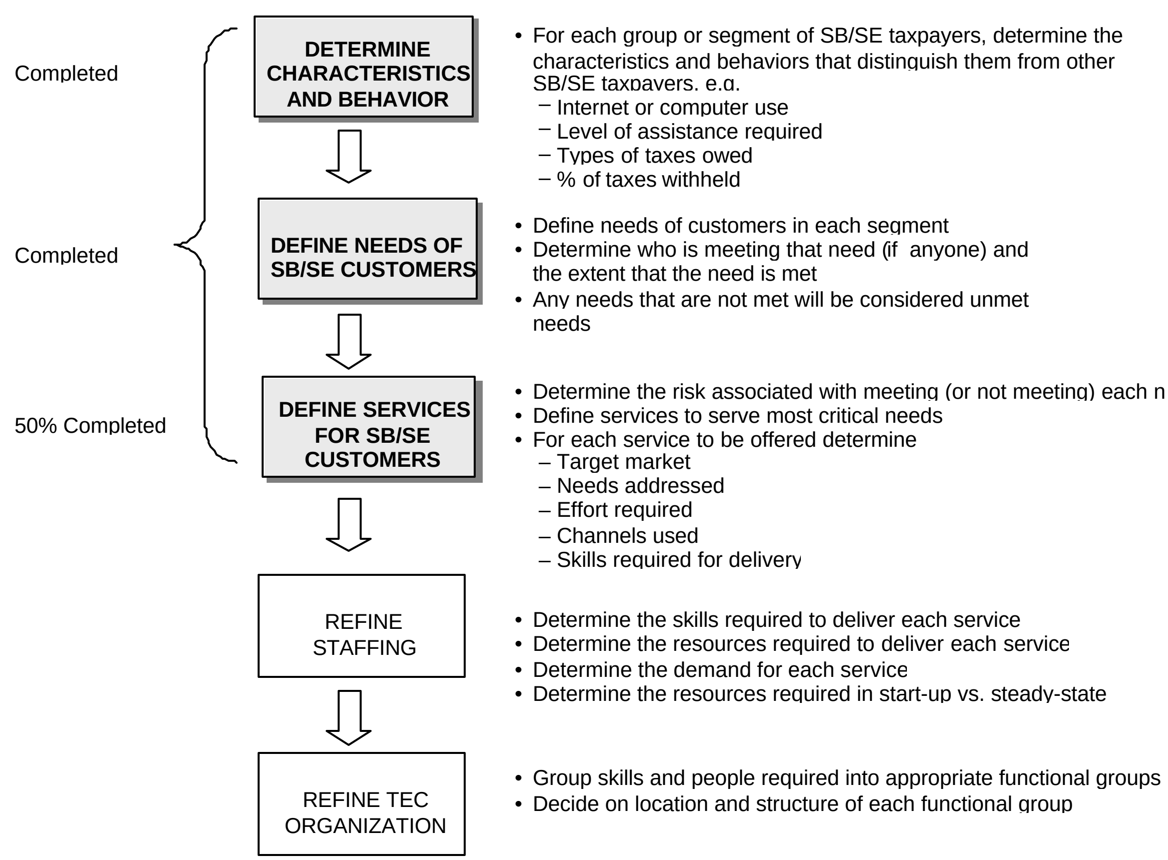


Figure 3-5: Key Customer Characteristics for SB/SE Customers

Small Business / Self-Employed Customer Base

Data Sources

- 1995 IRS Small Business Customer Satisfaction Survey (Final Report)
- Results of SB TEC team site visits:
  - Dallas, TX
  - New York City, NY
  - Buffalo, NY
  - Seattle, WA
  - Los Angeles, CA
  - Oakland, CA
  - Atlanta, GA
- Testimony to Senate Committee on Small Business
- Yankee Group survey (1999)
- Arthur Andersen Enterprise Survey (1999)
- Small Business News Clips - 9/28/99
- Visa International (Spring 1999 Survey)

Key Findings	*Key Customer Characteristics*
• 1M new filers a year	**(1) New vs. Existing Filers**
• 2.7M 1040 with 2106 only • 29.6M 1040 with C, E or F • 6.2M 1065, 1120 or 1120S	**(2) Type of Forms Filed**
• 35.2M (88%) use paid preparer • 4.8M (12%) do not use paid preparer	**(3) Self vs. Paid Preparer**
• 65% of small businesses use the web in some form • 81% of small businesses have internet access • Self-employed and home-based businesses will number 50M by 2002, with 38 million having PCs • 19% of small businesses file electronically	**(4) Technology Use**
• Filing complexity increases with employees	**(5) Number of Employees**
• 81% of the small businesses polled are not aware of tax provisions intended to help small business • Over 70% of small businesses polled didn't know how new small business tax laws affect their business	**(6) Tax Knowledge**

TEC Partnership Outreach

TEC Partnership Outreach will proactively manage product development and partner with government agencies, small business organizations, practitioner groups and other professional and volunteer organizations. While it is not all inclusive, Figure 3-6 represents numerous examples of organizations that have potential for building partnerships and beginning outreach efforts.

Figure 3-6: Potential SB/SE Partners

ELECTRONIC BUSINESSES	GOVERNMENT AGENCIES, EDUCATIONAL INSTITUTIONS, COMMUNITY & VOLUNTEER ORGANIZATIONS	SMALL BUSINESS ORGANIZATIONS	PROFESSIONAL, TRADE AND SERVICE ORGANIZATIONS	PRACTITIONER AND PAYROLL ORGANIZATIONS
• WebChamber.com • Dow Jones Business Directory (DowJones.com) • eBusinessWorld • eComInfoCenter.com • Association for Interactive Media • Cisco Resource Center • Internet Business Users Group • Direct Marketing Association • Oracle • Yahoo • XMLconnect.net	• Small Business Administration (SBA) • Small Business Development Center (SBDC) • Service Core of Retired Executives (SCORE) • Women's Business Center (WBC) • Social Security Administration (SSA) • Department of Labor • Department of Commerce • Immigration and Naturalization • Census Bureau • Bureau of Labor Statistics	• National Federation of Independent Contractors • National Association for the Self Employed • National Federation of Independent Businesses (NFIB) • American Subcontractors Association • National Small Business United • Small Business Council of America • Small Business Legislative Council • Small Business Innovation Research (SBIR)	• American Bankers Association • National Foundation for Women Business Owners • National Council of Chain Restaurants • National Restaurant Association • Council for Electronic Revenue Communication Advancement • Information Technology Association of America • American Trucking Association • American Farm Bureau Association • American Association of Retired Persons • Chambers of Commerce • National Association of Nonprofit Associations	• National Association of Enrolled Agents • American Association of Attorney-Certified Public Accountants • American Institute of Certified Public Accountants Tax Division • American Association of Attorney-CPA's • American Bar Association Section of Taxation • National Association of Tax Practitioners • National Conference of CPA Practitioners • National Society of Accountants • American Society of Payroll Management • American Payroll Association (APA) • National Society of Accountants

These partnerships will improve our ability to provide: non-traditional sites for serving customers resulting in convenient and comprehensive levels of service, more channels to reach customers (e.g., seminars, newsletters, magazines) and an audience for us to share ideas, understand and educate our customers and receive feedback on our progress. These partners will be leveraged as additional resources to develop and deliver products and services that can assist SB/SE customers. In this way, TEC will be able to reach a larger number of taxpayers with a relatively small permanent staff of IRS employees.

A major objective of TEC is to provide the SB/SE customer base a means of proactively interacting with the SB/SE Division on topics important to both parties such as searching for ways to utilize electronic commerce and establishing voluntary agreements on process issues.

TEC Taxpayer Education Areas

TEC Taxpayer Education area offices will provide customer-focused products, services and assistance to educate SB/SE customers. Educational activities will be available for any business transaction that impacts tax obligations such as hiring employees, expanding a business, converting from a sole proprietorship, incorporating or exiting business. The Taxpayer Education area offices will work with the following three groups:
1) partnership groups at the local level to provide tax law and filing information as well as training and education services, 2) Research to identify customer needs and determine how best to meet those needs and 3) SB/SE Compliance to educate customers as part of the daily work routine.

The Taxpayer Education offices will establish a close relationship with Compliance in order to understand SB/SE taxpayer compliance issues. This understanding will enable the Taxpayer Education staff to proactively offer customized assistance to taxpayers. To facilitate this interaction, the geographic footprint for both Taxpayer Education and Compliance is similar – in fact they are the same with the exception of TEC Area 14 which was split into two Compliance Areas. Figure 3-7 on the next page illustrates the area, state, city and number of territories for all areas.

Taxpayer Assistance Centers

Walk-in services for SB/SE will be provided by W&I-managed Taxpayer Assistance Centers (TACs). Although TACs will be managed by W&I, assistance will be provided to all customers. To ensure proper service for SB/SE taxpayers, SB/SE will provide extensive training to TAC staff/managers, establish a hotline to support TAC staff on SB/SE inquiries and, in some cases, temporarily/permanently staff TACs with SB/SE employees.

Figure 3-7: TEC Territory Footrprint (86 Offices Including 2 International Locations)

Area	State	City	# of Territories
1	Connecticut	Hartford	1
	Massachusetts	**Boston**	1
		Springfield	1
	Maine	Augusta	1
	New Hampshire	Portsmouth	1
	Rhode Island	Providence	1
	Vermont	Burlington	1
	Total		**7**
2	New York	Albany	1
		Buffalo	1
		Hauppauge	1
		Brooklyn	1
		Manhattan	2
	Total		**6**
3	New Jersey	Cherry Hill	1
		Fairfield	1
	Pennsylvania	**Philadelphia**	2
		Pittsburgh	1
	Total		**5**
4	District of Columbia	Washington	1
	Delaware	Wilmington	1
	Maryland	Baltimore	1
	North Carolina	Charlotte	1
		Greensboro	1
	South Carolina	Columbia	1
	Virginia	Norfolk	1
		Richmond	1
	Total		**8**
5	Florida	**Fort Lauderdale**	1
		Jacksonville	1
		Miami	1
		Orlando	1
		Tampa	1
	Total		**5**

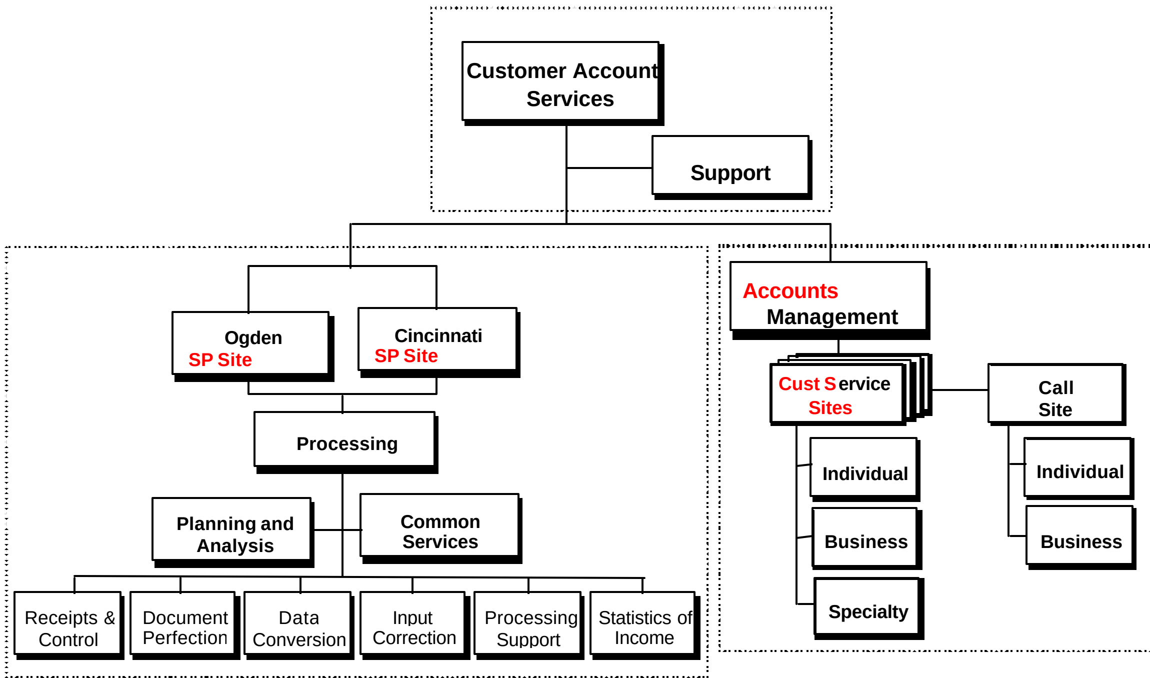
Area	State	City	# of Territories
6	Kentucky	Louisville	1
	Michigan	Detroit	1
		Grand Rapids	1
	Ohio	**Cincinnati**	1
		Cleveland	1
	West Virginia	Charleston	1
	Total		**6**
7	Illinois	Chicago	1
		Downers Grove	1
		Springfield	1
	Indiana	Indianapolis	1
		South Bend	1
	Wisconsin	**Milwaukee**	1
	Total		**6**
8	Alabama	Birmingham	1
	Arkansas	Little Rock	1
	Georgia	Atlanta	1
		Macon	1
	Louisiana	New Orleans	1
	Mississippi	Jackson	1
	Tennessee	Memphis	1
		Nashville	1
	Total		**8**
9	Iowa	Des Moines	1
	Kansas	Wichita	1
	Minnesota	**St. Paul**	1
	Missouri	Kansas City	1
		St. Louis	1
	North Dakota	Fargo	1
	Nebraska	Omaha	1
	South Dakota	Aberdeen	1
	Total		**8**

Area	State	City	# of Territories
10	Oklahoma	Oklahoma City	1
	Texas	Austin	1
		Dallas	1
		Houston	1
		San Antonio	1
	Total		**5**
11	Arizona	Phoenix	1
	Colorado	**Denver**	1
	Montana	Helena	1
	New Mexico	Albuquerque	1
	Nevada	Las Vegas	1
	Utah	Salt Lake City	1
	Wyoming	Cheyenne	1
	Total		**7**
12	Alaska	Anchorage	1
	Hawaii	Honolulu	1
	Idaho	Boise	1
	Oregon	Portland	1
	Washington	**Seattle**	1
	Total		**5**
13	California	Fresno	1
		Oakland	1
		Sacramento	1
		San Jose	1
	Total		**4**
14	California	**Los Angeles**	1
		San Bernadino	1
		San Diego	1
		Santa Ana	1
	Total		**4**
15	District of Columbia	**Washington**	1
	Puerto Rico	San Juan	1
	Total		**2**
	Grand Total		**86**

Customer Account Services Organization

Customer Account Services (CAS) will be responsible for assisting customers in submitting accurate tax returns and remitting the proper amount of tax. The focus will be on processing returns timely and accurately, assisting customers with account specific questions and adjusting their accounts when necessary. Figure 3-8 illustrates the overall CAS organization structure.

Figure 3-8: Customer Account Service Organization (CAS)



CS Sites	Call Sites
Brookhaven	Buffalo
Philadelphia	Pittsburgh
Ogden	Richmond
Cincinnati	Oakland
Memphis	Denver
	Cleveland
	Indianapolis
	Nashville

The activities within CAS naturally fall into either Submission Processing or Accounts Management. Submission Processing activities are high volume, repetitive and include processing of paper returns, electronic submissions, payments and refunds. Accounts Management activities are transactional and taxpayer specific and include responding to customer inquiries, solving customer problems, providing options to settle accounts and working issues received through telephone calls, written correspondence and e-mail. These CAS activities are supported by a headquarters staff of program analysts experienced in related tax law, policies and procedures. These technical experts provide guidance and direction to the submission processing and accounts management operations at the Small Business/Self-Employed sites.

Submission Processing

Submission Processing activities include processing of paper and electronic returns, tax payments and refunds. Taxpayers should notice little difference in these interactions, since this area is already one of the most efficient and effective operations within the IRS. Additionally, with the emphasis on processing business returns, the Small Business/Self-Employed Division will be positioned to further improve service to these business customers. In the short term, however, TEC will be working to migrate toward electronic commerce.

Phase IIB design teams developed a detailed organization structure for each of the Submission Processing organizations. This structure seeks to group activities together to minimize disruption to the processing flow while facilitating better communication among the management levels. The proposed structure has two support functions - Planning and Analysis and Common Services - and five Technical functions: Receipt & Control, Document Perfection, Data Conversion, Input Correction and Processing Support.

- Planning and Analysis is responsible for developing work plans and staffing plans in preparation for the filing season, analyzing program delivery and monitoring execution.
- Common Services will address needs related to personnel and facilities across each site, coordinating with Submission Processing, Accounts Management and Compliance.
- Receipt & Control receives, sorts and routes incoming correspondence to the appropriate area.
- Document Perfection Area corrects any errors in return information before returns are key punched into the system. Also resolves issues related to taxpayer name, address and taxpayer identification number (TIN); and assigns every return a document locator number.
- Data Conversion Area enters taxpayer data into an automated system.
- Input Correction Area resolves errors from the data conversion process and from unpostables.
- Processing Support Area includes follow-up functions responsible for processing taxpayer payments, filing returns and matching returns with data entered into the automated system to identify errors before notices are sent.

Accounts Management

Accounts Management activities include responding to customer technical and account inquiries, resolving customer account issues, providing account settlement (payment) options and working related issues. Accounts representatives will be able to provide tax law, account resolution and payment information across several platforms (telephone, paper, electronic), which will shift in response to changing customer demands. SB/SE accounts representatives will be specifically trained to resolve the routine and complex issues affecting this taxpayer base. This will enable these employees to become more effective at meeting the needs of a specific group of taxpayers, across a broader range of functions, thereby improving their own job satisfaction as well as service to the customers.

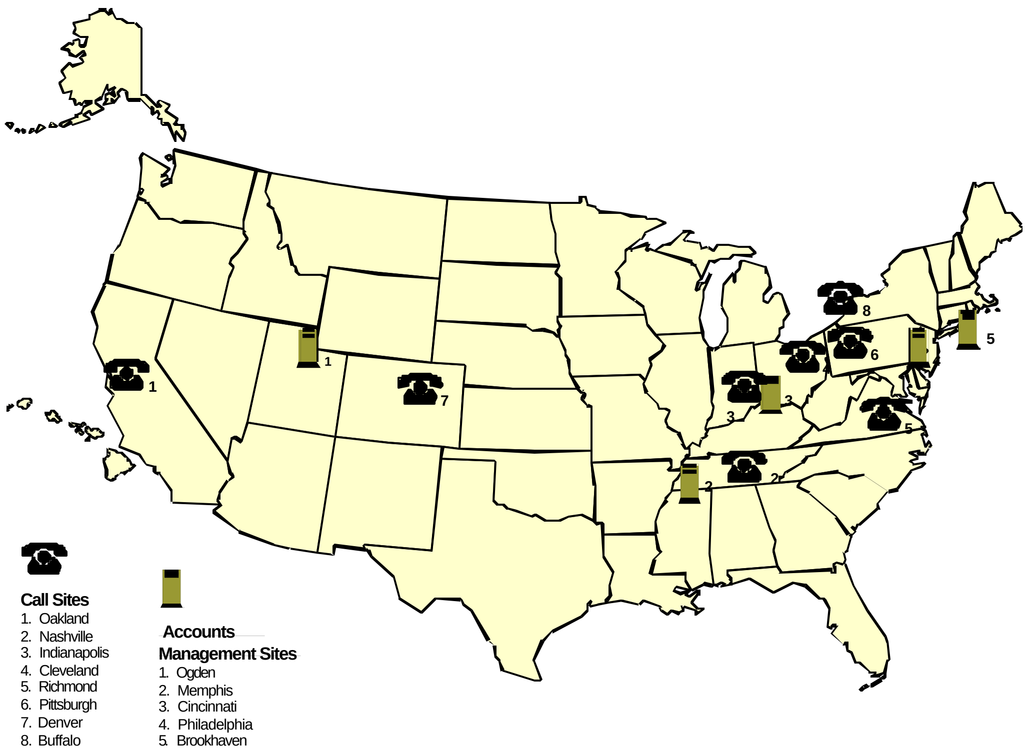
To accomplish the specialization of Submission Processing and Accounts Management work, in a service center environment, we have divided the service centers' pipeline and non-pipeline operations into three functions: Submissions Processing, Accounts Management and Remote Compliance. Submissions Processing and Accounts Management will report to CAS. Figure 3-9 provides a comparison of today's Customer Service organization responsibilities and how those duties migrate to the either Accounts Management or move to the Remote Compliance organization.

Figure 3-9: Today's Customer Service Organization Aligned with the New CAS Structure

		CUSTOMER SERVICE TODAY		
2002 (Dedication)	**ACCOUNTS MANAGEMENT**	▪ Toll-free Activity ▪ Adjustments/ Correspondence ▪ Accounts Maintenance	▪ Statutes ▪ Disclosure ▪ TeleTIN, FaxTIN, PCTIN	▪ CAF/Power of Attorney ▪ Refund Activity
	REMOTE COMPLIANCE	▪ Correspondence Exam ▪ Document Matching ▪ EITC Program ▪ Estate & Gift Tax ▪ FedState Program ▪ Audit Reconsideration ▪ District Office Support ▪ Research & Development	▪ ACS ▪ ACS Support ▪ Delinquent Return Program ▪ Balance Due Program ▪ Installment Agreement Program ▪ Insolvency ▪ Offer-in-Comprise ▪ Trust Fund Recovery	▪ SFR/ASFR (W & I) ▪ TEFRA (SB/SE) ▪ SSA & Wage Discrepancy (SB/SE) ▪ CAWR/FUTA (SB/SE) ▪ Excise (CSC Only) ▪ Innocent Spouse (CSC Only) ▪ 6020(b) (SB/SE)

Business Master File (BMF) returns will be processed at two submission processing sites: Cincinnati and Ogden. Additionally, in order to complete the Accounts Management function, the following eight district phone sites are to be dedicated to the five SB/SE Account Management Sites: Buffalo, Pittsburgh, Richmond, Oakland, Denver, Cleveland, Indianapolis and Nashville. (Note: The following current call site operations will also be dedicated to SB/SE and will report through the Compliance organization: Denver, Oakland, Indianapolis, Cleveland, Nashville, Brookhaven, Jacksonville, Philadelphia, Buffalo, Seattle/Portland and St. Louis.) The footprint of the Customer Account Services organization is illustrated in Figure 3-10.

Figure 3-10: Customer Account Service Organization (CAS) Geographic Footprint



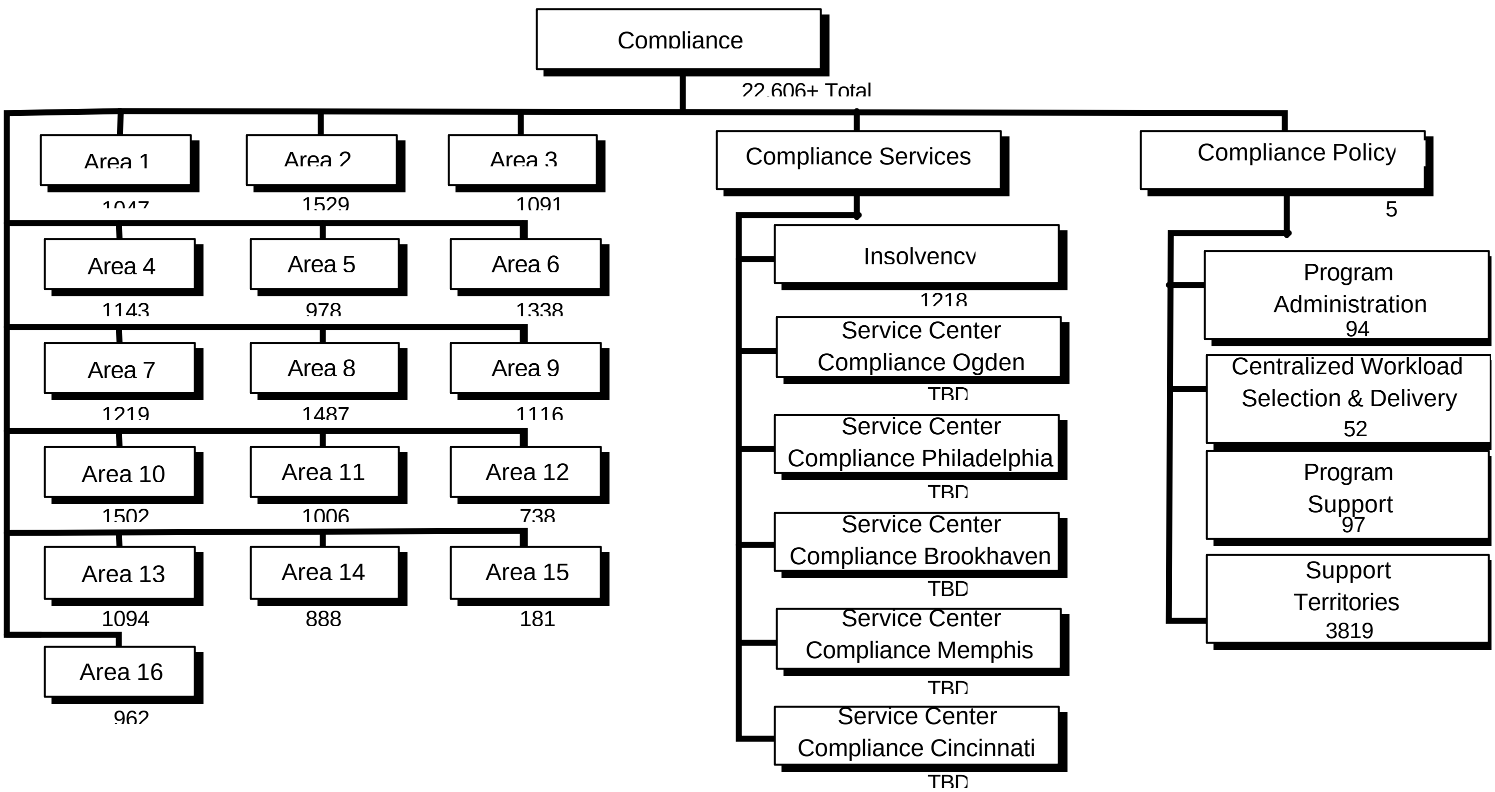
Compliance Organization

The SB/SE **Compliance** organization mission is to provide prompt, professional and helpful service to all customers. This focus will include increasing overall compliance and the fairness of compliance programs as we study and evaluate small business needs and trends. Compliance will provide educational guidance and community outreach and apply appropriate compliance treatments based on facts, circumstances and risk. The Compliance workforce will be empowered, flexible and accountable in providing world-class customer service.

This new Compliance organization structure will result in three overwhelming improvements: 1) increased managerial accountability, 2) cross-functional management of exam and collection issues resulting in faster case resolution and 3) improved compliance through an improved flow of information from Compliance to the pre-filing organization.

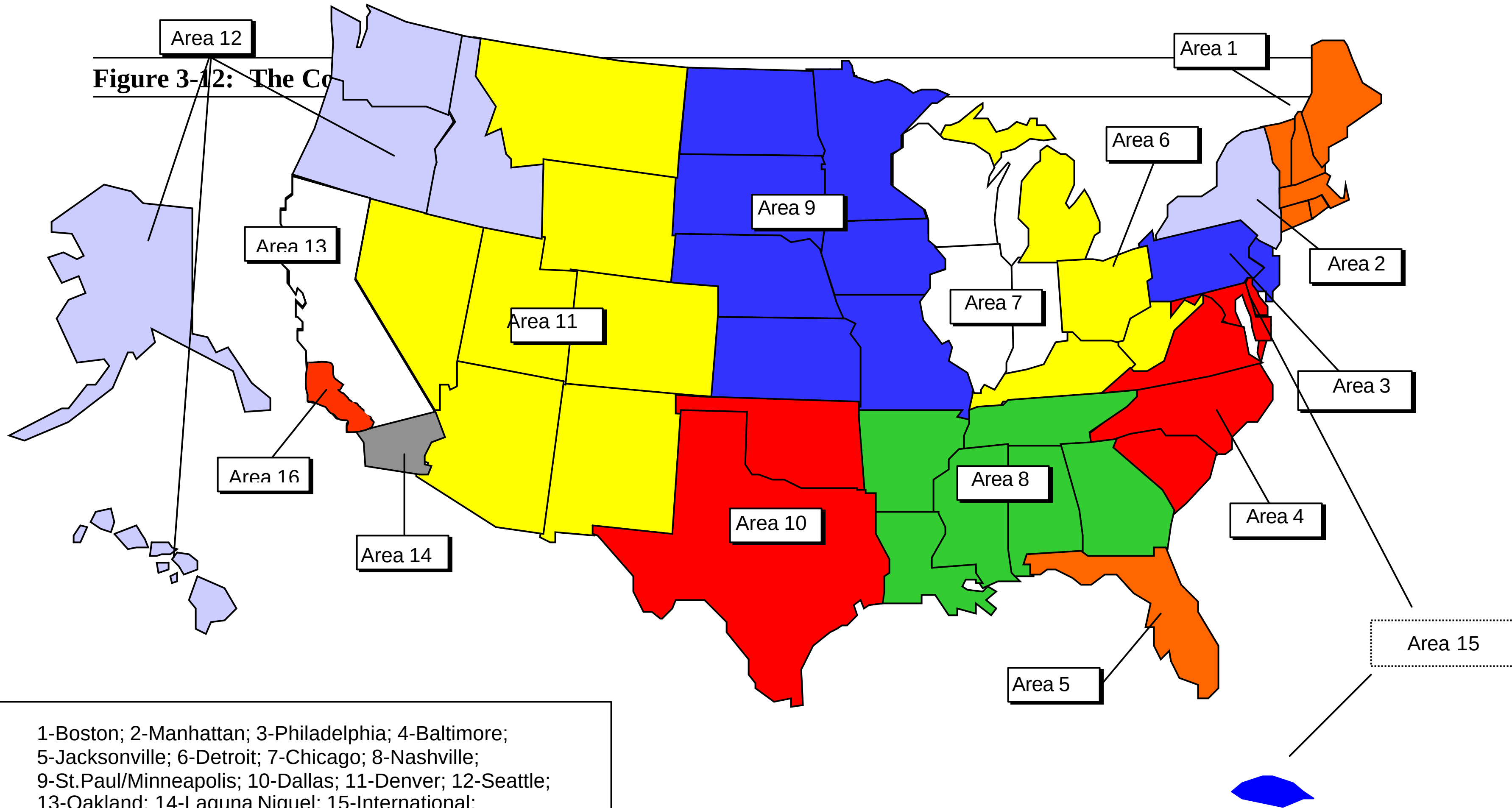
The compliance activities have been divided into those that require face-to-face interaction and those that do not. The structure of the Compliance organization is aligned around these activities. The organization structure for the Compliance function is illustrated in Figure 3-11.

Figure 3-11: Compliance Organization Structure



A geographically deployed **field force** will handle exam and collection activities requiring significant face-to-face interaction with the taxpayer. This organization will consist of 16 areas, 175 territories and 1,394 groups. This significant field presence will ensure that taxpayers are afforded the opportunity to meet face-to-face with IRS Compliance staff when needed. While the TEC staff will take the lead role, Compliance staff will also be assisting taxpayers during the filing season with face-to-face assistance in interpreting the tax law, preparing returns and other taxpayer requirements. The field organization will be segmented into geographic sections: areas, territories and groups. The locations for the areas are illustrated on the next page in Figure 3-12.

Figure 3-12: The Co



1-Boston; 2-Manhattan; 3-Philadelphia; 4-Baltimore;
5-Jacksonville; 6-Detroit; 7-Chicago; 8-Nashville;
9-St.Paul/Minneapolis; 10-Dallas; 11-Denver; 12-Seattle;
13-Oakland; 14-Laguna Niguel; 15-International;
16-Los Angeles

A **Compliance Services Organization** will handle those compliance activities not requiring significant face-to-face interaction with taxpayers. Under the direction of the Compliance Services Field Director, the three functional groups in this organization include: 1) Insolvency; 2) Remote Exam, which includes examinations conducted through correspondence and our automated system used to detect underreporting of income (currently the Automated Under Reporter – AUR); and 3) Remote Collection, which includes collection activity that can be handled by telephone (currently the Automated Collection System (ACS) and Service Center Collection Branch).

A **Compliance Policy Group** consisting of Specialty Tax, Compliance Systems Administration, Technical Advice, and Penalties, Interest and Fraud will be composed of both examination and collection staff to ensure that policies and procedures are sound and reflect SB/SE organizational priorities. This staff will also work with other components of the IRS to ensure that SB/SE compliance policies are consistent with the overall goals of the Service. In addition, SB/SE will centralize all its exam selection activities into the Compliance Policy Group to ensure adequate separation of selection and conduct of examination.

Due to the complexity of the SB/SE tax issues, the potential for errors, misunderstandings and confusion to result in a compliance action is high. For this reason, we must move away from our "one-size-fits-all" compliance program to a more tailored approach. To accomplish this, we will utilize risk-based compliance programs to identify taxpayer segments, and develop and employ effective treatments (including education and outreach) to bring them into compliance. The goal of this program is to intervene as quickly as possible to notify taxpayers that they have a balance due on their account and determine an appropriate course of action. The earlier we are able to begin working with the delinquent taxpayer, the higher the likelihood of avoiding further action by the IRS collection staff. In addition to reaching SB/SE taxpayers quickly, we must also determine the taxpayer's past payment/filing history with the IRS. Similar to commercial financial institutions, we will provide more flexibility to those taxpayers that do not have a long-standing pattern of late payments or willful noncompliance. It is our strong belief that the majority of taxpayers finding themselves in a non-compliance situation are not willfully being non-compliant but are experiencing temporary difficulties. In short, our new risk-based approach will help us to tailor our compliance activities based on a taxpayer risk profile.

An important aspect of increasing overall compliance will be the information sharing process between Compliance and TEC. Information gained during compliance activities will help direct TEC assistance initiatives. For example, during many examinations, either local or national, we may discover that taxpayers are making similar errors. In the future, this information will be systematically provided to the SB/SE TEC organization to develop and deploy outreach activities to quickly notify taxpayers of the trend and how to properly handle the situation. In addition to creating tailored educational products and services, we may hold meetings with stakeholders and taxpayer representatives to ask them to pass along this valuable information. While education may be the answer, in some cases we may want to elevate this issue to the Chief Counsel, the Taxpayer Advocate or the Treasury Department to obtain an interpretation, clarification or modification to the tax law. These are just some of the benefits gained by taxpayers when we systematically use the valuable information gained during compliance activities.

Implementation Timing

There are 20 high-level initiatives associated with migrating to the new SB/SE organization – each brings the IRS one step closer to its desired future state (see Table 3-1). These 20 initiatives extend over a period of three years.

Table 3-1: Implementation Milestones

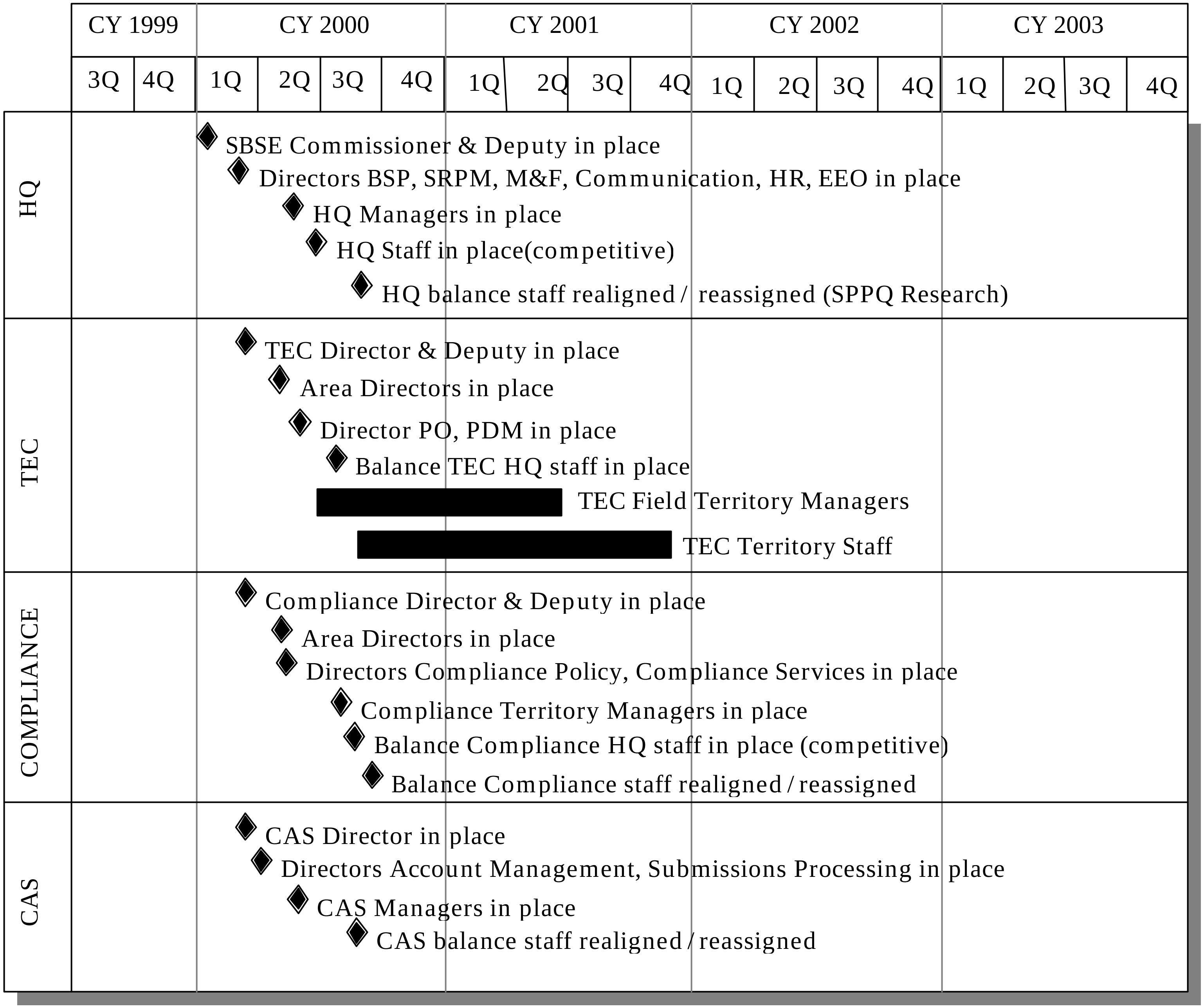
LINE ORGANIZATION	#	INITIATIVES
Headquarters	1.	Submit Commissioner Package • Division Commissioner has been selected and is on board • Working with the Strategic Human Resource organization the Executive/Management selection process has been followed and key positions filled • Management has been educated on the vision, structure, functions, etc. of the new division
Taxpayer Education & Communication	2.	Submit draft PDs
	3.	Announce Positions
	4.	Select candidates
Customer Account Services	5.	TIMIS Database validation completed (most personnel actions have been completed to non-competitively and competitively realign) • The Restructuring Agreement selection process and notification processes have been adhered to in the populating of the new division • Personnel actions have been processed for all employees to be realigned • Most competitive actions have been completed and those employees will have received their position descriptions and Critical Elements and Standards • Key support positions, embedded and co-located, have been filled • Strategies have been developed to manage employees during the status quo period
Compliance	6.	Submit "To/From" Listing
	7.	Deliver Notice #
	8.	Complete SF-52's for employees not being "swept"
Cross - line organization	9.	Budget authority transferred to new Division (Budget has been created and responsibilities transferred to the Division Commissioner) • Financial codes have been created and financial, personnel and administrative systems updated with new codes/cross-walks • Embedded CFO organization has been designed and implemented. Key headquarters and field financial staff are in place to manage the division's fiscal programs • FY 2000 Financial Plan has been developed and is ready to be executed. FY 2000 resources have been allocated to the appropriate Financial Plan Manager

LINE ORGANIZATION	#	INITIATIVES
	10.	Re-validate interim Division delegation orders (The Division has the delegated authority to fulfill its mission) • Current best thinking is that the Divisions will need to have: – Functional statements for the new organization similar to those that appear in IRM 1.1 Organization and Staffing for the "old" organization; and – Delegation Orders as contained in IRM Handbook 1218 that have been revised to include the positions in the new unit that need the authority • Functional Statements will need to be developed by the design teams by pulling available information from the Blueprints and reformatting them into functional statement style • Delegation Orders will need to be appended/edited to include the new positions in the division that need authority while retaining the authority in the regions and districts needed to operate until they are phased out
	11.	Create and execute delegation orders to the appropriate level in the new division
	12.	Update IRM procedures and policies as needed (pending GLS opinion) (Management systems or workarounds have been developed and are in place to allow the division to function) • Clearly define changes needed to legacy systems • Workarounds need to be in place
	13.	Validate legacy RIS submissions and track changes
	14.	Submit appropriate forms (5081's) to ensure necessary access changes/updates
	15.	Develop Division Agreements to agree on services to be provided by other divisions
	16.	Headquarters facilities are complete
	17.	IS connectivity for HQ facilities is complete
	18.	Develop work assignment process for Section 2
	19.	Develop training delivery plan
	20.	Identify from the transition templates critical transition issues and processes to be addressed

Figure 3-13: SB/SE Implementation Plan

During July 1999, the first SB/SE initiative began with the establishment of the SB/SE Headquarters. The SB/SE Commissioner and Deputy were identified in January 2000. In March 2000, the top executives for the operating units (TEC, CAS and Compliance) were named. In June 2000, three tiers of management will be in place and we will begin aligning selected employees and programs to the SB/SE Headquarters.

Starting in April 2000, the leaders of the three operating units will begin implementation of their operating units. The operating units will be fully aligned by October 2000. The workload would be fully aligned by October 2001 for TEC and October 2002 for Compliance.



Chapter 4 Large and Mid-Size Business

Taxpayer Characteristics

The **Large and Mid-Size Business** (LMSB) Division includes roughly 210,000 of the largest filers, with assets over $5 million. This operating division will be organized into industry segments to best address the needs of unique groups of large corporations.

The taxpayers served by the new Large and Mid-Size Division have unique needs that required fundamentally re-thinking the way the IRS currently provides service and ensures compliance. Taxpayers with greater than $5 million in assets require a dedicated IRS business unit to address sophisticated tax planning capabilities and complex filing requirements.

This LMSB business unit will serve corporations, sub-chapter S corporations and partnerships with assets greater than $5 million. These businesses are responsible for an annual tax liability of $466 billion. Approximately 10% of these taxpayers are examined each year and the largest of these taxpayers deal with the IRS continuously.

These businesses generally have large employee bases and "in-house" tax organizations. They also have access to large legal and accounting organizations for the most complex issues. While collection issues are rare, many other complicated issues such as tax law interpretation, accounting principles and regulatory issues arise frequently, particularly those with international dimensions. Approximately 18% of the largest corporate taxpayers are owned by Foreign Controlled Corporations (FCC). These Coordinated Exam Program (CEP) returns contained approximately $40 billion in foreign tax credits in 1997, which represented over 80% of all credits claimed.

Goals, Principles and Objectives

The LMSB Phase IIB team followed the basic vision, structure and processes of the Phase IIA design. The LMSB Phase IIB team completed more work in a compressed time frame than other Operating Divisions, such as Small Business/Self-Employed (SB/SE) and Wage & Investment (W&I) due to an accelerated implementation schedule. To accomplish this aggressive schedule, the Phase IIB team operated some sub-teams that were in the design stages, while others were beginning implementation.

LMSB had major accomplishments on an operating division level, the most significant being the Commissioner's approval of the organization design. This marked the official birth of the Large and Mid-Sized Division by giving approval to the final organizational structure, including all positions, staffing levels, layers of management and spans of control. After approval of the "Commissioner's package," formal notification was sent to all impacted employees informing them of the new organizational design. In addition, LMSB began populating the new organization. Twenty-five executive positions were announced and filled, including the Industry Heads and Field and Headquarters Directors.

The LMSB commitment to improving the business operations at all levels is evident in the Phase IIB designs. Interviews with large corporations and external stakeholder associations identified four themes for change.

- First, the new IRS organization must strive to create an atmosphere of teamwork between the LMSB taxpayer representatives and the LMSB IRS staff.
- Second, the IRS must have knowledgeable, well-trained staff members who are universally recognized as experts on the tax code sections affecting large and middle market corporations.
- Third, the IRS should offer more pre-filing services to all large and mid-size business taxpayers. The offering of pre-filing services extends to pre-transactional advice and will require close coordination with Counsel.
- Fourth, compliance strategies can also be improved by more actively working with Counsel to produce guidance and clarify unclear areas of the tax code.

Addressing these four overarching themes requires revamping much of what currently exists, including: an industry aligned organizational structure, new and improved business processes, new tailored products and services, better trained employees, better technologically equipped employees, more managerial involvement in casework and improved compliance strategies.

While these success factors will require changes in business processes, they also clearly demand a complete transformation of the current organizational structure. The following represents just some of the improvements taxpayers will recognize:

- fewer delays resolving tax issues
- well trained industry experts
- more direct contact with IRS managers
- taxpayer input to performance evaluations

- more accurate and timely information through technological enhancements

These dramatic improvements will have clear benefits for LMSB taxpayers. The IRS will be proactively resolving taxpayer questions, concerns and issues. In the future, taxpayer interactions will be less difficult, less time consuming, less expensive and less contentious.

To begin efforts to achieve this goal, LMSB is in the advanced design stage of a new Pre-filing Agreement designed to reach early agreement on high risk or record intensive issues. The new process will promote close cooperation between the IRS and the taxpayer to quickly identify the information necessary to resolve the issue and prepare a closing agreement. LMSB is expecting to launch a pilot early in Phase III to test the procedure and the benefits to the IRS and the taxpayer of this new Pre-filing Agreement process.

The pilot program will involve a cross section of the largest LMSB taxpayer population and will run for a period of six months. LMSB will then assess the level of success and determine what changes, if any, are necessary to prepare for national implementation.

Those taxpayers who wish to work in this mutually efficient manner will discover that both parties can benefit. The IRS will conserve scarce resources that can be better used to address compliance issues. Likewise, taxpayers may also conserve resources and obtain a faster resolution to their tax issues. The new organizational design is built around this framework of cooperation and applying expert resources to the needs of these sophisticated taxpayers.

The LMSB Managers and dedicated employees will also receive great benefits from a revamped organizational structure. These benefits include:

- industry-specific knowledge
- more involvement in identifying and solving issues
- more decision-making authority
- cooperation from Counsel on LMSB specific issues
- conflict resolution training
- new technology enabling improved taxpayer service
- training to better utilize key technological tools
- performance measures aligned with key objectives

One example of our commitment to LMSB personnel is the newly developed concept of the knowledge transfer system. Initiated during Phase IIB and continuing during Phase III, this effort will provide field employees significant flexibility and responsiveness while conducting examination. The system will be designed to institutionalize the knowledge within LMSB by quickly recording and disseminating the know-how and experience across the LMSB organization.

This system will offer a very effective platform to deliver relevant and timely training to LMSB employees. Taxpayers will also benefit from this system as Revenue Agents will be in a position to quickly access the IRS' position (e.g. Published Guidance, Private letter Ruling, etc.) leading to more uniform tax treatment.

New Organizational Model

The Large and Mid-Size Business Division vision is to be a world-class organization responsive to the needs of our customers in a global environment while applying innovative approaches to customer service and compliance. We will apply the tax laws with integrity and fairness through a highly skilled and satisfied workforce, in an environment of inclusion where each employee can make a maximum contribution to the mission of the team.

To achieve the vision, LMSB needs to create a new operating model that provides better consistency in customer focus, ownership and accountability to taxpayers and other stakeholders. This new model is illustrated in Figure 4-1.

Figure 4-1: The New LMSB Operating Model Results in Significant Benefits for All Stakeholders

NEW OPERATING MODEL

Structure

- Aligning along industry lines ensures depth of industry-specific knowledge and improves responsiveness to taxpayers

People

- Specialization provides for increased levels of expertise among Revenue Agents and Field Specialists
- Shift in focus toward taxpayer needs improves working relationship with taxpayers
- Proactive to industry trends, improving response times and the ability to identify significant issues earlier in the process
- Global tax administration

Process

- Strong accountability empowers employees to make decisions
- Industry-specific knowledge and technical training develops more skilled employees
- Engaging Counsel earlier in issue resolution improves communication within the IRS and speeds up examination process
- Initiatives to reduce taxpayer dependence on Appeals should improve taxpayer satisfaction and increase compliance

BUSINESS RESULTS

- Increased rate of voluntary compliance
- Increase in tax collected
- Less costly tax administration

CUSTOMER SATISFACTION

- Less time-consuming examination process improves examination currency
- Improved working relationship with taxpayer

EMPLOYEE SATISFACTION

- Employees better equipped with tools and industry-specific training
- Increased accountability results in more ownership of process

Organizational Structure

The LMSB structure will be aligned by industry versus the current geographic alignment. The industry aligned staffs will focus on taxpayer needs, have deep technical/industry expertise and will respond proactively to industry trends. In addition to improving compliance strategies, the IRS will also be increasing efforts to educate taxpayers prior to filing their tax returns and to work much more actively with Counsel to produce guidance and clarify unclear areas of the tax code. This increased focus on pre-filing activities will help reduce the issues arising in a post-filing/compliance situation.

The division will be aligned by industry groupings and will continue to have field offices throughout the nation, allowing the IRS to meet on-site with its customers. The largest component of the approximately 7,100 staff will be located in field offices. However, approximately 600 will be located at the division headquarters. The overall structure is illustrated on the next page in Figure 4-2.

At a high-level, the Industry Headquarters office will oversee the execution of fair and timely examinations, deploy resources across examination teams and resolve operational issues. Industry research specialists will provide technical support and expertise and identify the drivers of industry-specific compliance behaviors and address them through the various compliance initiatives. After identifying specific compliance areas needing attention, the Industry Director will work closely with Counsel to ensure that tax law interpretation and guidance adequately address the tax issues involved.

Field Operations Directors will interface with the Territory Managers whom they oversee to resolve issues and ensure the Exam plan is carried out fairly and effectively. They will also develop operational plans for resource deployment across examination teams.

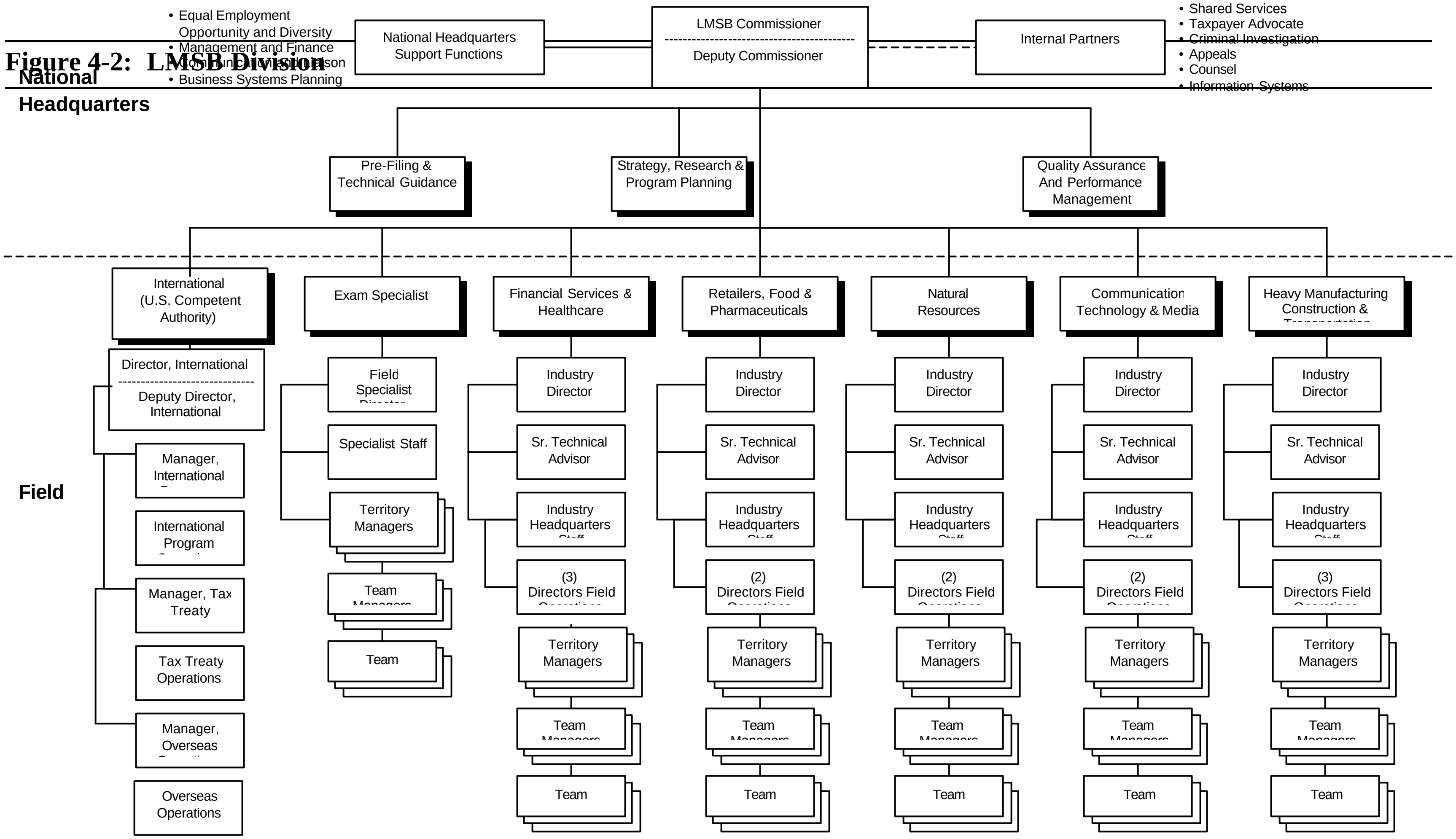
Territory Managers will ensure that the appropriate resources are available to resolve issues referred by team managers. Team managers will manage the front-line examination process. They will plan, direct and monitor examination cases. They will also continue to coordinate with specialist managers, Appeals and Counsel to acquire the necessary expertise.

The Revenue Agents will continue to conduct examinations, develop working relationships with taxpayers and obtain in-depth industry knowledge through training and seminars.

International Field Specialists provide tax administration services from pre-filing educational outreach to post-filing compliance activities, as well as specialty assistance in resolving International tax issues. The goal of the International Specialists is to meet the international needs of large and mid-size businesses within assigned industries.

Other specialists include Computer Audit Specialists, Economists, Engineers, Financial Products and Transactions. These examination Specialist Programs will focus on supporting the examination function by conducting efficient, fair and timely examinations in their respective specialty areas.

Figure 4-2: LMSB Division



Senior Management Team

The concept of a LMSB senior management team, focused on providing overall strategic and operational direction to service its approximately 210,000 customers, is a profound change in the way the IRS views its relationship with this very large customer base. Focused solely on its mission of providing world-class service to this customer segment, the members of the senior management team will be much more interdependent on the success of one another. For example, changes in the compliance strategy will be viewed holistically across all LMSB units and industries to determine how these changes impact both internal operations and service to customers. Strategic direction as well as operational decisions will be made in the context of service to this customer base.

The LMSB senior management team is composed of:

- Larry Langdon – LMSB Commissioner;
- Debbie Nolan – Deputy Commissioner;

And the heads of its five industry groups:

- Financial Services and Healthcare – David Robison;
- Retailers, Food and Pharmaceuticals – Bob Brazzil;
- Natural Resources – Bobby Scott;
- Communications, Technology and Media – Tom Wilson;
- Heavy Manufacturing, Construction and Transportation – Tom Smith.

In addition, the LMSB top management team will include:

- Director of Field Specialists – Keith Jones;
- Director International – Carol Dunahoo;
- Deputy Director International – Elvin Hedgpeth;
- Director Strategy, Research & Program Planning - Dick Teed (Acting);
- Director Pre-filing & Technical Guidance – Gerald Reese;
- Director Management & Finance – Jim O'Malley;
- Director Business Systems Planning - Julie Rushin;
- Director EEO & Diversity - TBD;
- Director Quality Assurance & Performance Management – Arlene Kay;
- Director Communications & Liaison – Susan Linden

The Senior Management team met in early January with Larry Langdon and Debbie Nolan for an orientation to the new operating division and culture. During this overview, several new ways of doing business were discussed, focusing specifically on new ways of communicating and interacting both internally and externally. LMSB held an Executive Retreat in mid-February entitled "Leaders Make a Difference." Topics for discussion incorporated the new vision and included items such as “Building the LMSB Community,” “The Organizational Adhesive” and “Toward an Integrated LMSB Culture.” In addition to these topics, a strong emphasis was placed on improving communications and relationship building in a team environment. Over the next several months, the LMSB senior management team will be going “on the road” across the country to share information about the new LMSB Division and to address issues concerning field personnel.

All industry groups will be supported by an Industry Headquarters operation that will perform all necessary support activities. Internal partnerships will be developed within the LMSB Headquarters and with Shared Services, the Taxpayer Advocate, Criminal Investigation, Appeals, Counsel and Information Systems. Although our partners are not directly managed by LMSB, we are creating strong internal partnerships with them to ensure taxpayers and employees receive the best service possible. This new organization structure with internal partnerships is illustrated previously in Figure 4-2.

Beyond the immediate organization, the IRS Chief Counsel's office continues to be critical to the success of providing top quality advice to taxpayers. Due to the complexity of the issues raised by taxpayers, the IRS often relies on the Chief Counsel's office to interpret the tax law and recommend a course of action. In order to ensure that Counsel's services meet the needs of the operating divisions, a strong partnership is being established between the LMSB business unit and the Office of the Chief Counsel. The partnership with Counsel will be facilitated by the newly created Operating Division Counsel (ODC) position. The ODC will be an integral part of the strategic oversight throughout the LMSB organization to achieve our taxpayer service and compliance goals.

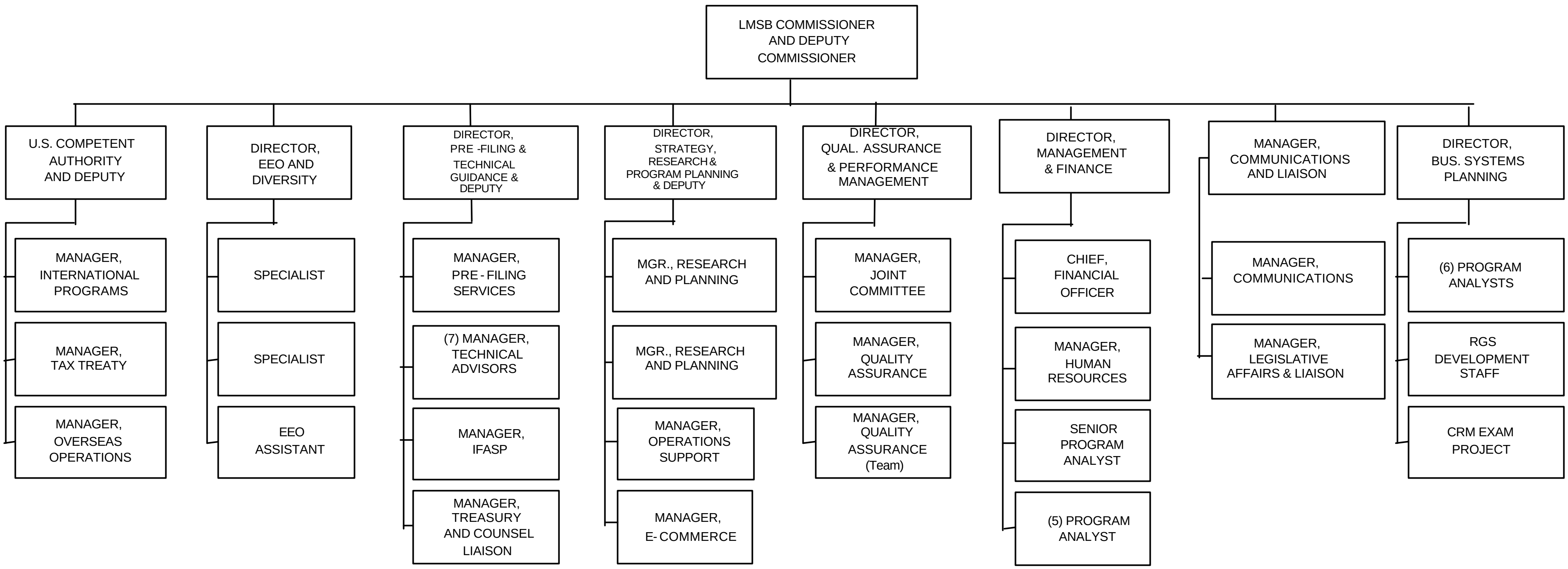
The strong partnership between LMSB and Counsel will directly focus on ensuring timely and responsive advice to the Compliance staff, especially during the planning stage. In an examination, dedicated teams of subject matter experts will develop strategies and provide legal advice and litigation support with respect to specific industry tax issues. This team includes the Operating Division Counsel (ODC) and is designed to focus more closely on providing LMSB taxpayers quality service. In addition, Field Attorneys will be provided by Counsel to work in direct partnership with examiners in the field. The ODC and the LMSB Commissioner will work together to escalate and resolve emerging LMSB issues and prioritize Counsel resources for developing and executing litigation and non-docketed case strategies. The ODC will identify and forward litigation vehicles to promote compliance and resolve significant industry issues. All of these efforts will directly improve the timeliness and responsiveness of Counsel's services.

LMSB Headquarters

Larry Langdon, Commissioner, and Debbie Nolan, Deputy Commissioner, will lead the LMSB Headquarters, both having management responsibility for the strategic leadership of the LMSB Division. The LMSB Headquarters will provide strategic leadership and focus in the development of capabilities unique to the organization, management of organizational activities, strategic planning and budgeting, forecasting and financial management. The LMSB Headquarters will interact significantly with the IRS National Headquarters and other operating division functions to fulfill its roles and responsibilities. This redesigned headquarters organization will improve both service and accountability to taxpayers and improve consistency across geographies. In addition, improved LMSB processes and systems will allow the LMSB Headquarters to respond more proactively to changes in industry compliance behavior.

Some of the headquarters structures currently exist within IRS, while others are new and will take longer to establish. The International organization is an example of an existing function that will now reside within LMSB. While there will be new business processes created to improve operations, the personnel in these types of functions will move virtually intact. On the other hand, newly created functions such as Pre-filing and Technical Guidance have no existing structure and will need to be fully developed. Due to the magnitude of this task, further details will be refined by the Directors of these functions after initial implementation is complete.

Figure 4-3: LMSB Headquarters Structure



LMSB Headquarters include the following organizations:

International

Service to international customers is the responsibility of LMSB Headquarters. International teams are physically located in cities where customers are concentrated. The responsibilities of this organization cover a wide range of issues under the international tax code. Some of these duties include:

- Providing timely and effective implementation of Tax Treaty and Tax Information Exchange Agreements and relaying Treaty information to taxpayers.
- Helping taxpayers avoid double taxation consistent with U.S. Income Tax Conventions.
- Identifying emerging international tax issues.
- Providing tax assistance to U.S. taxpayers residing overseas through the Revenue Services Representatives and staffs located at the foreign posts.
- Assisting foreign governments in strengthening their internal tax systems.
- Working to achieve global consistency with U.S. tax laws.
- Ensuring consistency along with fair and equitable treatment of taxpayers within the U.S. who face international issues.
- Delivering International Specialist services across industries.
- Advising the Commissioner, LMSB Division regarding proposed Regulations/Rulings and litigation.
- Working closely with Treasury and Counsel on issues affecting LMSB customers.

Pre-filing & Technical Guidance

The LMSB structure contains an organization that is dedicated to providing pre-filing services to customers. Pre-filing personnel will:

- Provide guidance, assistance and support of industry practices and resolution of tax issues for both domestic and international issues.
- Help coordinate resolution of complex tax issues with Counsel and Treasury.
- Build leveraged partnerships and collaborate with stakeholders and industry experts to increase taxpayer education, develop industry expertise and clarify core issues.
- Support each industry research component and Strategy, Research and Program Planning in identifying trends in emerging tax issues.

Strategy, Research & Program Planning

The Strategy, Research & Program Planning organization provides LMSB with division-wide support required to conduct ongoing operations and prepare for the future. Responsibilities include developing objectives, examination plans and criteria for audit selection for LMSB.

The team coordinates staffing and funding issues and supports budget formulation with Management and Finance. Strategy, Research & Program Planning is responsible for establishing return coverage across industry units and supporting cross industry research based on voluntary compliance objectives. Cross industry research includes the development of mathematical models and expert systems to support audit selection including a “marginal yield to cost” model designed to provide industry information by return types and audit classes.

Maintaining communications with both LMSB organizations and external groups involved in research and planning is a key to success for the organization. Personnel will work with Industry Research, Pre-filing and Technical Guidance and Counsel to address plans for changing customer needs and emerging compliance trends. Responsibilities include coordinating with Business Systems Planning and Information Systems to design and establish automated systems to monitor examination plan execution, track examination processes, gather key compliance information, capture management information, and provide statistical results.

Some other important functions performed by this office will be to coordinate with Counsel, analyze tax law changes and assess compliance problems in order to aide in the production, design and development of LMSB publications, and coordinate the printing and distribution of such forms with Agency Wide Shared Services. They will be responsible for developing IRM guidelines and policies relating to examination and operational activities and monitoring and executing the examination plan designed to carry out the strategic initiatives of the Commissioner, LMSB Division.

Quality Assurance and Performance Management

This function will provide expertise and staff support to the LMSB Commissioner and Industry executives to ensure proper checks and balances to programs and processes are implemented. This objective includes such responsibilities as:

- Providing the LMSB Commissioner, Industry Directors, Field Specialist Director and Field Operations Directors with assessments of operational effectiveness.

- Performing quality review checks on examined cases and analyzing results. As a result, creating program policies and directives to address issues identified.
- Employing objective measures to ensure high quality examinations reach correct technical conclusions based on full factual development.
- Using quality measurements to provide ideas and guidelines for improving customer satisfaction, employee satisfaction and business results.

Equal Employment Opportunity & Diversity

LMSB will have a dedicated staff that establishes and implements EEO policies, procedures and programs for the division in conformance with overall Service guidelines. This staff will also perform various tasks including:

- Advising the LMSB Commissioner and other LMSB management officials on EEO and Diversity issues, including complaint resolution.
- Establishing and implementing EEO policies, procedures, programs and recruitment strategies for the division in conformance with overall Service guidelines.
- Overseeing the LMSB EEO and Diversity Advisory Committee.
- Providing training to LMSB staff on EEO-related matters and issues.
- Preparing reports and conducts analyses of key workforce-related trends or actions to identify any practices, regulations and procedures that may perpetuate discrimination.
- Establishing division policy on reasonable accommodation, sexual harassment and other EEO-related issues, and ensuring that it is appropriately implemented.
- Coordinating special emphasis activities relating to women and minorities.
- Representing LMSB on the EEO and Diversity Council.
- Developing and monitoring the LMSB affirmative employment plan in accordance with Servicewide policy and the management directives of the Equal Employment Opportunity Commission.
- Developing and monitoring EEO Service Level Agreements (SLA) with Agency Wide Shared Services.
- Developing LMSB's EEO Annual Business Plan.

- Conducting, on a timely basis, necessary inquiries into alleged discrimination and recommending remedial relief in an expeditious manner.
- Developing a substantial relationship with the recognized employee groups as major stakeholders in division Diversity initiatives and special emphasis programs.

Management & Finance

The Management & Finance function oversees various financial planning and resource allocation tasks, as well as numerous human resources programs. Some of these roles and responsibilities include:

<u>Resource Allocation</u>

- Formulating LMSB's budget submission.
- Managing resource distributions and ensuring that financial plans support division priorities.
- Tracking resource usage against targets and establishing financial policies, procedures and controls in coordination with overall Service guidelines and procedures.
- Providing budgetary guidance to industries and specialist organization.

<u>Human Resources</u>

- Ensuring continuous performance improvement and individual development through competency and skill building, conducting needs assessments and resource allocation, developing education strategy and designing curriculum focusing on the development of LMSB key competencies.
- Planning for future staffing and competency needs to ensure that technically competent personnel are available to meet all LMSB customer needs.
- Providing workforce planning and strategic recruitment guidance.
- Partnering with other divisions to develop career paths that span division boundaries.
- Fostering partnership with National Treasury Employees Union throughout LMSB and serving on the LMSB/NTEU Partnering Council.

Communications & Liaison

The Communications and Liaison function, located at the LMSB Headquarters, is the main point of contact for relaying LMSB-related information to both internal and external stakeholders. Among the C&L Group's main responsibilities within LMSB are overseeing the Division's communications strategy, including marketing and media relations, and coordinating related activities with the National Communications and Liaison office.. This group will also serve as the central point of contact on all LMSB matters related to FedState and Disclosure.

Business Systems Planning

The Business Systems Planning Group, also part of LMSB Headquarters, gathers and articulates business needs for Information Technology (IT) projects, applications and legacy systems. Responsibilities include assessing IT solutions to address gaps in business processes, creating business cases for new IT projects and evaluating requests for information services. This group will create a close partnership with the Division Information Officer (DIO) who reports to the Chief Information Officer. Through this partnership, the LMSB needs and services will be coordinated with all appropriate IT staff. Some related tasks include:

- Planning and analyzing business needs for new projects. Developing business cases. Prioritizing business needs and process changes.
- Formulating Information Technology plans and budgets. Managing and/or monitoring funds for business systems modernization projects.
- Developing and testing projects. Overseeing business involvement in systems testing. Establishing information systems performance measures.
- Implementing and overseeing modernization projects. Developing and monitoring the Implementation Action Plan. Evaluating the results of the project on LMSB operations.
- Providing support to senior leadership by providing business expertise to complement Information System’s knowledge of technology change.
- Developing and negotiating Service Level Agreements (SLA) with support functions. Assessing the effectiveness of support received.

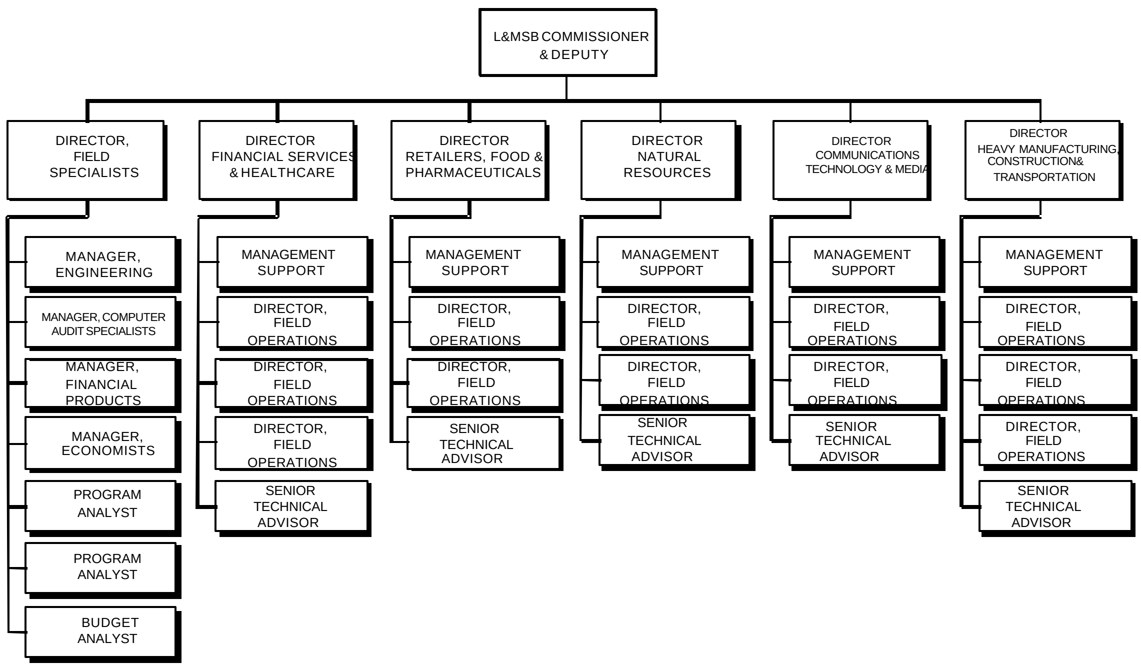
LMSB Field Organizations

The LMSB field organizations consist of the Field Specialists and the five Industries.

Field Specialists

Field specialists will administer all domestic and international federal tax laws and tax treaty provisions and ensure consistency in treatment among taxpayers. In addition to consistent administration of tax laws, field specialists will design, develop and implement programs, including the administration of pre-filing and educational activities, which assist customers in understanding their tax responsibilities and complying with tax laws. The increased focus on pre-filing activities will help reduce the issues arising in post-filing/compliance situations.

Figure 4-4: LMSB Industry Headquarters Organization Chart (including Field Specialists)



Industry Segmentation

As stated above, the LMSB structure will be aligned by industry versus the current geographic alignment. The industry staff will focus on taxpayer needs, have deep technical/industry expertise and will respond proactively to industry trends.

Industry groups will administer all domestic and international federal tax laws and tax treaty provisions applicable to LMSB industry-specific customers and ensure consistency in treatment among industry taxpayers. In addition to consistent administration of tax laws, industries will design, develop and implement programs, including the administration of pre-filing and educational activities, which assist customers in understanding their industry-specific tax responsibilities and complying with tax laws. The increased focus on pre-filing activities will help reduce the issues arising in post-filing/compliance situations.

Industry groups will be in continuous communication with industry stakeholders and industry experts to increase taxpayer education, improve business practices and clarify and resolve common tax issues. Industries will also conduct on-going research to identify emerging global industry trends and issues for use in the development of strategic initiatives to improve customer service and compliance.

Figure 4-5: LMSB Financial Services and Healthcare Organization

Financial Services and Healthcare

This industry group consists of taxpayers related to commercial banking, savings and loans, securities and financial services, health care and insurance. All of these industries are highly related to each other and are universally understood to be a distinct market sector. Today, this sector is experiencing widespread consolidation across industries. In the near future, this sector expects to experience the largest growth from international expansion and sub-sectors (e.g., asset management, discount brokerage).

These 46,600 taxpayers include approximately 5,000 large businesses and 41,600 mid-size businesses.

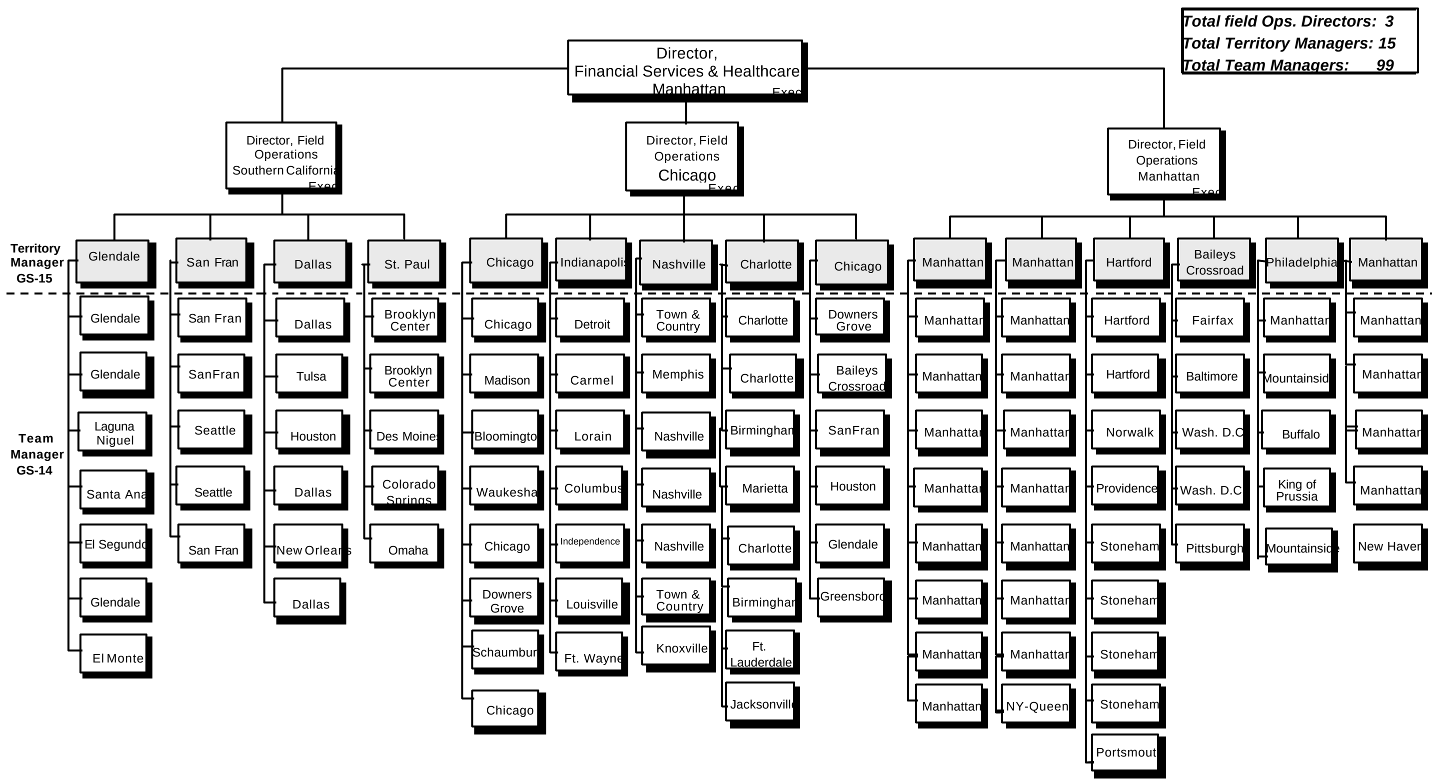


Figure 4-6: LMSB Retailers, Food and Pharmaceuticals Organization

Retailers, Food and Pharmaceuticals

This industry group consists of taxpayers related to food and beverage, retailing, pharmaceuticals, agricultural commodities and farms. This grouping of industries reflects the "food chain," with all supporting segments of the chain. In addition, retailing is included due to the similarity of the financial reporting. For example, a grocery store chain fulfills the same basic requirements as a retail chain in terms of balance sheets, inventory management and investor accountability/reporting. In addition, both types of store chains have similar growth patterns and geographic dispersion.

These 29,200 taxpayers include approximately 1,000 large businesses and 28,200 mid-size businesses.

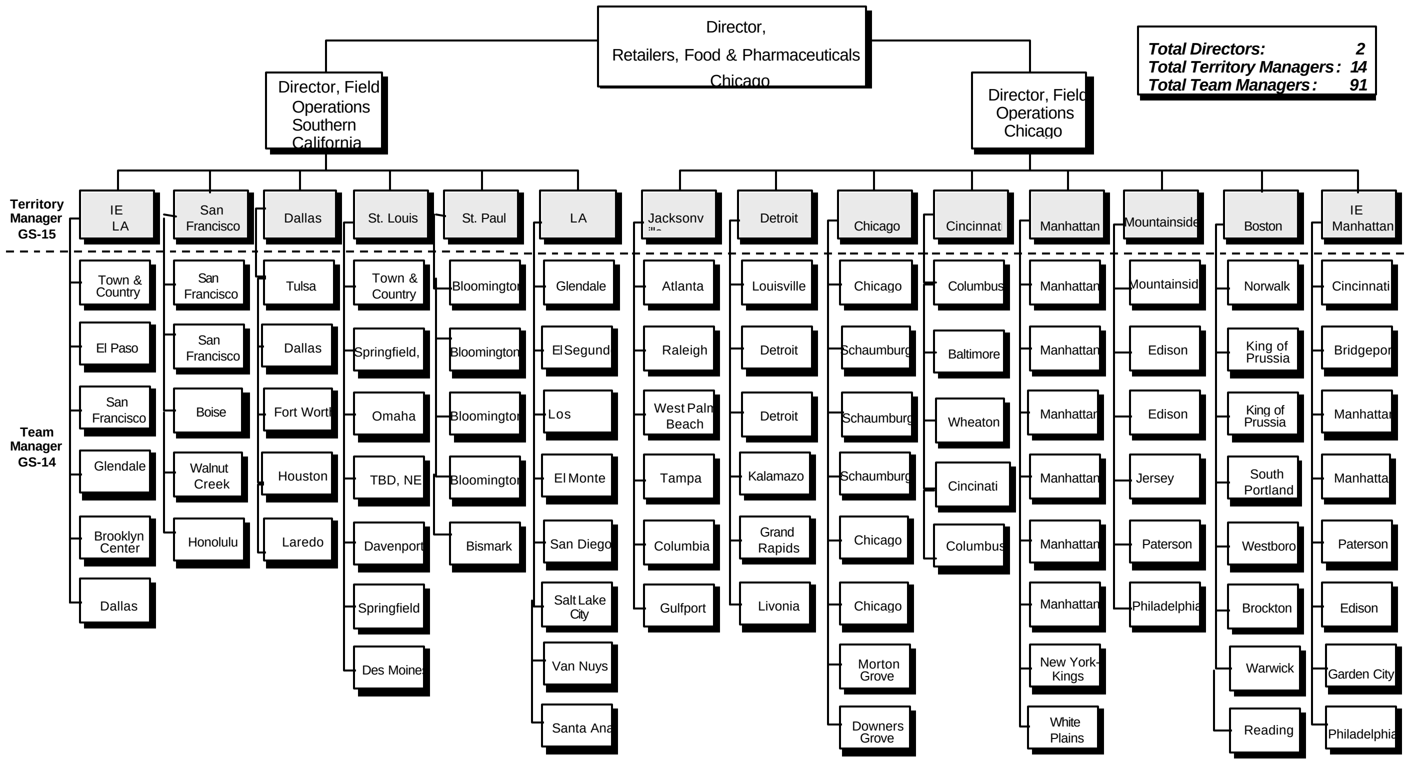


Figure 4-7: LMSB Natural Resources Organization.

Natural Resources

This industry group consists of taxpayers related to oil and gas, mining, forest products and utilities. This industry grouping reflects chemical engineering, energy-related industries and all natural resources. These are process intensive industries that are expecting significant growth from overseas activities. The utilities component of this industry grouping is experiencing significant merger activities similar to the trend in the financial services industry.

These 17,400 taxpayers include 1,300 large businesses and 16,100 mid-size businesses.

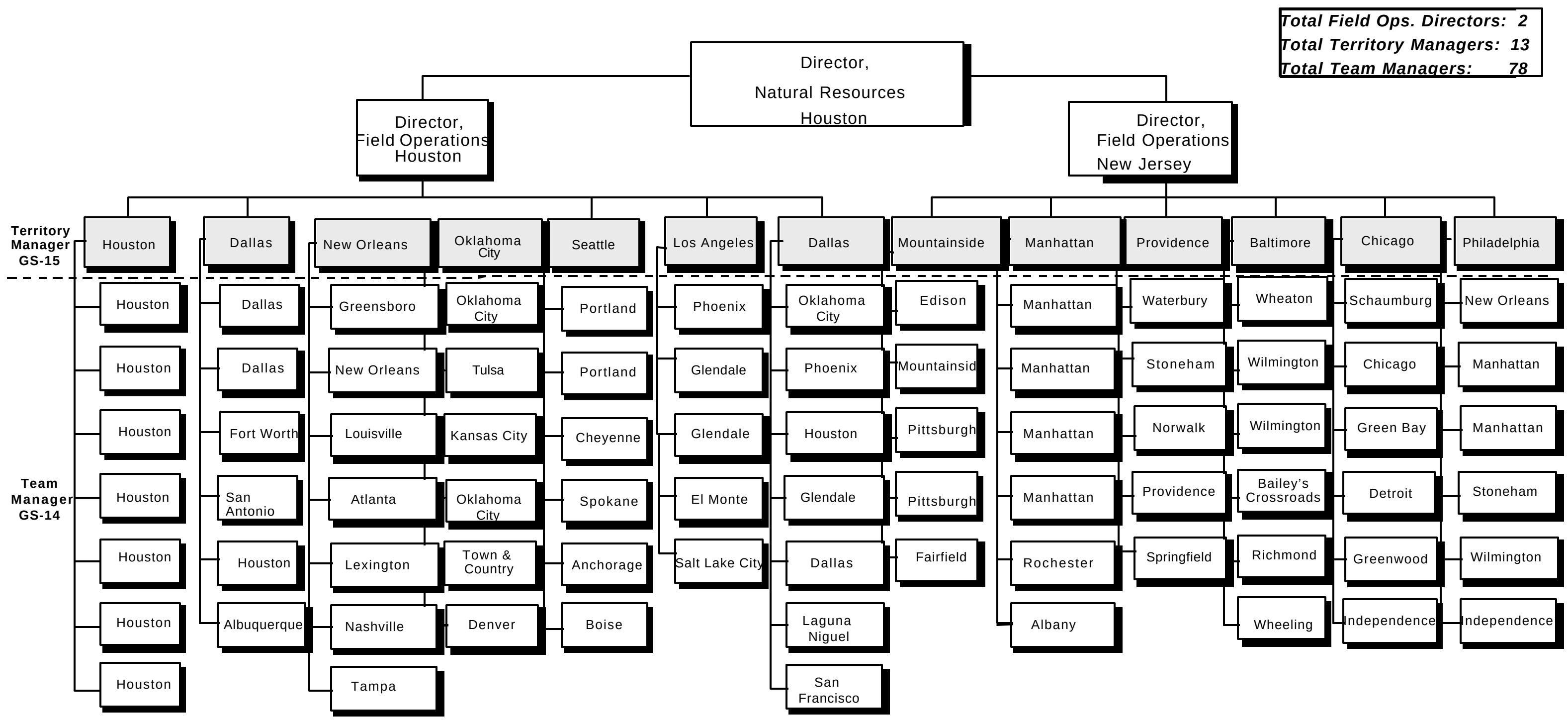


Figure 4-8: LMSB Communications, Technology and Media Organization

Communications, Technology And Media

This industry is comprised of three basic types of taxpayers: 1) those that produce computers and related equipment; 2) those related to media, including communications and software; and 3) various types of sports franchises and recreational firms. This industry grouping is experiencing extremely high growth with significant industry convergence. This grouping of taxpayers represents differences in financial reporting such as balance sheets and income statements. These differences are primarily due to variations between "hard" manufacturing products and "soft" media/entertainment. It is also fairly common in this industry grouping to have sports franchises and recreational businesses being linked to media companies. In these cases, the source revenue is often intertwined, which makes it practical to include them in the same industry grouping.

These 14,100 taxpayers include approximately 500 large businesses and 13,600 mid-size businesses.

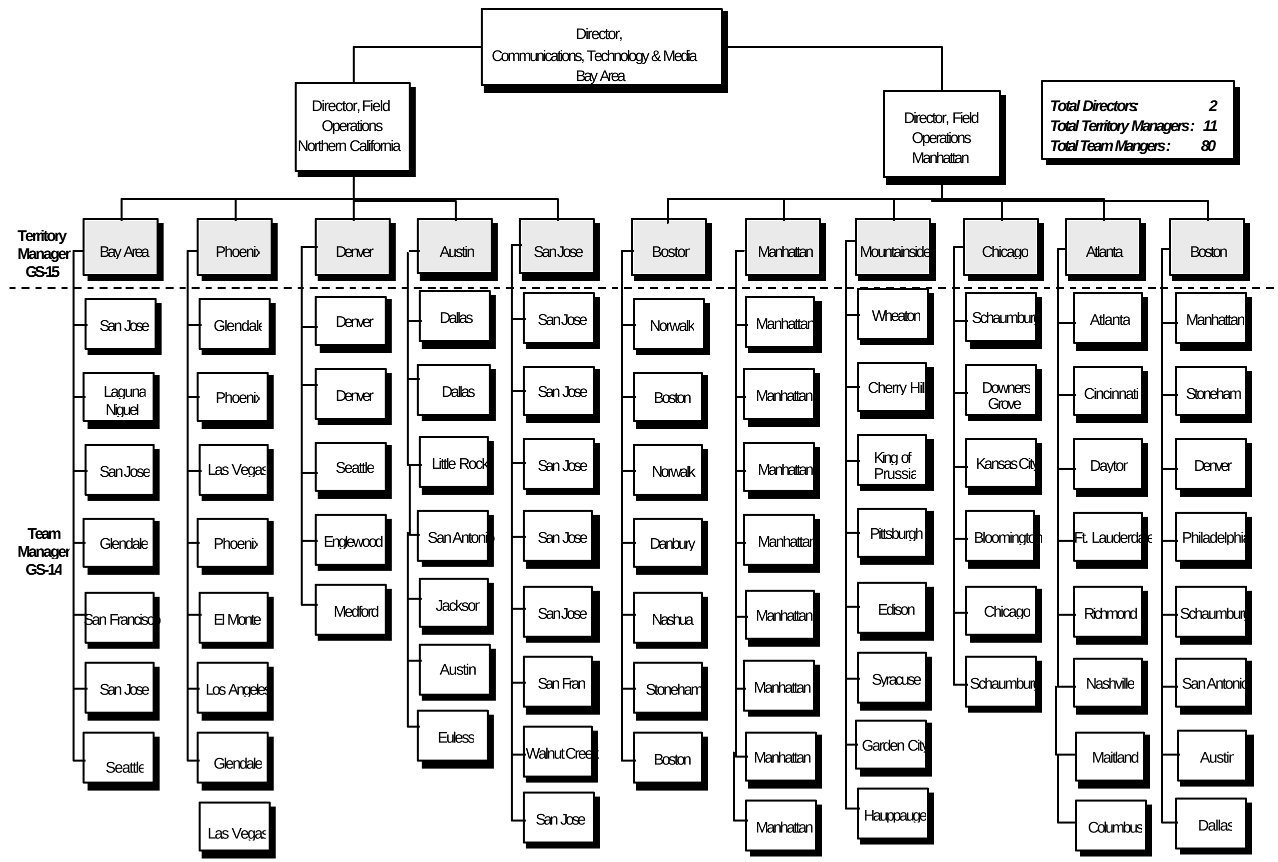
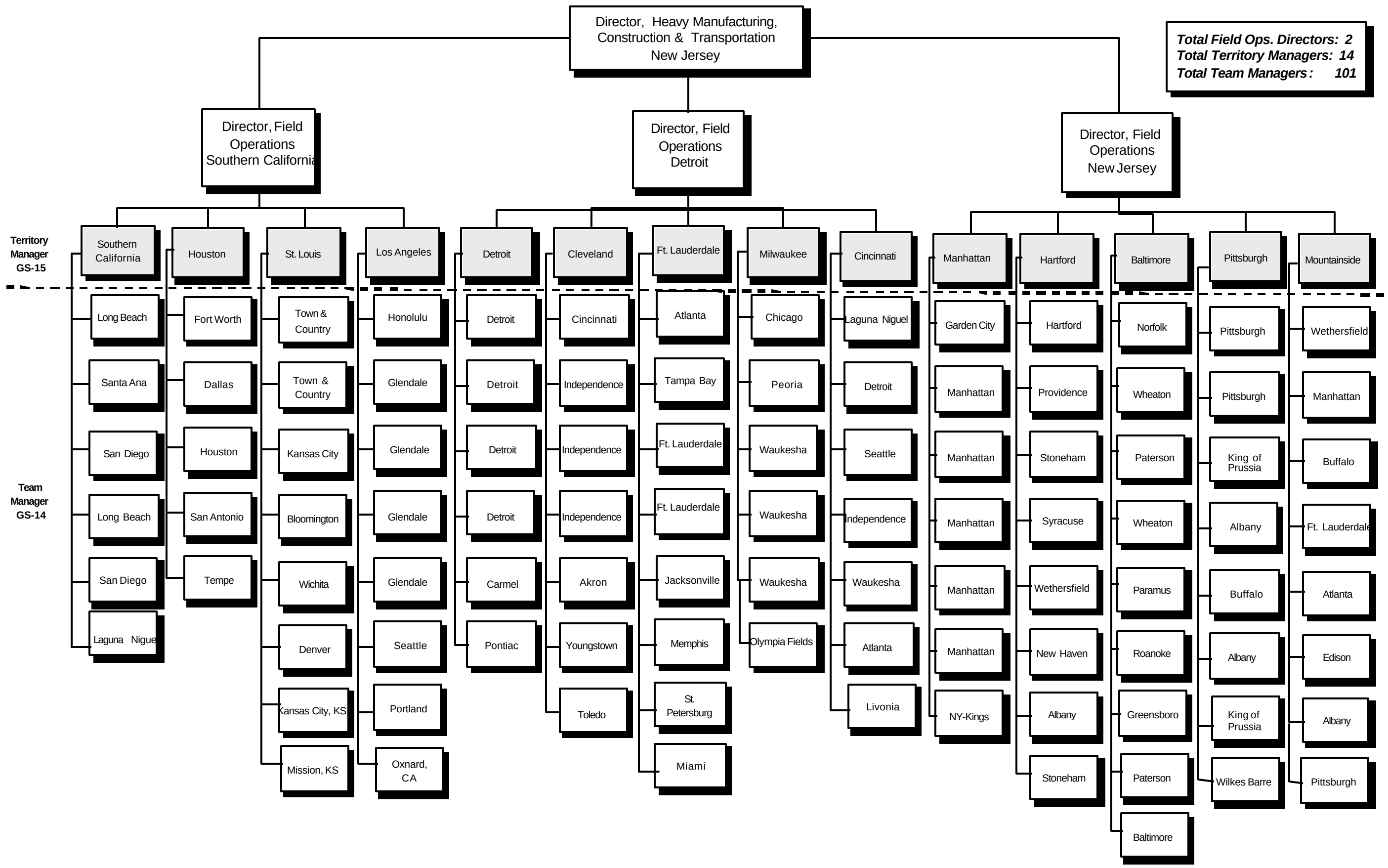


Figure 4-9: LMSB Heavy Manufacturing, Construction and Transportation Organization

Heavy Manufacturing, Construction and Transportation

This industry group consists of taxpayers involved in air and ground transportation, aerospace, motor vehicles, shipping, construction and real estate. This industry group reflects heavy manufacturing businesses that are very sensitive to interest rate changes/volatility. These industries are highly cyclical and are expecting slow to moderate growth. With the exception of the real estate firms, the financial reporting obligations of this industry are similar (e.g., balance sheets). In addition, the real estate market is closely tied to activities in the construction industry.

These 102,700 taxpayers include approximately 1,500 large businesses and 101,200 mid-size businesses.



Geographic Footprint

The five industry groups will be headquartered in cities with a high concentration of that industry's taxpayers. The headquarters office will be staffed with the appropriate resources required to fulfill the key operating support functions.

The following charts and tables contain details pertaining to geographic locations and staffing numbers.

Figure 4-10: LMSB Industry Headquarters Table

		DIRECTOR AND STAFF	FIELD
NATIONAL HEADQUARTERS	**WASHINGTON, DC**	565	-
SPECIALISTS	**WASHINGTON, DC**	8	1,111

INDUSTRY	HEADQUARTERS	DIRECTOR AND STAFF	FIELD
Financial Services and Healthcare	Manhattan	18	1,168
Communication, Technology and Media	San Francisco Bay Area	18	865
Natural Resources	Houston	18	931
Retailers, Food and Pharmaceuticals	Chicago	18	1,069
Heavy Manufacturing, Construction and Transportation	Central New Jersey	18	1,228

Figure 4-11: LMSB Geographic Foc

CHICAGO - RETAILERS, FOOD & PHARMACEUTICALS INDUSTRY
- Director, Retailers, Food, & Pharmaceuticals Industry
- Director, Field Operations (Financial Services & Healthcare)
- Director, Field Operations (Retailers, Food & Pharmaceuticals)
- Senior Technical Advisor

DETROIT
- Director, Field Operations (Heavy Manufacturing, Construction & Transportation)

MANHATTAN - FINANCIAL SERVICES & HEALTHCARE INDUSTRY
- Director, Financial Services & Healthcare Industry
- Director, Field Operations (Financial Services & Healthcare)
- Director, Field Operations (Comm., Technology & Media)
- Senior Technical Advisor

SF BAY AREA - COMMUNICATIONS, TECHNOLOGY & MEDIA INDUSTRY
- Director, Communications, Technology & Media Industry
- Director, Field Operations (Communications, Technology, & Media)
- Senior Technical Advisor

NEW JERSEY - HEAVY MANF., CONSTRUCTION & TRANSPORTATION INDUSTRY
- Director , Heavy Manufacturing, Construction & Transportation Industry
- Senior Technical Advisor
- Director, Field Operations (Natural Resources)
- Director, Field Operations (Heavy Manufacturing, Construction & Transportation)

SOUTHERN CALIFORNIA
- Director, Field Operations (Financial Services & Healthcare)
- Director, Field Operations (Retailers Food & Pharmaceuticals)
- Director , Field Operations (Heavy Manufacturing, Construction & Transportation)

HOUSTON
NATURAL RESOURCES INDUSTRY
- Director, Natural Resources Industry
- Director, Field Operations (Natural Resources)
- Senior Technical Advisor

WASHINGTON D.C. - NATIONAL HEADQUARTERS
- LMSB Commissioner
- LMSB Deputy Commissioner
- U.S. Competent Authority
- Deputy U.S. Competent Authority
- Director, Pre-filing and Technical Guidance
- Deputy Director, Pre-filing and Technical Guidance
- Director, Strategy Research , & Program Planning
- Deputy Director, Strategy, Research & Program Planning
- Director, Quality Assurance & Performance Management
- Director, Management & Finance
- Director, Business Systems Planning
- Director, Field Specialists

Figure 4-12: LMSB Field Organization

GRADE	FINANCIAL SERVICES & HEALTHCARE	RETAILERS, FOOD, & PHARMACEUTICALS	NATURAL RESOURCES	COMMUNICATIONS, TECHNOLOGY & MEDIA	HEAVY MANUFACTURING, CONSTRUCTION & TRANSPORTATION	TOTAL	FIELD SPECIALISTS**	TOTAL FIELD
Exec	1 Industry Director	1 Industry Director	1 Industry Director	1 Industry Director	1 Industry Director	5		
Exec	1 Senior Tech. Advisor	1 Senior Tech. Advisor	1 Senior Tech. Advisor	1 Senior Tech. Advisor	1 Senior Tech. Advisor	5		
13/14/15	13 Industry Headquarters Staff	13 Industry Headquarters Staff	13 Industry Headquarters Staff	13 Industry Headquarters Staff	13 Industry Headquarters Staff	65		
Exec	3 Field Operations Directors	2 Field Operations Directors	2 Field Operations Directors	2 Field Operations Directors	3 Field Operations Directors	12	1 Field Specialist Director	13
15	15 Territory Managers*	14 Territory Managers*	13 Territory Managers*	11 Territory Managers*	14 Territory Managers*	67	4 Specialist Program Mngrs 13 Territory Mngrs	84
14	99 Team Managers	91 Team Managers	78 Team Managers	80 Team Managers	101 Team Managers	449	87 Team Managers	536
12/13/14	838 Revenue Agents	677 Revenue Agents	597 Revenue Agents	539 Revenue Agents	789 Revenue Agents	3,440	890 Field Specialists	4,330
12/13	63 International Field Specialists	145 International Field Specialists	122 International Field Specialists	117 International Field Specialists	156 International Field Specialists	603		603
Sec'y / Support	153 Secretary / Support	143 Secretary / Support	122 Secretary / Support	119 Secretary / Support	168 Secretary / Support	705	124 Secretary / Support	829
Total:	**1,186**	**1,087**	**949**	**883**	**1,246**	**5,351**	**1,119**	**6,470**

* *Includes International Field Specialist Territory Managers*

** *Field Specialists include Computer Audit Specialists, Engineering, Economists, and Financial Products Specialists*

Figure 4-13: LMSB Implementation Plan

The LMSB Modernization team has already reached several significant milestones in the last six months. The project took a major step forward when the LMSB design and the implementation plan was approved by Commissioner Rossotti on October 18, 1999. The first Notice announcing the new organizational structure was issued to the entire IRS. By December, Industry Director positions, in addition to the LMSB Commissioner and Deputy Commissioner, were selected. Through a competitive selection process, all SES were selected by early January. The LMSB National Headquarters office transitioned to the new Washington, DC, Mint Building office during mid-March 2000.

The implementation phase will be structured into two sets of activities. The first set will focus on items that are critical for LMSB stand-up, while the second will enable LMSB's vision beyond stand-up.

Moving forward, LMSB's main challenges will be to complete the staffing process for its field operations. With the selection of GS-15 Territory Managers and GS-14 managers, LMSB's nationwide management structure will be solidified. Furthermore, close interaction with the other Operating Divisions and various shared services will also prove to be challenging.

	1999		2000				
STAND UP HEADQUARTERS	**3rd Qtr**	**4th Qtr**	**1st Qtr**	**2nd Qtr**	**3rd Qtr**	**4th Qtr**	**OWNER**
Commissioner and key management positions selected		▲ 12/15					ERB/LMSB
Personnel actions							
• Competitive							
– All SES selected			▲ 1/14				ERB/LMSB
• Non-competitive (Restructuring Agreement)							
– Commissioners packet signed		▲ 10/18					OES/LMSB
– Notice 1		▲ 11/8					OES/LMSB
– Notice 2				▲ 5/8			LMSB
Budget				▲ 6/4			Finance/ LSMB
Delegation of Authority to LMSB		▲ 10/18					Done
Key personnel and financial systems operational				▲ 4/24			LMSB
DIVISION OPERATIONAL							
Personnel Actions							
• Select GS-15 Territory Managers				▲ 5/12			LMSB
• Select GS-14 Managers				▲ 5/19			LMSB
• Transfer GS-14 Managers				▲ 6/4			LMSB
• BU report date				▲ 6/4			
• Select/transfer balance of staff (NBU)			▲ 2/25		▲ 7/5		LMSB
Establishment Phase – Restructuring Agreement		▲ 10/18					
• Adjustment Phase				▲ 6/4			
• Bargaining Phase					▲ 8/14		
• Implementation Phase						▲ 11/14	
• Workforce Migration Complete						▲ 11/14	
Occupy L&MSB Facilities							
• National HQ			▲ 2/14				Real Estate
• Industry HQ				▲ 5/31			Real Estate
Systems/Processes							
• Key internal/external processes in place				▲ 5/1			LMSB
• IRM procedure				▲ 6/1			LMSB
• Best Practices implementation					▲ 9/1		LMSB
• Pre-filing Agreement & Compr . Issue Resolution rollout						▲ 12/1	LMSB
• ERCS Inventory system populated				▲ 6/4			IS/ LMSB
Delegation of Authority Throughout LMSB			▲ 1/15				LMSB

Chapter 5 Tax Exempt and Government Entities

Taxpayer Characteristics

The Tax Exempt and Government Entities (TE/GE) Division was created to serve the needs of three very distinct taxpayer segments: Employee Plans, Exempt Organizations and Government Entities. The customers range from small local community organizations and municipalities to major universities, pension funds, state governments and complex tax exempt bond deals. These organizations represent a large economic sector with unique needs and are governed by highly specialized provisions of the tax law. For example, in the employee plans and exempt organizations areas, these provisions are not designed to generate revenue, but rather to ensure that the entities fulfill the policy goals that their tax exemption was designed to achieve. Although generally paying no income tax, this sector does pay over $198 billion in employment taxes and income tax withholding and controls approximately $6.7 trillion in assets.

Employee Plans comprises private retirement plans and public retirement plans that control roughly $4.1 trillion in assets. Exempt Organizations comprises over 1.5 million tax exempt organizations including an estimated 350,000 religious organizations controlling assets of over $1.3 trillion. Government Entities includes 270,000 outstanding tax exempt bond issuances with a total value of $1.3 trillion, 86,000 federal, state and local entities and over 550 federally recognized Indian Tribes.

Background, Goals, Principles and Objectives

Over the past year and a half, groups of IRS managers and employees from across the nation joined together to develop an organization structure that best suits the tax exempt and government entities sectors. There have been three separate phases to the modernization project.

Phase IIA began in September 1998 and was completed May 1999. During this phase, 13 employees were selected to be fulltime members of the TE/GE Design Team to work along with four consultants from the management consulting firm of Booz-Allen & Hamilton (BAH). These individuals represented NTEU, IRS and Counsel executives, and every level of management within EP/EO. Phase IIA involved the development of a detailed blueprint for each major component of the new structure. In developing the proposal for the new operating division, the TE/GE Design Team did not rely solely on their collective IRS experience, but met with over 35 customer/stakeholder groups and over 550 IRS employees currently performing this work. These information-gathering meetings were used to learn more about the characteristics of TE/GE customers and the services they need from the IRS. During these meetings, we began to learn what was successful in our current operation, where we could improve existing programs, and what new programs we needed to develop to meet the needs of our customers.

Phase IIB began in June 1999 and was completed in December 1999. Phase IIB took the detailed blueprint from Phase IIA and developed a comprehensive Implementation Plan and detailed designs for process and systems changes. During this phase, 34 employees were working full-time with six BAH consultants. We again solicited input and validated recommendations with customer/stakeholder groups and other IRS employees.

Phase III began in January 2000 with the selection of 55 employees and five BAH consultants. During Phase III, the TE/GE teams are focusing on refining design and implementation plans, implementing the new organizational structure and installing new processes and procedures. Throughout the redesign effort, we will continue to approach every aspect of our analysis from the customer's point of view and involve our customer/stakeholder groups and IRS employees not on the design team.

The mission developed for the new Tax Exempt and Government Entities Division reflects this customer focus:

"To provide Tax Exempt and Government Entities customers top quality service by helping them understand and comply with applicable tax laws and to protect the public interest by applying the tax law with integrity and fairness to all."

With the objective of providing timely, accurate, consistent and fair service to customers, a number of key success factors and capabilities have been developed that are necessary for TE/GE to achieve this objective. While TE/GE has just begun to operate as a new organization, we have been able to start building critical capabilities. These are highlighted in Table 5-1.

Table 5-1: Key Success Factors, Capabilities and Accomplishments

KEY SUCCESS FACTORS	CAPABILITIES	SHORT TERM GOALS AND ACCOMPLISHMENTS
Continuous Emphasis on Understanding the Customer	• Assessing customer needs • Identifying service delivery gaps • Tailoring programs to customer segments • Measuring customer service performance	• Held focus group sessions with external stakeholders to establish service needs • Established 3 distinct customer segments: Employee Plans, Exempt Organizations and Government Entities • Initiated 4 key processes – Customer Education & Outreach, Rulings & Agreements, Examination and Customer Account Services
End-to-End Accountability	• Clear roles and responsibilities • Controlled resources for key processes • Balanced performance measures • Integrated information systems	• Established control of TE/GE budget • Created balanced measures specific to TE/GE • Organized TE/GE along 3 customer segments • Revised information systems to provide technology for enhancing end-to-end accountability
Well Informed Employees Empowered to Make Decisions	• Timely training • Integrated information systems • Emphasis on customer service • Management encouraging decision making	• Selected top management to reflect new organizational philosophy • Refined for consistency in key processes: Voluntary Compliance, Review and Classification • Assessed training needs and developed multi-year training plan to meet TE/GE goals
Use of New Technology to Meet TE/GE Customers' Needs	• Use of the Internet • Integrated information systems • Universal voicemail and e-mail • Flexible customer service options	• Assessed all TE/GE functions technology needs • Conducting an ongoing analysis of system technology requirements • Expanded Intranet and Internet use for internal/external communications

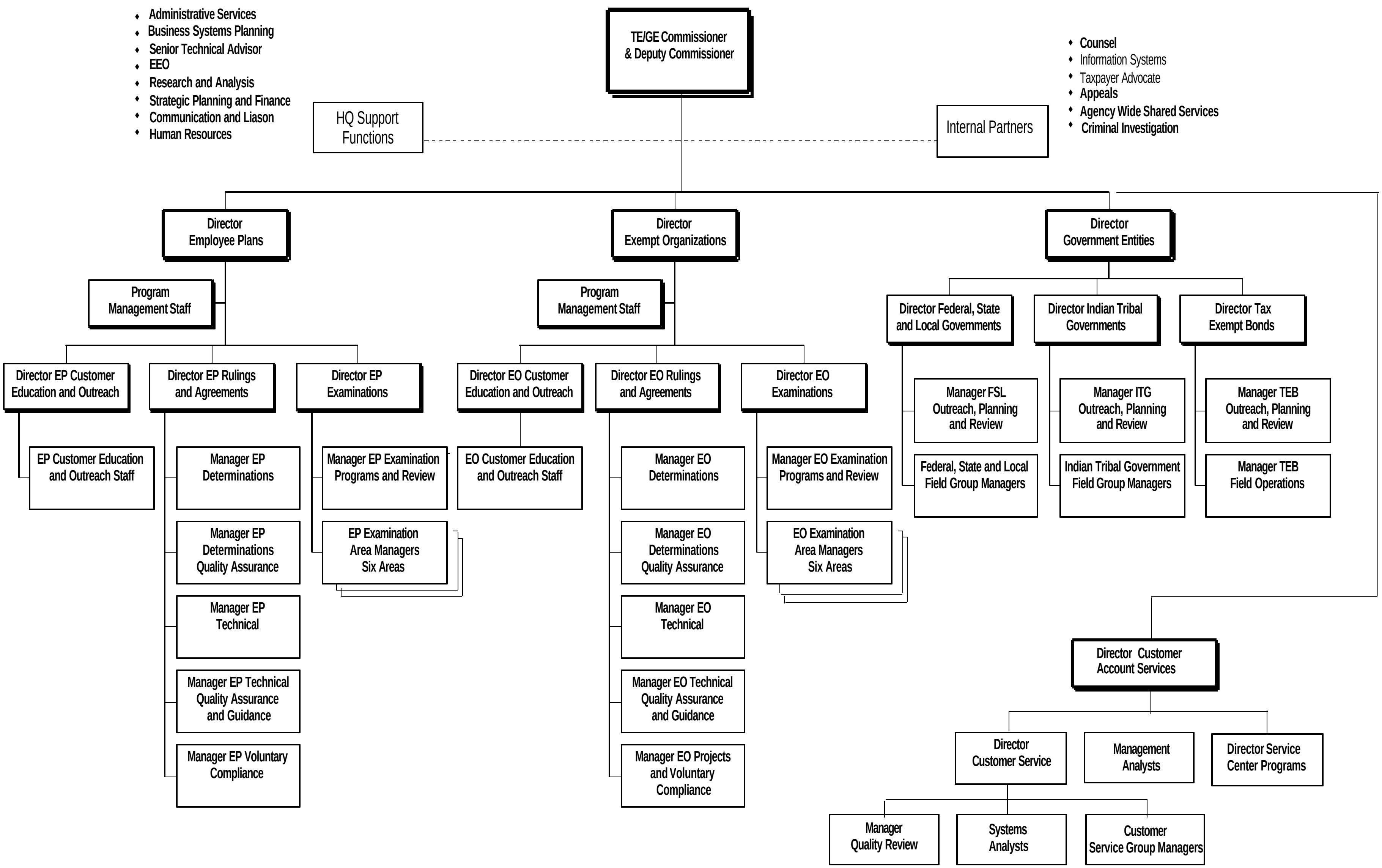
KEY SUCCESS FACTORS	CAPABILITIES	SHORT TERM GOALS AND ACCOMPLISHMENTS
Open, Honest and Clear Lines of Communication	• Clear lines of authority • Increased communications • Rewarding appropriate decision making • Successful management/NTEU partnership	• Designed new organizational structure to include embedded communication staff at HQ level. • Provided modernization information via the TE/GE modernization newsletter, the TE/GE hotline and a TE/GE web site. • Continuing partnership with NTEU through the Joint Transition Partnership Team
Quality Control Over Key Processes	• Quality review system for all key processes • Review results used to improve customer service and training	• Designed centralized processes in Exam, Voluntary Compliance Resolution, Walk-in Closing Agreement Program and Tax Sheltered Annuity Voluntary Correction • Developed quality review processes for Government Entities • Assigned responsibility to capture data on quality performance • Refined quality review standards to reflect new Servicewide balanced measures approach

Organizational Structure

After thoroughly researching and analyzing the characteristics of TE/GE customers, we determined that they fell into three very different groups with distinct characteristics: Employee Plans, Exempt Organizations and Government Entities. These three customer groups have minimal overlap in governing law, different annual filing requirements and widely varying needs. As a consequence, the division is divided into three functional units based on these three customer segments, plus a cross-segment Customer Account Services.

Organizing the division around customer segments will provide a number of advantages. It will provide direct end-to-end accountability for each distinct customer grouping and allow programs to be tailored to meet the specific needs of the customer. It will also promote a high degree of technical excellence, since each customer group is governed by distinct provisions of the tax law and has unique technical issues. Thus, the structure will promote a clear focus on the customer and customer needs at all levels of the new organization. Figure 5-2 illustrates this new organization structure.

Figure 5-2: Tax Exempt and Government Entities Division Organization Structure



Senior Management Team

The concept of a TE/GE senior management team -- focused on providing overall strategic and operational direction to service its over 2 million customers within three major segments -- is a change in the way the IRS views its relationship with its large customer base. The senior managers in TE/GE will focus on the mission of serving three distinct customer segments including exempt organizations; sponsors and participants of employee benefit plans; and government entities composed of tax exempt bond issuers, federal, state, and local governments, and Indian tribes. The members of the senior management staff will work closely together to realize its mission of providing all TE/GE customers top quality service by helping them understand and comply with applicable tax laws. Changes in compliance strategy will be reviewed throughout all TE/GE segments to determine how these changes impact both internal operations and service to customers.

The TE/GE division is headed by the Division Commissioner, Evelyn Petschek. and Deputy Division Commissioner, Darlene Berthod, who will share the strategic and management leadership of the organization. The TE/GE top management team includes:

- Carol Gold – Director Employee Plans;
- Steven Miller – Director Exempt Organizations;
- Edward Weiler – Director Government Entities; and
- John Ricketts – Director Customer Account Services.

In addition, the Division Counsel and representatives of Appeals, the Taxpayer Advocate Service and Information Systems will be part of the senior management team to integrate key internal stakeholder and supporting activities. The newly created and selected Operating Division Counsel (ODC), Sarah Hall Ingram, will facilitate the partnership between TE/GE and Counsel. The ODC will be an integral part of the strategic oversight throughout the TE/GE organization to achieve our customer service and compliance goals. This senior management team will provide internal support and leadership and, in turn, build a network of relationships throughout the IRS with other operating divisions, National Headquarters functions, Agency Wide Shared Services and Criminal Investigations.

To support the guiding principles of understanding and solving problems from the taxpayer's point of view, TE/GE will continue to maintain strong collaborative relationships with outside stakeholders. The recently selected senior managers have already begun participating in meetings with key stakeholders. Key players in this process will include the top management team, the communications and liaison office and the customer education and outreach functions. External stakeholders include other federal and state agencies, specialized practitioner groups, trade associations and umbrella organizations. Communication with these external groups will keep

TE/GE focused on the needs and concerns of their customers.

To institutionalize a forum for this communication, a new stakeholder advisory committee is being set up to facilitate ongoing input to the division. The selection and implementation of this committee is currently a top priority of senior management. Names of volunteers for this new TE/GE Advisory Committee, with members drawn from each customer community, have been solicited and received.

In general, the senior management team's focus over the next few months includes:

- Selecting the membership of the TE/GE Advisory Committee and developing operating procedures for the Committee.
- Completing the selection and reporting process of mid- and top-level managers within TE/GE.
- Conducting orientation and training meetings with the new management team to ensure consistency in expectations of role and responsibilities for all managers and employees within TE/GE.
- Implementing recruiting for new staffing within the TE/GE workforce.
- Overseeing the implementation process of the TE/GE design as the business owners in TE/GE.

Tax Exempt and Government Entities Headquarters

The TE/GE headquarters, located in Washington DC, will provide overall strategic and operational direction to the TE/GE operating units while providing internal support processes that can best be provided at the operating division headquarters level. The headquarters of TE/GE will provide only those services that cannot be provided practically at lower levels of the organization. This philosophy largely reflects the IRS organizational direction of moving accountability closer to the front-line organizations.

The critical operations of the TE/GE headquarters include the following staff functions: a Senior Technical Advisor, Planning and Finance, Human Resources, Communication and Liaison, Business Systems Planning, Research and Analysis, Equal Employment Opportunity and Diversity, and Administrative Services.

Senior Technical Advisor

The Senior Technical Advisor provides technical advice to the TE/GE Commissioner and assists the organization in highly technical and confidential matters of importance to the Commissioner, the Department of the Treasury, the Department of Justice, other government agencies, state government agencies and congressional committees. In addition, this senior advisor is responsible for:

- Overseeing and coordinating meetings of the TE/GE Advisory Committee.
- Conducting studies of technical issues to determine if legislation, regulations or other public guidance is needed on a particular tax issue.

Planning and Finance

The Planning and Finance organization handles the strategic planning activities and various financial planning and resource allocation tasks. Some of these tasks include:

<u>Strategic Planning</u>

- Establishing the strategic direction for the division and operating units and developing business goals and performance measures.
- Coordinating the business planning activities, including developing business cases, determining funding priorities and preparing resource justifications.

Resource Allocation

- Developing the budget submission for TE/GE and responding to inquiries from external stakeholders (Department of the Treasury, Office of Management and Budget and Congress).
- Managing the resource distribution process, including the development of a financial plan that supports the program priorities of TE/GE.
- Managing the financial resources for TE/GE, including tracking resource usage against targets.
- Establishing financial policies, procedures and controls for TE/GE in conjunction with overall Service guidelines and procedures.

Human Resources

The Human Resources organization will ensure continuous performance improvement and individual development through competency and skill building. This staff will conduct needs assessments and ensure that the resource allocation for human resources is prioritized to produce the maximum benefit to TE/GE personnel and customers. This includes:

- Developing and implementing policies, guidelines and procedures for the division within parameters set by National Strategic Human Resources.
- Developing an education strategy and designing curriculum focusing on the development of TE/GE key competencies.
- Designing and developing TE/GE-specific training and developing division-wide training plan in coordination with EP, EO, GE and CAS.
- Planning for future staffing and competency needs to ensure that technically competent personnel are available to meet all TE/GE customer needs.
- Partnering with other divisions to develop career paths that span division boundaries.
- Fostering partnership with National Treasury Employees Union throughout TE/GE and serving on the TE/GE / NTEU Partnership Council.
- Serving as the TE/GE representative on the Human Resources Policy Council.
- Conducting negotiations with NTEU.
- Providing workforce planning and strategic recruitment guidance.
- Managing position management activity within TE/GE.
- Overseeing and managing the performance management process within TE/GE.

Communication and Liaison

The Communications and Liaison function, located at the TE/GE headquarters, is the main point of contact for relaying TE/GE-related information to both internal and external stakeholders. Among the C&L function's main responsibilities within TE/GE are overseeing the division's communications strategy, including marketing and media relations, and coordinating related activities with the headquarters Communications and Liaison office. The C&L groups will serve as the central point of contact on all TE/GE matters related to FedState and Disclosure.

Business Systems Planning

The Business Systems Planning function, also part of TE/GE headquarters, gathers and articulates business needs for Information Technology projects, applications and legacy systems. Responsibilities include assessing IT solutions to address gaps in business processes, creating business cases for new IT projects and evaluating requests for information services. This group will create a close partnership with the Division Information Officer (DIO), who reports to the Chief Information Officer. Through this partnership, TE/GE's needs and services will be coordinated with all appropriate IT staff. Some related tasks include:

- Planning and analyzing business needs for new projects. Developing business cases. Prioritizing business needs and process changes.
- Formulating Information Technology plans and budgets. Managing and/or monitoring funds for business systems modernization projects.
- Developing and testing projects. Overseeing business involvement in systems testing. Establishing information systems performance measures.
- Implementing and overseeing modernization projects. Developing and monitoring the Implementation Action Plan. Evaluating the results of the project on TE/GE operations.
- Providing support to senior leadership by providing business expertise to complement Information System's knowledge of technology change.
- Developing and negotiating Service Level Agreements (SLA) with support functions. Assessing the effectiveness of support received.

Research and Analysis

The Research and Analysis function is responsible for monitoring key indicators of TE/GE organizational performance as well as trends in customer needs. Some of these responsibilities include:

- Identifying and analyzing emerging compliance trends affecting TE/GE customers; communicating the results to the appropriate operating unit.
- Conducting studies to determine causes for and changes in taxpayer behavior.
- Evaluating and performing benefit analyses of different compliance treatments.
- Analyzing internal work practices to maximize efficiencies and improve quality.
- Performing analyses to substantiate and/or test hypotheses proposed by the operating units.
- Analyzing the impact of policy decisions on the mission and compliance activities of TE/GE.

EEO and Diversity

TE/GE will have a dedicated staff that establishes and implements EEO policies, procedures and programs for the division in conformance with overall service guidelines. This staff will also perform various tasks including:

- Advising the TE/GE Commissioner and other management officials on EEO and Diversity issues, including complaint resolution.
- Establishing and implementing EEO policies, procedures, programs and recruitment strategies for the division in conformance with overall Service guidelines.
- Overseeing the TE/GE EEO and Diversity Advisory Committee.
- Providing training to TE/GE staff on EEO-related matters and issues.
- Preparing reports and conducting analysis of key workforce-related trends or actions to identify any practices, regulations and procedures that may perpetuate discrimination.
- Establishing division policy on reasonable accommodation, sexual harassment and other EEO-related issues, and ensuring that it is appropriately implemented.
- Coordinating special emphasis activities relating to women and minorities.
- Representing TE/GE on the EEO and Diversity Council.
- Developing and monitoring the TE/GE affirmative employment plan in accordance with Servicewide policy and the management directives of the Equal Employment Opportunity Commission.
- Developing and monitoring EEO Service Level Agreements (SLA) with Agency Wide Shared Services.

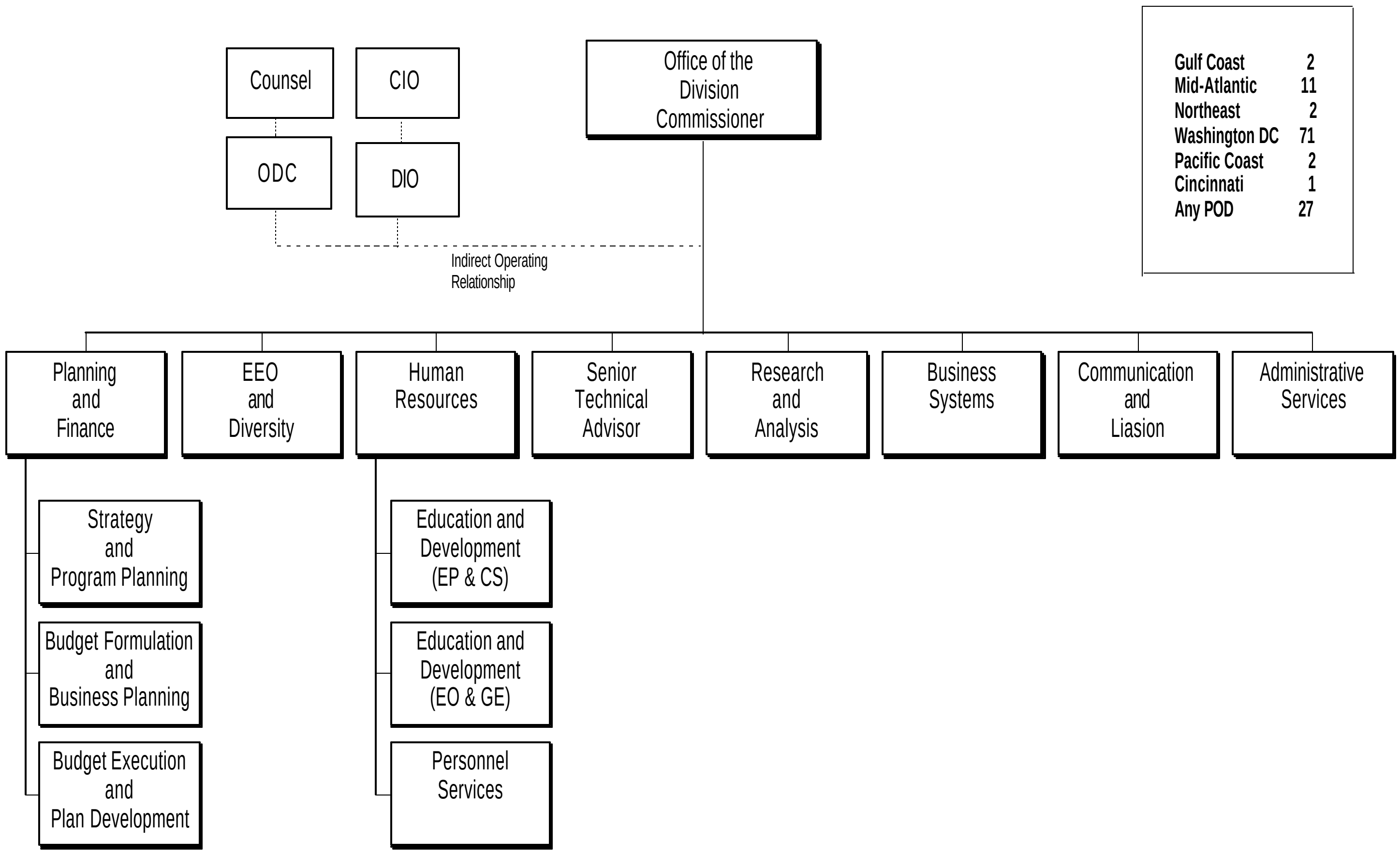
- Developing TE/GE's EEO Annual Business Plan.
- Conducting, on a timely basis, necessary inquiries into alleged discrimination and recommending remedial relief in an expeditious manner.
- Developing a substantial relationship with the recognized employee groups as major stakeholders in division Diversity initiatives and special emphasis programs.

Administrative Services

The Administrative Services staff is responsible for various tasks critical to the success of the TE/GE headquarters organization. The primary function of this group is to ensure consistency of information gathered and provided by the TE/GE headquarters. Some of these tasks include:

- Managing the authorized staffing pattern and issuing reports to ensure adherence to the authorized staffing pattern.
- Providing reports to the operating units to help them monitor and track expenditures.
- Overseeing the appraisal process to ensure that employees' appraisals are prepared in a timely manner and that any awards are processed appropriately.
- Coordinating special emphasis activities, such as Combined Federal Campaign and Savings Bond Campaign.
- Serving as TE/GE liaison with Agency Wide Shared Services on facilities issues.
- Monitoring the Office of Government Ethics reporting requirements.
- Managing the mailroom, user fee process and records control unit.
- Serving as the TRAS/VMS administrator.
- Overseeing the procurement process including Corporate Express, contract services and credit card expenditures.

Figure 5-3: Tax Exempt and Government Entities Division Organization



FTEs: 24 3 36 5 9 11 6 16 Total FTEs: 115

Process-based Organizational Segments

After a thorough review and analysis of TE/GE customer needs, we determined that these needs fell into four key categories: customer education and outreach, rulings and agreements, customer account services and examination. While the management of the Customer Account Services function will be centralized, the other three key processes serve as the foundation for each of the three functional organizations (Employee Plans, Exempt Organizations and Government Entities).

The ***customer education and outreach process*** is a newly created organization within TE/GE and will focus on helping customers understand their tax responsibilities. Within each customer segment, education and outreach activities will be tailored to the specific needs of the customer. To assist in formulating educational products, Customer Education and Outreach (CE&O) staff will routinely interact with Examinations and Rulings and Agreements. In addition, Examinations will provide insight into the level of success that educational efforts are having on compliance. A variety of delivery mechanisms will be used. These will include web sites, conferences, workshops, newsletters and publications specifically designed to reach the intended audience. The TE/GE examinations staff, located throughout the country, will also be used to assist in the delivery of customer education and outreach services and products. In addition, relationships with stakeholder groups and national organizations will be leveraged to ensure that education and outreach efforts are effective in reaching members and local chapters. The selection of the leaders of the new CE&O and recruitment of their staffs should occur in the next several months.

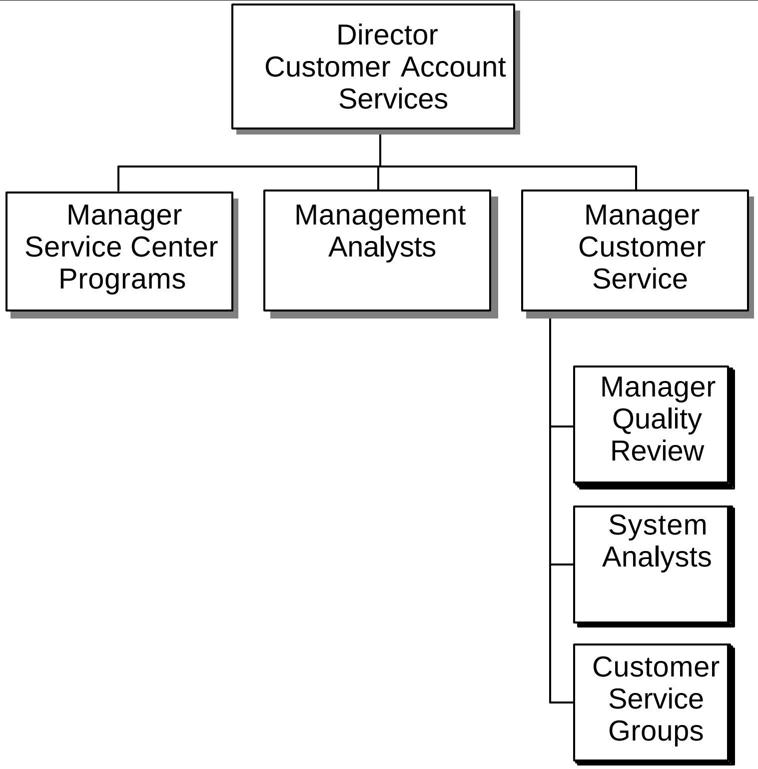
The ***rulings and agreements process*** will provide a strong emphasis on up-front compliance programs, such as the determination program, voluntary compliance programs and the private letter ruling program. These programs focus primarily on customer-initiated requests for pre-transactional confirmation of the tax results. They also include mechanisms that allow customers to correct self-identified compliance problems. A separate Rulings and Agreements function will facilitate a greater emphasis and shift to front-end compliance strategies. The selection of the directors of Rulings and Agreements and their managers in the Determinations function should be completed soon and be in place by April 30, 2000. Any additional workforce staffing will be realigned into this new organization within the next twelve months.

The ***examinations process*** will focus on identifying and correcting noncompliance. Examinations activities will be customized within each customer segment and will use compliance checks, correspondence exams and on-site examinations, as appropriate. To facilitate face-to-face interaction, Examinations staff will be located throughout the country. A strong partnership will be developed with the Customer Education and Outreach function, as well as the Rulings and Agreement function. This will ensure that noncompliance trends identified by the Examinations staff will be used in the development of proactive outreach and education initiatives, as well as up-front compliance programs. It will also facilitate leveraging Examinations staff to deliver outreach programs designed by the CE&O staff to increase customer awareness of self-correction programs. Most of the Examination leadership has been selected, and most of the Examination resources have been realigned in their current positions at their current locations. However, the realignment of Examination staff to some of the newly created positions should be completed within the next twelve months.

An important aspect of increasing overall compliance will be the information sharing process between Examinations and the CE&O staff. Information gained during compliance activities will help direct customer education and outreach assistance initiatives. For example, during many examinations, either locally or nationally, we may discover that taxpayers are making similar errors. This information will be systematically provided to CE&O so they can develop and deploy outreach efforts and quickly notify taxpayers of the trend and explain how to properly handle the issue. In addition to creating tailored educational products and services, we may hold meetings with stakeholders and taxpayer representatives to ask them to pass along this valuable information.

Customer Account Services will focus on efficient processing of customer filings as well as providing accurate and timely responses to customer telephone inquiries and correspondence. The centralization of customer inquiries in Cincinnati will enhance the quality and efficiency the customer service TE/GE provides. Service agreements will be developed with various Service Centers responsible for processing returns for TE/GE customers. As noted above, our analysis showed that this process can be more efficiently performed centrally for all three TE/GE customer segments. The Ogden Service Center has been designated to handle TE/GE customer filing. (See Figure 5-4)

Figure 5-4: TE/GE Customer Account Services



# FTEs:	14	2	75	Total FTEs: 94*

* Note: Total FTEs include Office of the Director Customer Account Services.

Employee Plans (EP)

The EP organization will serve a wide range of employee plans customers. These include all types of qualified plans, such as pension plans, profit-sharing plans, money purchase plans and 401(k) plans. EP customers also include tax-sheltered annuities (403(b) plans) and government retirement plans (457 plans). Tax practitioners, with varying degrees of expertise in employee benefits law, generally represent these customers. Most of these customers file an annual information return (Form 5500). In addition, most plan sponsors file requests for determination letters to confirm the tax-qualified status of the plan. These requests are typically filed when the plan is first established and as necessary thereafter, consistent with tax law changes and plan modifications.

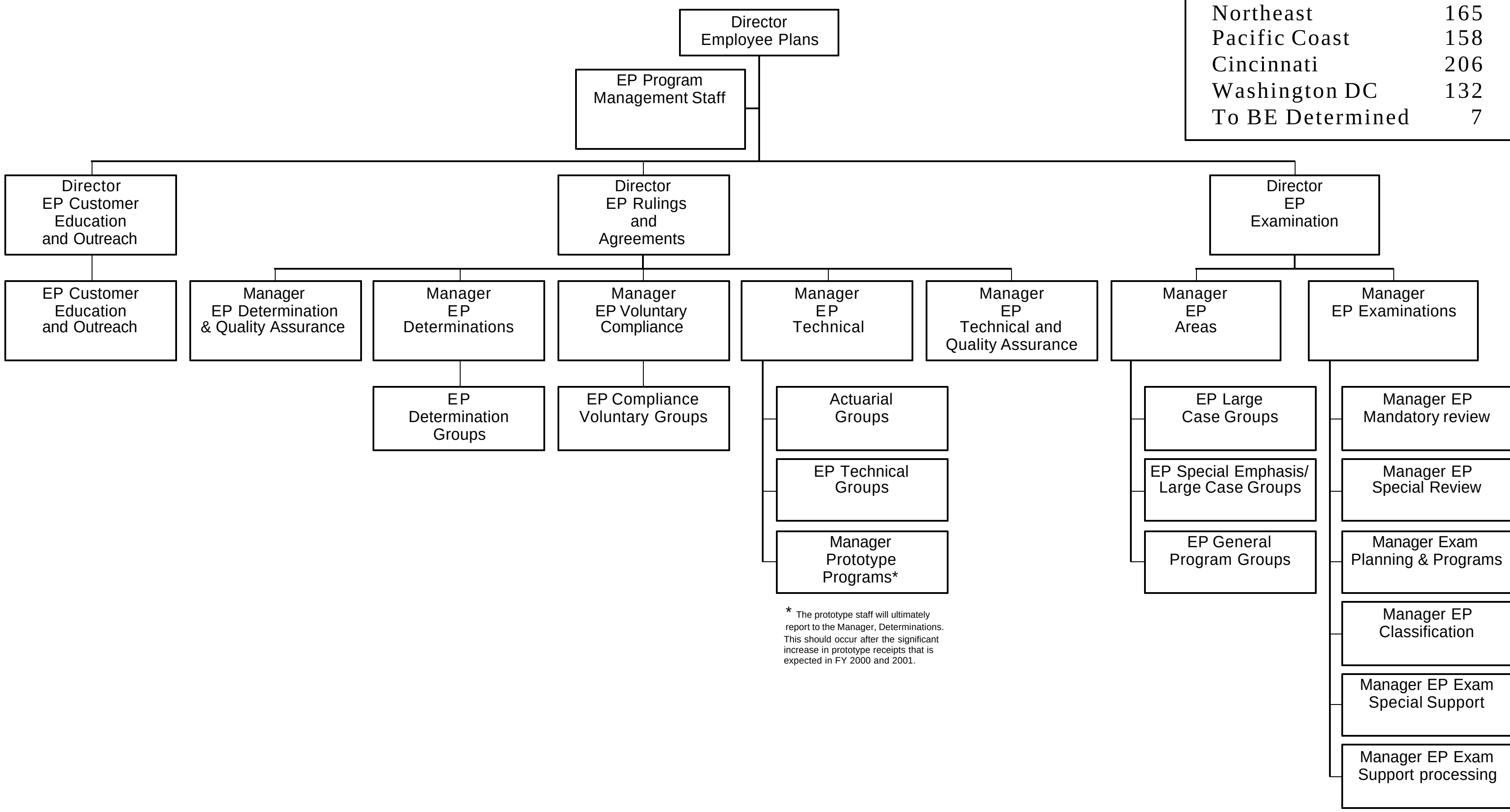
The vast majority of EP customers are plans with fewer than 250 participants. These small and medium-sized plans typically rely on third-party administrators. While large plans represent only a small fraction of the customer population, the vast majority of employees who participate in employer-sponsored plans are covered by these large plans. These plans are sophisticated customers with knowledgeable in-house benefits staff. Needs of these customers vary, from plain-language publications and easy access to basic tax information to specific responses to complex issues and access to highly technical customer service personnel. These customers also need outreach programs tailored to their level of sophistication and plan type. Similarly, self-correction programs will have to be tailored to meet these varied customer needs.

By creating an organization with end-to-end accountability for service delivery to the wide range of EP customers, top quality service and tailored programs will be created that meet the specific needs of the customers. Based on the input from customers and employees, we determined that the primary products and services provided by TE/GE to this customer segment could be grouped into four general process categories: customer education and outreach; rulings and agreements; examinations; and customer account services, as previously discussed.

The EP customer segment will be organized around the first three of these processes. The fourth, customer account services, has been centrally organized to better service TE/GE customers. Figure 5-5 shows the EP organizational structure and envisioned staffing.

Figure 5-5: Employee Plans Organization Structure

Central Mountain	35
Great Lakes	116
Gulf Coast	135
Mid-Atlantic	129
Northeast	165
Pacific Coast	158
Cincinnati	206
Washington DC	132
To BE Determined	7



# FTEs:	16	12	193	41	91	12	622	88	Total FTEs: 1092

* Note: Total FTEs include Office of Directors, Employee Plans, EP Customer Education & Outreach, EP Rulings & Agreements and EP Examinations.

With the stand-up of TE/GE in December 1999, the Employee Plans segment was populated with 912 EP employees realigned from the former EP/EO organization. An interim structure was put in place at first to assure a successful continuation of current operations while mid-level managers were being selected and system changes implemented. Former EP/EO division managers were named as acting Area Managers for the four area transition structures corresponding to the former KDO geographic boundaries.

By the end of April 2000, key management positions (above the first line level) for the new structure are expected to be selected with the majority in place and with system changes ready for implementation. The transition from the KDO and EP/EO headquarters structure to the new TE/GE organization structure has begun and will be implemented in phases corresponding with the processes identified above.

Because the **EP Customer Education and Outreach** office is a new function, it will need to be established from the ground up. This will require longer lead times. However, a Phase III design team began work in late February to establish consistent and comprehensive customer education and outreach processes across EP and EO. This team will develop detailed requirements for system infrastructures (for example, library and web page changes) and prepare a full-scale implementation plan.

The **EP Rulings and Agreements** (R&A) section, comprising 137 employees, will be responsible for up-front, customer-initiated activities such as the determination application process, private letters rulings and voluntary compliance requests. The key centralized locations for the R&A will be Cincinnati for determination activities and Washington, DC, for the technical section. Upon implementation, 69 people were assigned to positions in Cincinnati and 68 people were assigned within the Washington area to that activity.

Based on an analysis of customer needs, the **EP Examination** activity will be organized around specific customer sub-segments: general program examinations, large case examinations and special emphasis examinations. Large case activity represents a significant commitment for EP resources. There are interdependencies with LMSB and formalized procedures and policies for approaching these examinations. Special emphasis groups are recommended to provide service to those customers represented by multi-employer and multiple employer plan entities, IRC 403(b) -- also known as tax sheltered annuities -- and IRC 457 governmental plans. Using this specialized approach, we will be able to provide customers with service from highly skilled employees who are knowledgeable about the specific customer's needs.

In December 1999, 755 employees from the existing EP/EO organization were realigned to the examination activity. Development of the large case and special emphasis groups will be occurring within the next 12 months. A Phase III design team will begin operation in the third quarter CY 2000. This team will be responsible to baseline best practices, propose a geographic footprint and prepare a full-scale implementation plan.

Exempt Organizations (EO)

Exempt Organizations customers represent a very diverse segment ranging from churches and small local clubs to large national organizations. Common types of exempt organizations include charities, churches, private foundations, trade associations, unions and social clubs. The tax law governing these organizations is highly specialized and differs depending on the type of exempt organization in question. Customer needs vary widely in this segment, from plain-language publications to complex private letter requests. These customers also need outreach programs tailored to their level of sophistication, as well as self-correction programs.

Most EO customers file determination letters confirming their exempt status when they are first set up. Larger exempt organizations are required to file an annual information return (Form 990). However, approximately 75% of the exempt organizations (churches and organizations that fall below the $25,000 annual filing threshold) are not required to file an annual return. Many exempt organizations are also employers and have employment tax responsibilities.

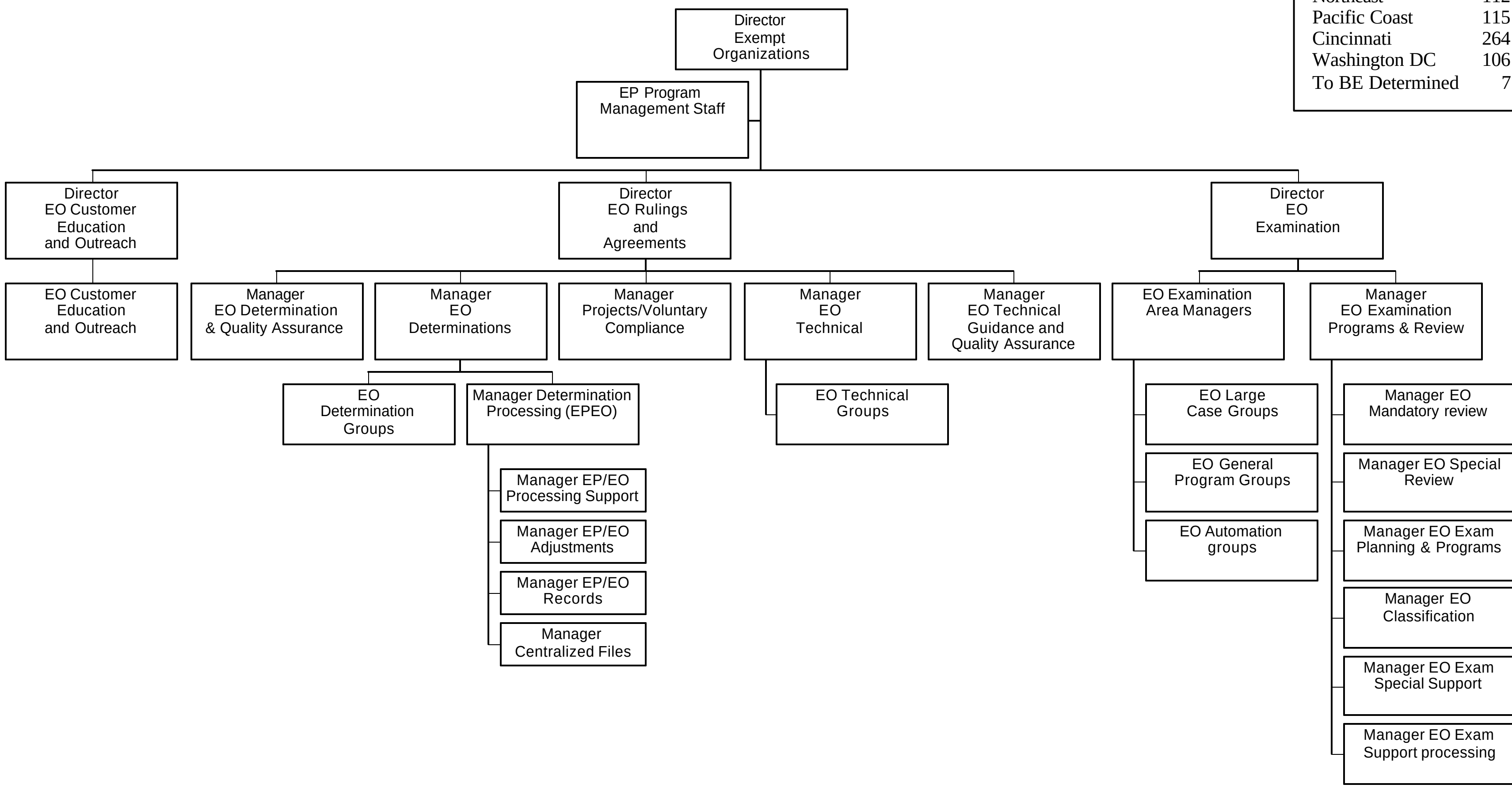
As noted above, most small exempt organizations do not have to meet an annual filing requirement. These organizations are often staffed with volunteers and typically are not represented by practitioners. In addition, there may be annual turnover in key record keeping positions such as treasurer. At the other end of the spectrum, the largest exempt organizations represent increasingly complex and diverse operations and file more complex returns. Their operations may involve multiple entities (both taxable and exempt) with wide geographic presence. They usually have in-house tax and accounting expertise that support their complex filings.

By creating an organization with end-to-end accountability for service delivery to the wide range of EO customers, we will facilitate top quality service and tailored programs that meet the specific needs of the various types of exempt organizations. We also determined from customer feedback that the appropriate balance among customer education efforts, up-front compliance programs and the examinations process could best be achieved by the creation of organization sub-units, each of which would focus specifically on one of those three key processes.

The EO customer segment will be organized around the first three of these processes. As stated above, Customer Account Services, has been centrally organized. Figure 5-6 shows the EO organizational structure and envisioned staffing.

Figure 5-6: Exempt Organization Structure

Central Mountain	45
Great Lakes	89
Gulf Coast	142
Mid-Atlantic	82
Northeast	112
Pacific Coast	115
Cincinnati	264
Washington DC	106
To BE Determined	7



# FTEs:	15	12	275	12	50	12	489	79	Total FTEs: 962*

* Note: Total FTEs include Office of Directors of Exempt Organizations, EO Customer Education & Outreach, EO Rulings & Agreements and EO Examinations.

With the implementation of TE/GE in December 1999, the Exempt Organizations segment was populated with 841 EO employees realigned from the former EP/EO organization. An interim structure was put in place at start-up to assure continued operations while mid-level managers were being selected and system changes implemented. Former EP/EO division managers were named as acting Area Managers for the four area transition structure corresponding to the former KDO geographic boundaries.

By the end of April 2000, key management positions (above the first line level) for the new structure are expected to be selected with the majority of managers in place and system changes ready for implementation. The transition from the KDO and EP/EO headquarters structure to the new TE/GE organization structure has begun and will be implemented in phases corresponding with the processes identified above.

Because the *EO Customer Education and Outreach* office is a new function, it will need to be established from the ground up. This will require longer lead times. However, a Phase III design team began work in late February to establish consistent and comprehensive customer education and outreach processes across EP and EO. This team will develop detailed requirements for system infrastructures (for example, library and web page changes) and prepare a full-scale implementation plan.

The *EO Rulings and Agreements* (R&A) section, comprising 230 employees, will be responsible for up-front, customer-initiated activities such as the determination application process, private letters rulings and voluntary compliance requests. The key centralized locations for the R&A will be Cincinnati for determination activities and Washington, DC, for the technical section. Upon stand-up, 181 people were pointed to positions in Cincinnati and 49 people were realigned within the Washington area.

Based on analysis of customer needs, the *EO Examination* activity will be organized around specific customer sub-segments: general program examinations and large case examinations. Large case activity represents a significant commitment for EO resources. Using this specialized approach, customers will receive service from highly skilled employees knowledgeable about the specific customer's needs.

In December 1999, 591 employees from the existing EP/EO organization were assigned to the examination activity. Additional large case groups will be developed within the next 12 months. A Phase III design team will begin operation in the third quarter CY 2000. This team's responsibilities include baselining best practices, proposing a geographic footprint and preparing an overall implementation plan.

Government Entities (GE)

The Government Entities customer segment comprises three very distinct sub-segments: Tax Exempt Bonds; Federal, State and Local Governments; and Indian Tribal Governments. These governmental customers are similar in that they are generally not subject to income tax at the entity level and they have special relationships with the federal government. Beyond that, GE customers have highly diverse needs ranging from educational seminars and products to sophisticated rulings on complex issues.

One customer sub-segment in GE is Tax Exempt Bonds. Over $1.4 trillion is currently invested in tax exempt bonds, which are typically issued by a government entity. The bond deals vary in size and complexity, and the governing tax law is highly specialized. These customers need services tailored for their varying economic and legal sophistication.

The second customer sub-segment is Federal, State and Local Governments. While not subject to federal income tax, these entities often have significant tax responsibilities arising from their status as employers, such as employment tax withholding and reporting. They may also have other tax issues such as excise taxes and employee plans issues. These customers need highly tailored services at least in part due to governmental budgetary and legislative cycles.

The third sub-segment in GE is Indian Tribal Governments. These customers have a special government-to-government relationship with the United States under individual treaties, Supreme Court Decisions and Presidential Executive Orders. There has been a significant increase in interaction between these customers and the IRS in recent years. Increased economic development by the tribal governments, especially but not exclusively due to gaming activities, has raised federal tax issues relating to governments as employers, distributions to tribal members and the establishment of governmental programs, trusts and businesses. Services on the very wide range of federal tax issues must be tailored within the special government-to-government framework.

Due to the special relationships and distinct characteristics and needs of these three groups, the structure for GE is based on the customer sub-segments. Each of these sub-segments (Tax Exempt Bonds; Federal, State and Local Governments; and Indian Tribal Governments) is composed of a centralized office of Outreach, Planning and Review, and a decentralized workforce of outreach/examination groups. This structure, designed to address the needs of diverse groups of customers, will allow us to provide end-to-end services to each sub-segment. The GE organization will comprise approximately 270 employees.

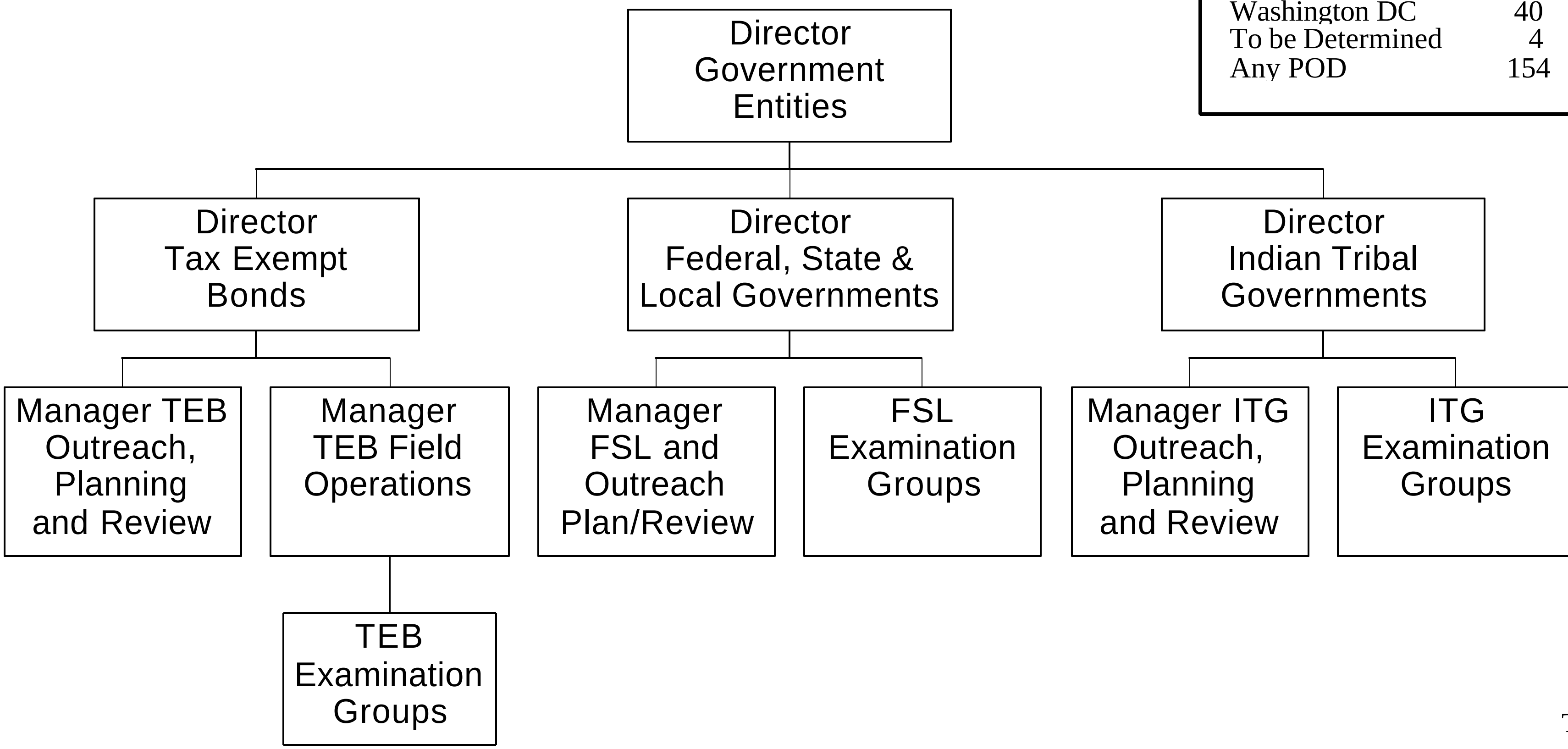
One of the challenges GE faces is the need to create these three programs from the ground up. In the past, different functions within the Service held jurisdiction over the activities of each sub-segment.

With the creation of the GE function, these sub-segments will have cohesive education, outreach and compliance programs. The migration of employees into these new functions is expected to continue through FY 2001. Hiring has already been completed for the upper level management within each of the sub-segments.

With the completion of the organizational design recommendations, the focus within GE has shifted to the design of integral processes. Four processes will be the subject of refinement: the transition of caseloads from the old organization into GE; case closing and review; return classification and referrals; and communications, education and outreach. The recommendations regarding these refinements will be made in the next three months, prior to fully staffing GE. Figure 5-7 shows the GE structure and envisioned staffing.

Figure 5-7: Government Entities Organization Structure

Central Mountain	9
Great Lakes	13
Gulf Coast	15
Mid-Atlantic	6
Northeast	16
Washington DC	40
To be Determined	4
Any POD	154



							Total FTEs:
# FTEs:	12	73	18	96	10	55	276*

* Note: Total Ftes include offices of Directors of Government Entities, Tax Exempt Bonds, Federal, State & Local Governments and Indian Tribal Governments.

Geographic Footprint

As is true today, the examination workforce for each TE/GE customer segment will be dispersed throughout the United States to provide face-to-face service to customers. As discussed earlier, the examination employee resources will be increasingly leveraged to support education and outreach services over the next several years. TE/GE will begin staffing the education functions within the next six months. This will greatly enhance the availability and delivery of up-front liaison services for customers around the country. For TE/GE employees, this will create a broader role in facilitating customer compliance while minimizing employee movement.

For the Employee Plans and the Exempt Organizations segments, the workforce will be managed through six geographic areas. These areas, as shown in Figure 5-8, were developed based on customer locations, workforce size and current employee locations, and area boundaries for the other operating divisions. Figure 5-9 shows the locations of EP and EO groups. Figure 5-10 identifies the locations of the current workforce realigned within TE/GE by function and area (note: 77 of the personnel included in the 1,956 workforce were not realigned to specific TE/GE positions at standup). In turn, the recommended locations for managers (the two National Directors of Examination and 12 Area Managers) were based on workforce locations, proximity to customers and efficient internal management processes. Note that these numbers are subject to change as workload and budget demands fluctuate.

Due to the small number of resources and the newness of the Government Entities segment, these programs will be managed as national programs with various posts-of-duty. The geographic locations will be based on the current locations of employees working in the GE bond program and of employees moving into the GE programs for Indian tribal governments and federal, state and local governments. This flexibility will enhance the application of resources to customer locations and unique procedures and projects. As these programs grow, there may be a need for a more complex geographic footprint similar to the one for EP and EO.

Figure 5-8: EP and EO Examination Areas

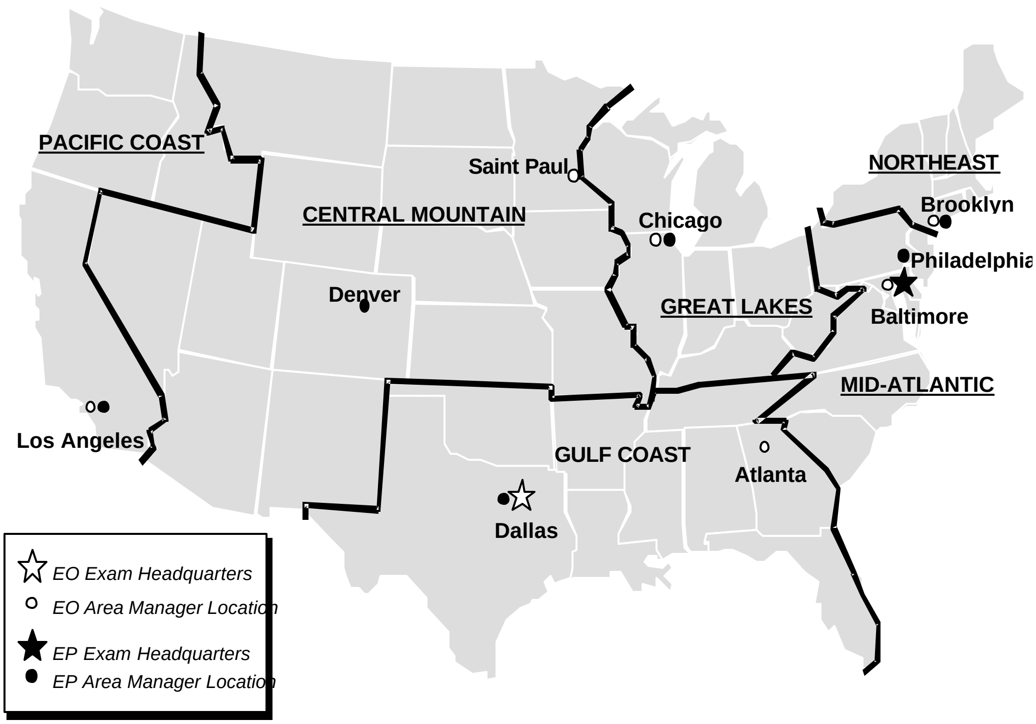


Figure 5-9: EP and EO Examination Group Locations

Figure 5-10: TE/GE Employee Locations

	Employees						
Areas	**EP**	**EO**	**GE**	**CAS**	**HQS**	**TBD ***	**Total**
Central Mountain	**37**	**47**	**6**	**0**	**0**	**0**	**90**
Cincinnati	**78**	**189**	**0**	**63**	**1**	**6**	**337**
Great Lakes	**113**	**84**	**5**	**1**	**1**	**4**	**208**
Gulf Coast	**133**	**129**	**11**	**0**	**2**	**11**	**286**
Mid-Atlantic	**120**	**80**	**4**	**0**	**2**	**8**	**214**
Northeast	**157**	**101**	**0**	**0**	**1**	**6**	**265**
Pacific Coast	**166**	**121**	**4**	**4**	**0**	**15**	**310**
Washington DC	**108**	**90**	**1**	**0**	**20**	**27**	**246**
Total	**912**	**841**	**31**	**68**	**27**	**77**	**1956**

* To Be Determined

Figure 5-11: TE/GE Implementation Plan

A high-level implementation plan has been developed for the transition to the new TE/GE organization. TE/GE officially became operational as a new organization within the IRS on Dec. 5, 1999. The first step toward implementation was the selection of the TE/GE Commissioner in April 1999. Other top TE/GE executives continued to be hired through December 1999. The majority of the workforce was realigned as part of startup activities. This aligned more than 80% of the new TE/GE Division. With the exception of the tax exempt bonds program, the Government Entities segment does not have existing organizational groups to draw from for the creation of the new organization. As a result, the implementation of this segment will be accomplished over a longer period. An extensive communication effort will be made throughout the transition and implementation to promote discussion of the TE/GE with employees, customers and stakeholders.

ID	Task Name	1999 Qtr 1	1999 Qtr 2	1999 Qtr 3	1999 Qtr 4	2000 Qtr 1	2000 Qtr 2
1	***STAND UP HEADQUARTERS***						
2	***Commissioner and Key Management positions selected***			■			
3	**Personnel Actions**						
4	***Competitive***						
5	All SES Selections				■		
6	**NON-competitive (Restructuring Agreement)**						
7	Commissioner's packet signed			■			
8	Notice 1			■			
9	Notice 2				■		
10	Budget				■		
11	Delegation of Authority throughout TE/GE				■		
12	Key Personnel and financial systems operational				■		

Implementation activities (Phase III) began in January 2000 and are expected to continue through October 2000. The plan is to transfer new functions to the new business owners gradually

Phase III team members will finalize design work turned over from Phase IIB and prepare detailed implementation plans for each function. Success depends on communication and cooperation with the new business owners during implementation. Table 5-11 identifies eight sub-teams that began implementation work in January and their objectives. These teams are expected to complete most of their objectives by May 2000. At least 14 future sub-teams have been identified and will begin work in the second and third quarters of 2000.

ID	Task Name				2000			
		Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
13	***DIVISION OPERATIONAL***							
14	***Personnel Actions***							
15	Select GS-15 Area managers							
16	Transfer GS-14 Managers							
17	BU Report Date							
18	Select/transfer balance of staff (NBU)							
19	***Restructuring Agreement***							
20	Establishment Phase							
21	Adjustment Phase							
22	Bargaining Phase							
23	Implementation Phase							
24	Workforce Migration complete							
25	***Occupy TE/GE facilities***							
26	National Exam							
27	Headquarters							
28	***Systems/Processes***							
29	Key EP/EO processes in place							
30	Critical SYSTems changes in place							
31	Centralized classification and review processes in place							
32	Full-scale implementation of CE&O prepared							
33	Key GE processes in place							
34	Key headquarters processes in place							

Figure 5-12: TE/GE Phase III First Quarter 2000 Implementation Sub-Teams

Phase III Sub-team	Objectives
TE/GE Implementation Program Management	• Provide program oversight and integration with overall IRS modernization • Coordinate work activities across TE/GE Phase III teams
GE Development Team	• Develop uniform criteria regarding case-related processes • Standardize and refine current procedures • Begin developing CE&O and communications procedures
Business System Capabilities Development Team	• Establish TE/GE business systems processes and linkages with IS • Coordinate with IS to ensure timely implementation of TE/GE business requirements
Strategic Planning & Budgeting Team	• Establish strategic planning and budgeting processes useful in guiding the direction of TE/GE work that will cover external planning requirements "up" to NHQ SP&B and internal planning requirements "down" to TE/GE functional units (EP, EO, CAS and GE) • Ensure processes are consistent with the outcome of the Strategic Planning, Budgeting and Research modernization team
Communications Team	• Facilitate internal and external stakeholder communications • Define the Legislative and Congressional Affairs program within the TE/GE HQ Communications and Liaison office
EP Voluntary Compliance Development Team	• Finalize EP Voluntary Compliance Org Design • Fully develop nationwide EP Voluntary Compliance processes promoting consistency and coordination across programs
Joint CE&O Development Team	• Establish consistent and comprehensive customer education and outreach processes across EP and EO
Joint Exam Centralized Processes Team	• Fully develop centrally managed processes for exam planning and case classification, review and closing • Finalize comprehensive implementation plan for all centralized processes

Chapter 6 Office of Chief Counsel

Customer Characteristics

The IRS Office of Chief Counsel will continue to provide the highest quality legal services to the IRS and taxpayers. However, the guiding principles of the IRS Modernization and revised business practices will fundamentally change Counsel's workload and practices, as it provides legal advice and assistance to the new IRS operating divisions and their taxpayers.

The new IRS direction in tax administration generally will result in substantially increased client demand for published guidance, legal advice services and training services in support of pre-filing strategies designed to educate taxpayers, reduce burden and simplify tax administration. IRS operating division post-filing and compliance strategies also will demand more specialized legal advice service from Counsel field and national office components as they work in close partnership with the new IRS operating divisions. IRS compliance initiatives will likely result in more targeted litigation workload that focuses on specific areas of noncompliance.

The Office of Chief Counsel will partner with the IRS operating divisions in such strategic areas as the Strategic Planning & Budgeting Process, Balanced Measures and Performance Reviews, and will participate in the newly formed Published Guidance Advisory Committee (PGAC). The PGAC has been established to enhance the process for issuing regulations, revenue rulings and other items of published guidance, by providing a mechanism for coordination among the different components of the IRS, the Office of Chief Counsel and the Office of Tax Policy, Department of the Treasury.

The Office of Chief Counsel will also continue to play a critical role in dealing with external stakeholders. Input from stakeholder groups is a particularly important element of IRS efforts to service taxpayers on a pre-filing basis through regulations and other published guidance. These groups also provide a critical avenue of communication to the general public to help deliver important IRS messages.

Goals and Guiding Principles

The Office of the Chief Counsel is expected to provide the correct legal interpretation of the internal revenue laws, to represent the IRS in litigation and to provide all other legal support the IRS needs to carry out its mission of serving America's taxpayers. To accomplish these goals, Counsel provides a wide variety of specific services to many different customers, including taxpayers and IRS components.

For example, Counsel's work includes:

- Drafting regulations, rulings and other published legal guidance;
- Handling cases in Tax Court and the Bankruptcy courts; and
- Providing specific legal advice and determinations to taxpayers and various IRS functions, both before and after returns are filed.

In carrying out these responsibilities, Counsel must interpret the law with complete impartiality, so that taxpayers will know the law is being applied with integrity and fairness.

As part of the overall IRS modernization effort, the Office of the Chief Counsel has been reevaluating its current organization and processes in order to improve services to both its internal and external customers. Three basic principles have guided the Counsel redesign effort:

- Design an organization that will be capable of providing the highest quality legal services to the IRS, both now and in the future;
- Create an organization that will make it as easy as possible for all parts of the Chief Counsel's office to work in active partnership with colleagues in the IRS, Treasury and Justice Department to help accomplish the IRS mission; and
- Build an organizational structure that will help ensure that the legal advice Counsel provides reflects an impartial professional judgment as to the correct interpretation of the law.

With these basic principles in mind, the Counsel Design Team worked in close coordination with other design teams to analyze customer needs and determine the optimal way to organize Counsel resources to meet those needs. This effort involved consultation with a broad range of stakeholders within the IRS, at the Departments of Treasury and Justice, at the Tax Court and across the private sector. The proposed design builds on the strengths of the current Counsel organization and addresses those areas in need of change in light of the new IRS structure.

Previous Design Phases

During the previous phases of the modernization process, the Counsel Design Team developed the framework of a new organizational structure. This new structure was based on an analysis of customer needs (both internal and external), considered in light of the new IRS organizational design and the three guiding principles previously discussed.

Several key decisions helped determine critical components of the new Counsel structure:

- To maintain consistency, uniformity and impartiality in tax law interpretations, all Counsel personnel will continue to be part of a unified, nationwide Chief Counsel organization;
- To develop an active, working partnership with the new IRS operating divisions, Counsel will establish four new SES-level Division Counsel (DC) positions that will be co-located with the Operating Division Commissioners. Each of these four Offices of Division Counsel will have a staff of attorneys at its headquarters location that will be dedicated to serving the needs of the particular operating division;
- Most of the Counsel field attorneys will be assigned to one or another of the DC. Over time, this alignment will both enhance the expertise of the attorneys in the areas of tax law most relevant to the operating division they serve, and will also help them develop close working relationships with employees, managers and executives of the operating divisions; and
- Counsel's National Office technical experts will remain in Washington, DC, and will continue to be organized primarily on the basis of the tax law technical subject areas required by the Internal Revenue Code. This should help preserve Counsel's depth of technical expertise and also ensure that legal interpretations are consistent for all taxpayers and all operating divisions.

These key decisions from the previous phase of the modernization design effort formed the foundation for the work that was accomplished during the current phase.

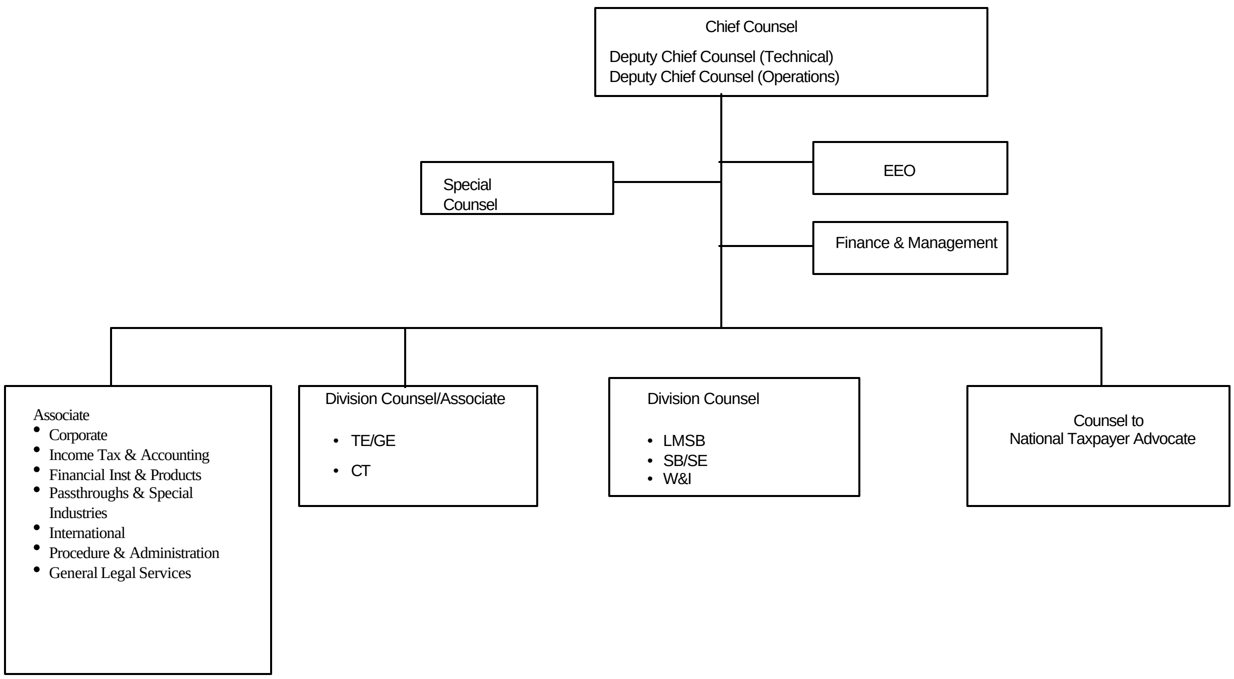
Phase IIB

In this phase of the modernization process, the Counsel Design Team focused on organizational structure design details, process improvement recommendations and career development activities. The Design Team worked closely with the Chief Counsel and members of the Counsel organization to perform the following:

- Develop a new organizational structure for the technical organization;
- Develop detailed organizational structures for the DC;
- Determine integrative mechanisms and develop them as appropriate to support the new organizational structure; and
- Develop an approach to career development that supports the growth and development of employees within the new structure.

Figure 6-1 shows the new overall Counsel structure. The recommended structure consists of a headquarters, technical organization, and taxpayer-aligned Division Counsel/field offices.

Figure 6-1: Counsel Organization



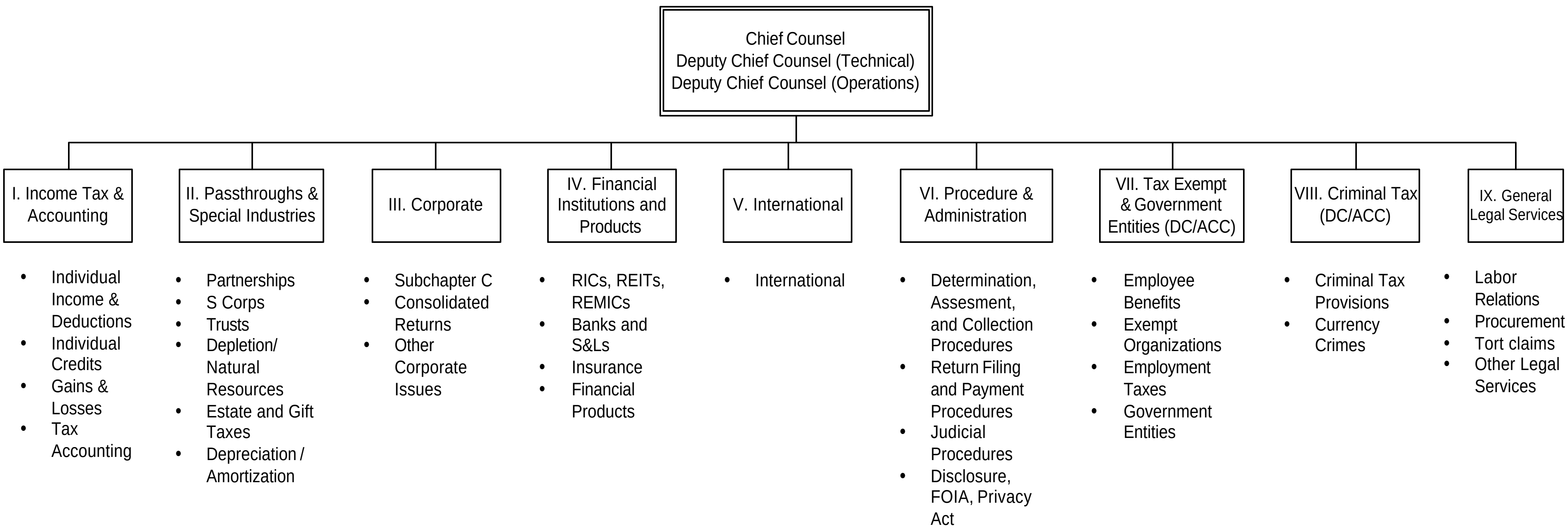
Technical Organization

The Counsel technical organization will maintain its historic role of providing authoritative legal interpretations of the tax law. The Counsel technical experts will continue to be located together in Washington, DC, and will be organized primarily on the basis of the substantive tax law knowledge required by related Code sections. Finally, the technical organization will maintain its current responsibilities for many of the key processes that directly affect taxpayers; for example, issuing regulations, revenue rulings and other published guidance, as well as private letter rulings, technical advice and advance pricing agreements.

Figure 6-2 shows the new technical organization consisting of nine Associate Chief Counsel Offices: Income Tax & Accounting; Passthroughs & Special Industries; Corporate; Financial Institutions & Products; International; Procedure & Administration; General Legal Services; Tax Exempt & Government Entities; and Criminal Tax. (These last two offices also serve as Division Counsel.) These offices are made up of branches organized primarily according to tax law technical subject areas required by the Internal Revenue Code.

Figure 6-2: Counsel Technical Organization

Technical Divisions



- The National Office will maintain responsibility for providing authoritative legal interpretations of the tax law. This fixes "Code Accountability" on technical interpretations and ensures uniformity and consistency.
- The National Office will maintain responsibility for many key products that directly affect taxpayers: Published Guidance, Private Letter Rulings, Technical Advice and Field Service Advice.

Division Counsel

The new Division Counsel (DC) organizations will work closely with each operating division on strategy and program planning matters, such as identifying and prioritizing emerging issues and developing published guidance needs, as well as on operations matters, such as day-to-day legal advice and field litigation.

Headquarters. The DC is a critical part of the new Counsel organization. Four DC Offices will be established, one to serve each of the IRS operating divisions. Each of the DC will be headed by an SES-level attorney – the Division Counsel – who will report directly to the Chief Counsel. The DC will be co-located with the Operating Division Commissioner. Additional DC offices, managed by an Area Counsel or Associate Area Counsel, will also be in other key operating division locations.

Field Counsel. Most of Counsel's current field organization will be assigned to one of the DC. This specialization will help the attorneys develop greater expertise in the specific areas of the tax law most relevant to the needs of the particular operating division they serve. It should also encourage development of strong working partnerships between the Field Counsel and the executives, managers and employees of the operating division they support. Field Counsel will continue to represent the IRS in the Tax Court and Bankruptcy Courts and provide legal advice to operating division personnel.

Figure 6-3 shows all of the Counsel office locations. Area Counsel and Associate Area Counsel will be located at the 49 PODs in use today, while the DC headquarters will co-locate with each operating division commissioner.

Figure 6-3: Counsel Field Office Locations

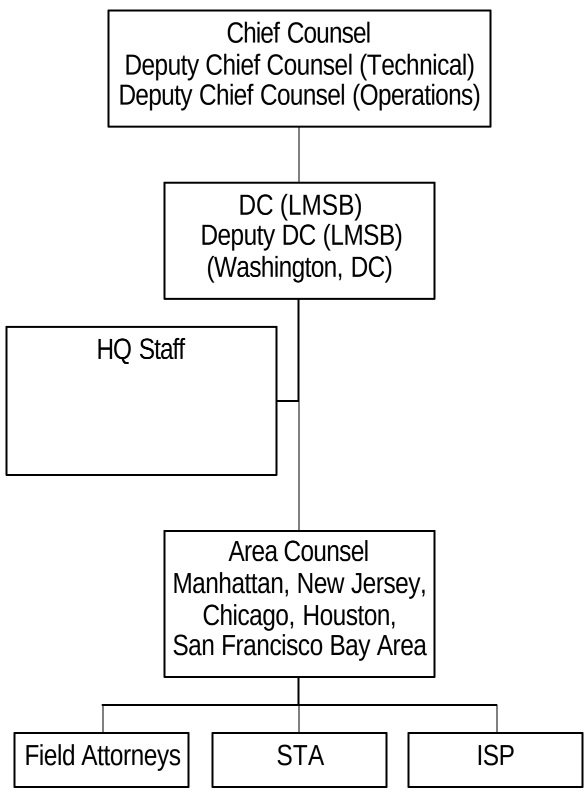
	LMSB		SB/SE			W&I	CT	TE/GE
Operating Division	Washington, DC		Washington. DC			Washington, D.C.	Washington, DC	Washington. DC
Area Counsel	Manhattan Chicago New Jersey Houston SF Bay Area		Manhattan Chicago Philadelphia Jacksonville Dallas Los Angeles Denver SF Bay Area				Philadelphia Baltimore Atlanta Chicago Dallas Laguna Niguel	Chicago Brooklyn Los Angeles
Associate Area Counsel	Boston Hartford Brooklyn Manhattan Newark Philadelphia Washington, DC Cincinnati Cleveland Detroit Ft. Lauderdale/ Miami Jacksonville Atlanta St. Paul	Chicago Dallas Houston Denver Phoenix Seattle San Francisco San Jose Laguna Niguel Los Angeles San Diego	Boston Hartford Brooklyn Buffalo Manhattan Newark Philadelphia Pittsburgh Baltimore Washington, DC Greensboro Richmond Ft. Lauderdale/ Miami Jacksonville Atlanta Birmingham	Nashville New Orleans Cincinnati Cleveland Detroit Louisville Chicago Indianapolis Milwaukee Kansas City Omaha St. Louis St. Paul Denver Las Vegas Phoenix St. Lake City	Austin Dallas Houston Oklahoma City Honolulu Portland Seattle Sacramento San Francisco San Jose Laguna Niguel Los Angeles Thousand Oaks San Diego			Dallas (Dep. A.C.) Baltimore (Dep. A.C.) San Fancisco (Dep. A.C.)

Large and Mid-Size Business Division Counsel

The LMSB DC design consists of a headquarters and a field organization that is geographically managed but has strong industry alignment. Figure 6-4 shows the LMSB DC organizational structure.

The LMSB DC will include seven executives (DC, Deputy DC and five Area Counsel), approximately 55 managers (Associate Area Counsel and HQ attorneys) and 37 special trial attorneys. It will also include approximately 200 attorneys located in 35 field groups, for a total of approximately 300 attorneys.

Figure 6-4: LMSB District Counsel Organizational Structure



- DC headquarters will be co-located with the LMSB Division Commissioner.
- Five SES Area Counsel will be co-located with the five LMSB Industry Directors.
- Special Trial Attorneys and Industry Counsel attorneys will report to Area Counsel.
- Area Counsel will supervise field attorney groups within a geographic area and also provide program & strategy advice to their Industry Director.

Small Business /Self-Employed Division Counsel

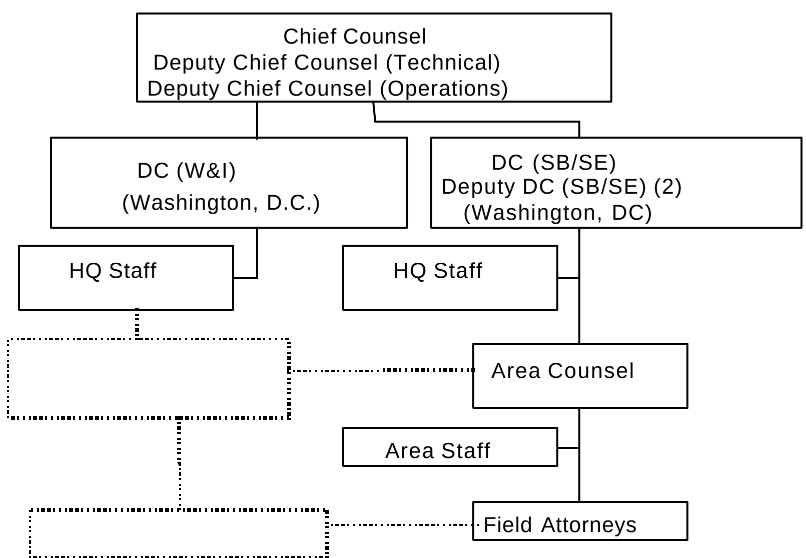
The SB/SE DC organizational structure consists of a headquarters organization that mirrors the SB/SE Division and a field organization that serves both the SB/SE and W&I Divisions. Figure 6-5 shows the DC (SB/SE) and (W&I) organizational structures.

The SB/SE DC will consist of eleven executives (Division Counsel, two Deputy Division Counsel and 8 Area Counsel), approximately 75 managers (Associate Area Counsel and HQ attorneys) and 375 attorneys, for a total of approximately 460 attorneys. The new design includes eight Area Counsel responsible for a total of 70 groups.

Wage and Investment Operating Division Counsel

The W&I DC will provide targeted legal assistance in the areas where the W&I Division requires Counsel support. The W&I DC will consist of one executive, 1 manager and 1 attorney. As noted in the previous section, most of the Counsel field work for the W&I Division will be performed by the SB/SE DC field attorneys. Figure 6-5 shows the DC (SB/SE) and (W&I) organizational structures.

Figure 6-5: W&I and SB/SE Division Counsel Organizational Structures



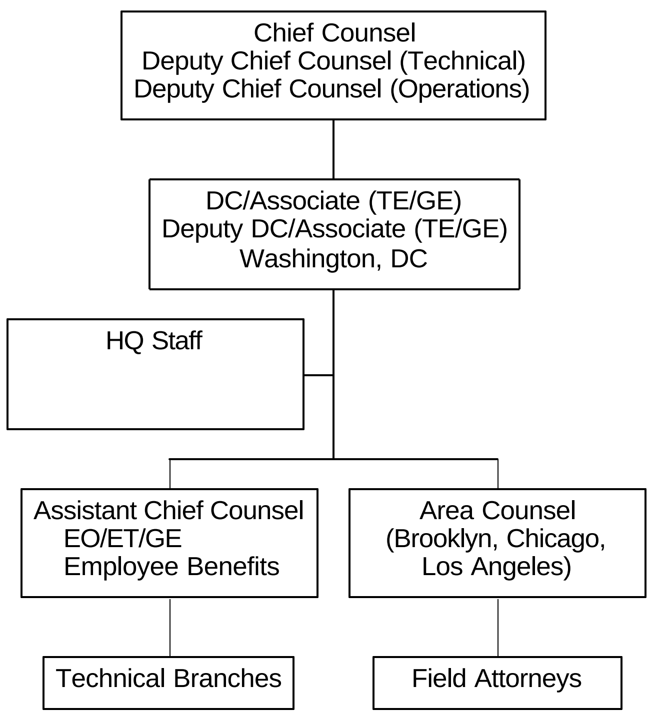
- The DC (W&I) will not have a field footprint.
- W&I field work will be assigned to SB/SE field attorneys.

Division Counsel/Associate Chief Counsel Offices

Two other Counsel organizational units were designed in conjunction with other IRS design teams:

- TE/GE DC/ACC: The TE/GE DC/ACC was designed by the Counsel organization on an accelerated schedule in conjunction with the TE/GE Division design team. The Commissioner and General Counsel approved the TE/GE DC/ACC Stand-up Package in September 1999. The TE/GE DC/ACC organization includes four executives, the Division Counsel/Associate Chief Counsel (TE/GE), Deputy DC/ACC (TE/GE), Assistant Chief Counsel (Exempt Organizations/Employment Tax/Government Entities) and Assistant Chief Counsel (Employee Benefits). Its national office function will include nine branches consisting of nine branch chiefs, five senior technician reviewers and approximately 85 attorneys. Its field organization will consist of three areas, Northeast & Mid-Atlantic, Great Lakes & Gulf Coast and Pacific Coast & Central Mountain. Each area will include an Area Counsel and Deputy Area Counsel. The field organization will include 28 attorneys at stand-up. Figure 6-6 provides further detail of the TE/GE DC organizational structure.

Figure 6-6: TE/GE Division Counsel/Associate Chief Counsel Organizational Structure

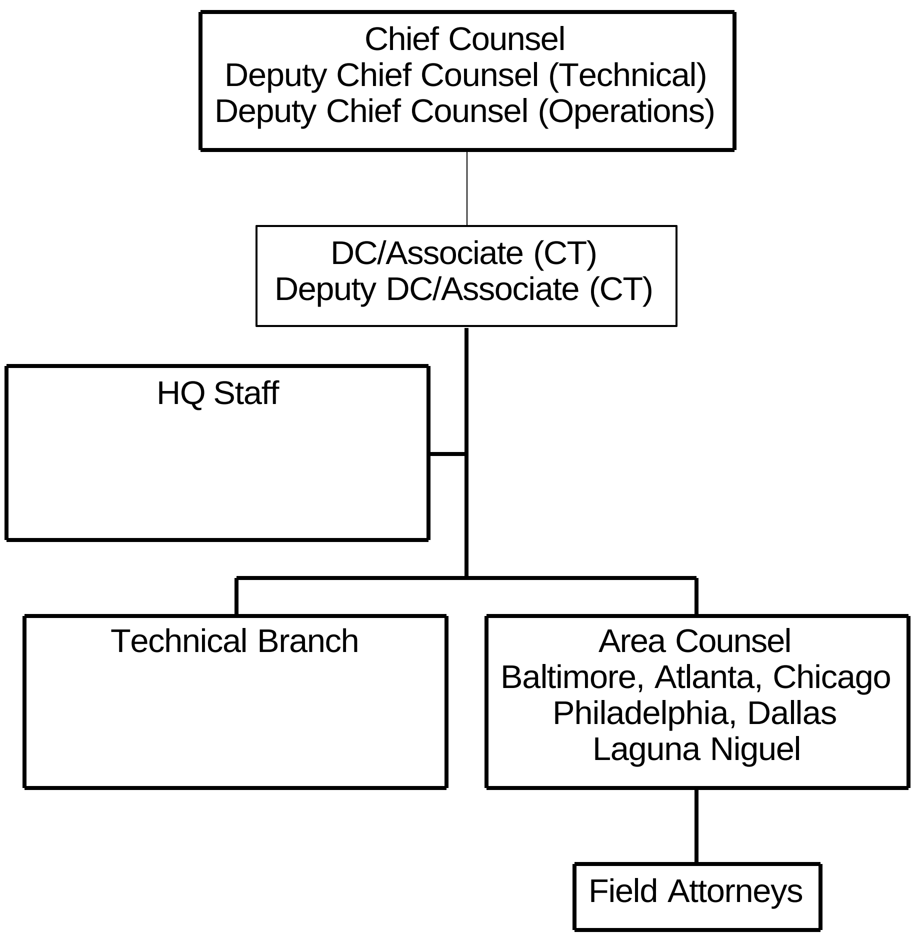


- The DC/Associate (TE/GE) will be co-located with the TE/GE Division Commissioner and will supervise the technical subject experts for employee benefits, exempt organizations, employment taxes and government entities issues, as well as TE/GE field attorneys.

- Three Area Counsel will supervise approximately 30 TE/GE field attorneys in six locations within geographic areas corresponding to multiple SB/SE areas.

- Criminal Tax DC/ACC: The Counsel design team worked closely with the Criminal Investigation design team to develop the Criminal Tax organizational structure. The CT organization will include two executives, the Division Counsel/Associate Chief Counsel (CT) and the Deputy DC/ACC (CT). Its national office function will include four managers and six attorneys. Its field organization function will consist of six areas, each managed by an Area Counsel, and will include six Senior Litigation Assistants and 54 attorneys at stand-up. Figure 6-7 provides further detail of the CT organizational structure.

Figure 6-7: Criminal Tax Division Counsel/Associate Chief Counsel Organizational Structure

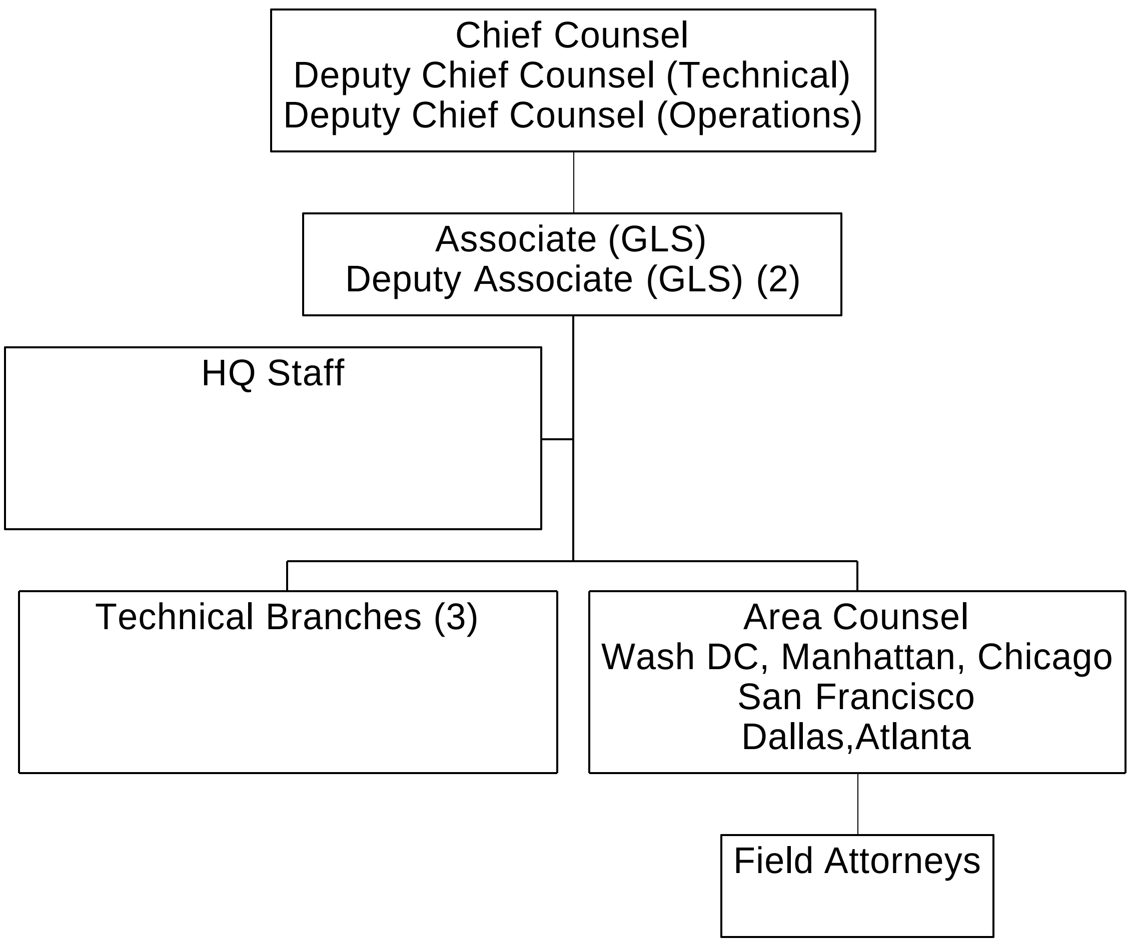


- Six Area Counsel will be co-located with the CID Area Managers.
- Field Criminal Tax attorneys will be substantially dedicated to Criminal Investigation Division issues & will report to the Area Counsel from about 30 posts of duty.

General Legal Services

GLS will continue to provide the full range of nontax legal services to the IRS. In the future, all Counsel's GLS attorneys will be managed on a centralized basis by the Associate Chief Counsel (GLS) in Washington, DC. The Commissioner and General Counsel approved the GLS Stand-up Package in October 1999. The GLS organization will include two executives, the Associate Chief Counsel and Deputy Associate Chief Counsel. It will have three branches in the national office and six field areas. At stand-up, GLS will include sixteen managers and 59 attorneys. Figure 6-8 provides further detail of the GLS organizational structure.

Figure 6-8: General Legal Services Associate Chief Counsel Organizational Structure



- Six Area Counsel will supervise approximately 40 GLS field attorneys in six locations within geographic areas corresponding to multiple SB/SE areas.
- GLS field and national office attorneys will provide labor relations, procurement, tort claim and other GLS legal services for all IRS operating divisions and functional units.

Integrative Mechanisms

In addition to designing the Counsel organizational structure, the design team identified and developed key integrative mechanisms for the new structure. These integrative mechanisms are necessary to ensure successful partnership across Counsel organizational units.

The design team recommended the following integrative mechanisms to address workload management, post of duty management and overall coordination:

- For the issue of workload management, the design team defined processes for assigning incoming work within each DC, developed a process for rebalancing work when required and specified clear accountabilities for workload management within the new structure.

- For the issue of post of duty management, the design team analyzed head of office reports and other input regarding post of duty management and recommended approaches for local office policy and ongoing management responsibilities.

- For the issue of overall coordination, the design team recommended an approach to determining and achieving client expectations and developed clear links between strategic plans, managerial objectives and measurements of service performance.

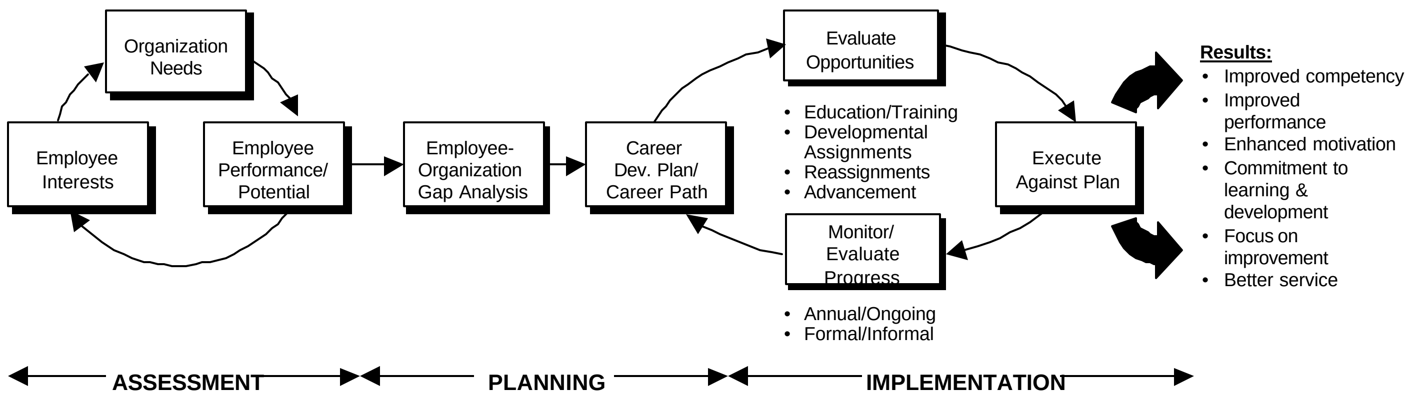
For each of the integrative mechanisms, the design team recommended next steps to be performed by the Counsel organization during implementation.

Career Development

Finally, the Counsel design team recommended an approach to career development that supports the growth and development of employees within the new structure. Figure 6-9 shows the recommended career development process.

Figure 6-9: Career Development Process

CAREER DEVELOPMENT PROCESS



ASSESSMENT

- Coordinate assessment of individual and organizational needs
- Conduct assessment within and across organizational lines

PLANNING

- Further develop career counseling program
- Use formal career development plans
- Establish new career paths/ladders
- Improve communication re: available training/growth opportunities
- Employ a more structured/coordinated approach to selection for training/growth opportunities

IMPLEMENTATION

- Ensure prompt initial training (i.e., within first year)
- Increase availability of internal continuing education
- Facilitate greater utilization of external continuing education
- Develop a more structured continuing education curriculum for attorneys and managers
- Employ a more structured/coordinated approach to development through cross-training within National Office and Division Counsel, among Division Counsel, and between National Office and Division Counsel

The new structure provides several career development opportunities including:

- Increased specialization that offers opportunities to better develop expertise;
- Ability to target education/training efforts; and
- Enhanced specialization that will allow the DC to better serve the operating divisions.

In addition, the new structure presents career development challenges including:

- Career development could require movement among DC;
- Procedural mechanisms are needed to encourage attorneys to move across organizational and functional lines; and
- Standards and measures are needed to regulate attorney cross-training and developmental assignments.

The design team proposed improvement to several key career development processes including career counseling, training and developmental opportunities. The team also defined roles and responsibilities for career development activities and developed an implementation plan.

Implementation Phase

Counsel's Phase III implementation will focus primarily on activities needed to "stand up" the organization. Five critical elements need to be completed to stand up the new Counsel organization:

- The Associate or Division Counsel in place and the key management positions filled;
- All personnel actions completed to realign employees into their new organizational units in the field and national office;
- Budget created and responsibilities transferred to the Associate or Division Counsel;
- The Associate or Division Counsel organization delegated the authority to fulfill its mission; and
- Management Systems or workarounds developed and in place to allow the Associate or Division Counsel organization to function.

Counsel's implementation will be conducted by a program management team, 3 cross-functional teams and 10 functional teams:

Program Management Team. Provide coordination and support for implementation teams and the Counsel Implementation Executive Steering Committee; track and monitor accomplishment of all implementation activities; identify and resolve crosscutting issues; provide liaison to IRS Program Management.

Cross-functional Teams

- Workforce Transition. Plan and execute migration of Counsel employees to positions in the new organization.
- Field Workload Transition. Plan reassignment of current field workload to proper offices in the new organization, and coordinate with national office functional teams on reassignment of current workload items involving field/national office co-responsibility.
- Administrative Support and Clerical Functions. Develop appropriate design for management of administrative support and clerical functions, consistent with Phase IIB recommendation to manage those functions on a centralized basis.

Functional Teams

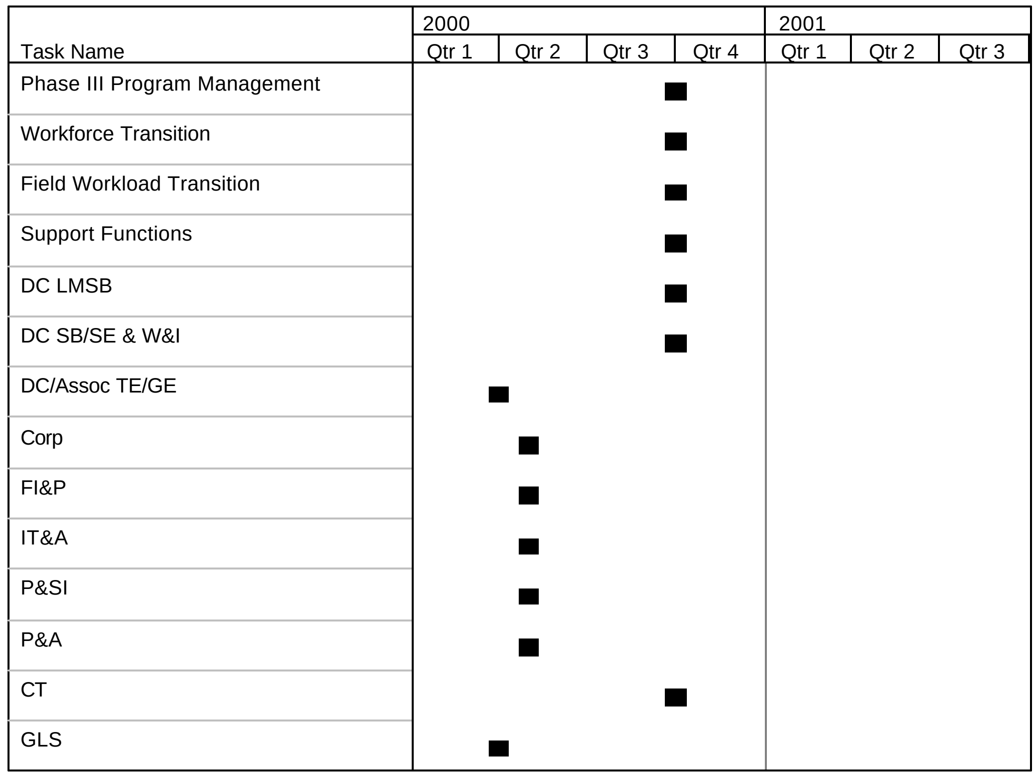
- Division Counsel (LMSB)
- Division Counsel (SB/SE & W&I)
- Division Counsel/Associate Chief Counsel (TE/GE)
- Associate Chief Counsel (CORP)
- Associate Chief Counsel (FI&P)
- Associate Chief Counsel (IT&A)
- Associate Chief Counsel (P&SI)
- Associate Chief Counsel (P&A)
- Division Counsel/Associate Chief Counsel (CT)
- Associate Chief Counsel (GLS)

Each of these teams will focus on changes needed to current Counsel processes to ensure efficient workload assignment and management, office management and proper coordination among Counsel functions and client organizations. These teams also will work closely with the Workforce Transition and Administrative Support and Clerical Functions teams on support matters.

The entire Counsel organization will stand up by October 1, 2000. However, some components of Counsel will complete their requirements for stand-up earlier than others. The Associate Chief Counsel (GLS) and the Associate Chief Counsel (F&M) completed their stand-up on January 16, 2000. Figure 6-10 provides further detail of the Counsel implementation timeline.

Figure 6-10: Counsel Implementation Schedule (based on Calendar Year 2000)

The entire Counsel organization will stand up by October 1, 2000. However, some components of Counsel will complete their requirements for stand-up earlier than others. The Associate Chief Counsel (GLS) and the Associate Chief Counsel (F&M) completed their stand-up on January 16, 2000. This figure provides further detail of the Counsel implementation timeline.



Chapter 7 Appeals

Customer Characteristics

The Appeals function is the alternative dispute resolution forum for any taxpayer contesting an IRS compliance action. Independent by statute, Appeals ensures all taxpayers receive an impartial review of their cases after an examination of a return is complete or collection action is proposed. This impartial review is essential to the integrity of the American tax system. It is the last opportunity the IRS and the taxpayer have to resolve controversies prior to litigation.

Goals, Principles and Objectives

The Appeals organization has four primary goals:

- Provide high quality dispute resolution service to all taxpayers.
- Respond to the needs and expectations of external customers.
- Maintain flexibility to meet changing customer expectations and operating environments.
- Provide a work environment that fosters job satisfaction and career development for employees.

Approximately 25 team members, grouped into four sub-teams, drove the Phase IIB redesign process. They brought definition to the concepts and high-level plans that were developed during Phase IIA. The specific goals identified during Phase IIA were to develop an organization tailored to the larger Internal Revenue Service's structure, focus processes on customer needs and empower our workforce, with the over-arching aim of providing substantial benefits for taxpayers and employees.

In Phase IIA, to ensure our modernization efforts would result in increased taxpayer satisfaction, we interviewed practitioners, associations and other stakeholders. One practitioner stated, "Clearly, the IRS is focusing on more resolutions earlier. That's good for everybody."

During Phase IIB, our focus turned toward working with internal customers and the current organization to effect a workable set of implementation plans for the process and organizational design. The redesign of Appeals business processes coming out of Phase IIB enables the organization to provide more timely and focused customer service. Specifically, Appeals Modernization objectives were to:

- Create a new process to settle taxpayer disputes sooner.
- Move to a team-based environment aimed at increasing quality and responsiveness.
- Re-delegate settlement authority directly to front-line appeals officers (within given parameters).
- Improve case review and internal feedback processes to ensure high quality case development.

New Organizational Model

We considered many options during our redesign effort for both building on the success of the current Appeals organization and finding areas for improvement in service to taxpayers. Throughout our deliberations we considered three critical objectives:

- Maintain the independent structure of Appeals so taxpayers continue to receive impartial assistance on sensitive tax matters.
- Ensure that our staff is located in areas convenient for taxpayers and, at the same time, minimize the need for relocating employees. Because the work continues to be similar and Appeals staff is already located in many cities across the nation, this will not pose a significant challenge.
- Design new products and services as well as process improvements to reduce taxpayer burden during the Appeals process. The end result of all our redesign efforts must be improved taxpayer and employee satisfaction with the services provided by Appeals.

To ensure that our redesign effort results in dramatic improvements, we have placed a major emphasis on more efficient case resolution and increased teamwork from Appeals staff to ensure that the highest level of expertise is invested in resolving cases.

The new Appeals organization structure builds on past successes of impartiality and adds new mechanisms that serve taxpayers effectively. It creates a new operating model designed to provide better consistency, quality, customer focus, ownership and accountability to taxpayers and other stakeholders. This new model is illustrated in Figure 7-1.

Figure 7-1: New Operating Model

CURRENT OPERATING MODEL

Structure

- Geographic

People

- Administrative
- Focus is on internal issues

Process

- Minimal accountability
- Disengaged from IRS operating units
- Lengthy appeals process, lasting an average of 293 days

FUTURE OPERATING MODEL

Structure

- Geographic alignment by taxpayer characteristics

People

- Create empowered teams of Appeals officers
- Select Appeals officers trained in mediation to quickly resolve cases

Process

- Strong accountability
- Increased coordination for timely case hand-off
- Streamlined process to emphasize early issue resolution

BENEFITS TO TAXPAYERS

- Speed
- Customer focus
- Ownership
- Accountability
- Reduced taxpayer burden

BENEFITS TO OTHER STAKEHOLDERS

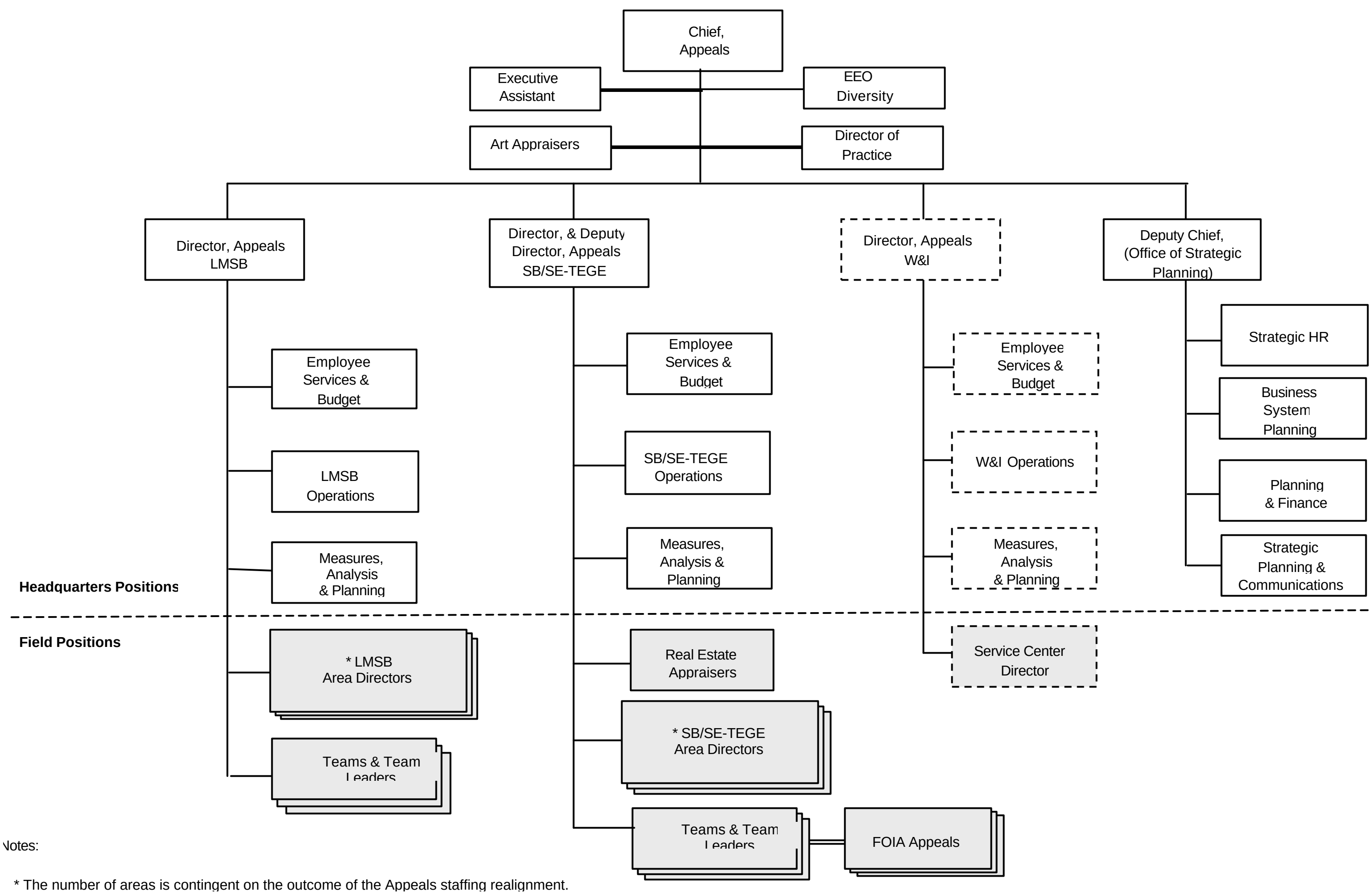
- Employees have tools, technology and training
- Less costly and less time-consuming tax administration

Organizational Structure

The mission of the Appeals function is *to resolve tax controversies, without litigation, on a basis which is fair and impartial to both the government and the taxpayer and in a manner that will enhance voluntary compliance and public confidence in the integrity and efficiency of the Service.*

The new Appeals will be headquartered in Washington, DC, but will maintain the geographic location of current offices. At the headquarters, the activities will focus on addressing the policy issues and strategic planning. The following organizational chart illustrates this new structure.

Figure 7-2: Appeals Organization



Notes:

* The number of areas is contingent on the outcome of the Appeals staffing realignment. W&I will be staffed from SB/SE-TEGE after Appeals W&I stands-up.

FOIA and Real Estate Appraisers will be placed in SB/SE-TEGE Field Office.

Key to the functionality of the headquarters is the Office of the Deputy Chief, which will ensure the focus on strategic issues. It managers four primary functions:

- **Strategic Planning and Communications** will be responsible for Appeals-wide strategic planning and business planning activities. A key component of strategic planning is conducting research and analysis aimed at determining Appeals-wide trends, the impact of tax law changes and shifts in customer needs. Fully understanding these needs will assist us in creating more focused products and services. Constantly updating our knowledge of the tax law will increase the quality of our casework and improve our ability to keep taxpayers informed.

- **Strategic Human Resources** is an internal, process-based organization that will handle organizational personnel and training matters for Appeals. It will ensure employees are provided the necessary tools to deliver top-quality service. The office will maintain continuous performance improvement and individual development through competency and skill building. This staff will conduct needs assessments to ensure the resource allocation for human resources is prioritized to produce the maximum benefit to Appeals personnel and customers, including:

  - Developing and implementing policies, guidelines and procedures for the division within parameters set by the National Strategic Human Resources.
  - Developing an education strategy and designing a curriculum that focuses on developing key competencies for the staff in each of the operating units.
  - Planning for future staffing and competency needs to ensure that technically competent personnel are available to meet Appeals customer needs.
  - Fostering partnership with National Treasury Employees Union and serving on the Appeals National Partnership Council.
  - Serving as the Appeals representative on the Human Resources Policy Council.
  - Providing workforce planning and strategic recruitment guidance.
  - Managing position management activity.
  - Overseeing and managing the performance management process.

- **Planning and Finance** oversees various financial planning and resource allocation tasks for the Appeals organization including:
  - Developing the budget submission and responding to inquiries from external stakeholders (Department of the Treasury, Office of Management and Budget and Congress).
  - Managing the resource distribution process, including the development of a financial plan that supports the program priorities.
  - Managing the financial resources for including tracking resource usage against targets.
  - Establishing financial policies, procedures and controls in conjunction with overall Service guidelines and procedures.

- **Business Systems Planning**, also part of the Deputy's staff, gathers and articulates business needs for Information Technology (IT) projects, applications and legacy systems. Responsibilities include assessing IT solutions to address gaps in business processes, creating business cases for new IT projects and evaluating requests for information services. This group will create a close partnership with the Division Information Officer (DIO), who reports to the Chief Information Officer. Through this partnership, Appeals needs and services will be coordinated with all appropriate IT staff. Some related tasks include:

  - Planning and analyzing business needs for new projects.
  - Developing business cases and prioritizing business needs and process changes.
  - Formulating Information Technology plans and budgets as well as managing and/or monitoring funds for business systems modernization projects.
  - Developing and testing projects, overseeing business involvement in systems testing and establishing information systems performance measures.
  - Implementing and overseeing modernization projects including development, monitoring and evaluation.
  - Supporting senior leadership by providing business expertise to complement Information System’s knowledge of technology change.
  - Developing and negotiating Service Level Agreements (SLA) with support functions and assessing the effectiveness of support received.

There are a number of other small offices that are located in headquarters and report directly to the Chief, Appeals.

The **Director of Equal Employment Opportunity and Diversity** provides guidance to the Chief Appeals on equal employment and diversity policy and issues. Responsibilities for the office include:

- Establishing and implementing EEO policies, procedures and programs for the division in conformance with overall Service guidelines.
- Overseeing the Appeals EEO and Diversity Advisory Committee.
- Providing training to Appeals staff on EEO-related matters and issues.
- Preparing the reports and conducting analyses on key workforce-related trends and actions.
- Coordinating special emphasis activities relating to women and minorities.

The **Office of the Director of Practice** oversees the enrollment of agents and recommends or takes disciplinary action against individual tax practitioners when necessary. Specific areas of responsibility include:

- Providing outreach services to internal and external stakeholders.
- Giving technical advice to taxpayers, tax practitioners and IRS employees on matters related to Conference and Practice and Power of Attorney.
- Participating on the Joint Board for the Enrollment of Actuaries including reviewing applications for enrollment and disciplinary matters.
- Providing Administrative Appeal for all individuals denied entry into the E-filer Program.

The staff in the **Office of Art Appraisal Services** manages the processes for evaluating art objects, including the Commissioner's Art Advisory Panel, a board composed of professionals outside the IRS with expertise in valuing art. Other areas of responsibility include:

- Managing art object appraisals not included in the art panel process.
- Appraising the value of gifts to government officials.
- Providing expert witness testimony in litigated cases.
- Performing external and internal outreach through public speaking, training classes and meetings.

Apart from the staff in the headquarters, Appeals will have personnel in field offices to interact locally with taxpayers and other IRS offices. The new structure also calls for a realignment of the field staff to closely mirror the new operating division structure (Figure 7-2). Three Appeals operating units will manage operations for each of the taxpayer segments. They are:

- Appeals Large and Mid-Size Business (LMSB)
- Appeals Small Business/Self-Employed-Tax Exempt/Government Entities (SB/SE-TEGE)
- Appeals Wage and Investment (W&I)

Field operations in Appeals LMSB Operating Unit handle our largest cases, those referred by the Service's Large and Mid-Size Business Division.

Appeals officers in Appeals SB/SE-TEGE will hear cases from both the Small Business/Self-Employed Division and Tax Exempt-Government Entities. Their casework forms the vast majority of cases heard by Appeals. Under the redesign, we will also include in their work those cases where the Service has denied taxpayer requests for information under the Freedom of Information Act.

Appeals W&I will resolve cases from Wage and Investment Division, primarily work from the service centers. The design is in the early stages at this point, and the unit will not be operational in the immediate future. A team will form during Phase III to refine the basic outline and draw up implementation plans. Until the structure has been drawn up and the unit operational, Appeals SB/SE-TEGE will work those cases. We will populate Appeals W&I from the SB/SE-TEGE unit when it stands up.

Senior Management Team

The new design for Appeals calls for a flat management structure. At the top of the organization, Chief Appeals Daniel L. Black, Jr. heads the Appeals senior management team and is a member of the Commissioner's senior staff. Mr. Black formerly held leadership positions as a regional director of Appeals, assistant district director and district director, and leader of a major task group working on a consolidation effort in the Service. Other members of the senior leadership team include:

- Linda Garrard, Deputy Chief, Appeals and formerly the Southeast Regional Director of Appeals.
- John Piper, the Appeals SB/SE-TEGE Operating Unit Director, the prior Deputy National Director of Appeals.
- Earl Blanche, Jr., Director for Appeals LMSB, formerly assistant director in Gulf Coast District.

The senior management team is responsible for providing the strategic leadership and integrative mechanism within the Appeals organization. As a team, with support from the strategic planning and analysis formulated in the Deputy's office, they will identify and address those issues that cut across the entire Appeals organization. They will also provide input on trends and needs within the operating units for the strategic planning process.

Individually, the operating unit directors will have ultimate responsibility for the programs and operations delivering service to their particular customer segment. Their role is to ensure that the operating unit meets the needs and requirement for the specific taxpayer segment served by that operating unit. Some of the key functions of the position include:

- Identifying and implementing new processes in conjunction with corresponding IRS operating division.
- Deploying resources required to meet the needs of taxpayers and internal customers.
- Ensuring the operating unit addresses needs identified in balanced measures.
- Managing programs within the operating unit.
- Fulfilling role of third-level reviewers in efforts to resolve NTEU and LR issues.

The next level of management is the area director. Deployed in the field, the area directors are second-line managers responsible for managing the teams and their managers across wide geographic zones. Their key roles fulfill functions similar to the operating directors', but at a lower level within the organization. They include:

- Working with IRS operating unit managers at the same organizational level to implement new processes.
- Overseeing implementation of new processes within area.
- Developing an operational plan for effective use of resources across teams within the area.
- Taking an active role in sensitive, high-profile cases (Congressionals, controlled correspondence, etc.).
- Establishing constructive relationships with taxpayers and representative groups.
- Ensuring the area addresses needs identified in balanced measures.
- Fulfilling role of second-level reviewers in efforts to resolve NTEU and LR issues.

The team manager fills the management roll at the front-line level. As another outcome of the redesign, Appeals has moved to a team-based process for handling cases. In many instances, managers and appeals officers will work in teams to resolve cases. This team-based environment will ensure that we capitalize on all of the expertise available when determining the correct course of action. By involving managers in the case decision process, rather than having them review settlement proposals after the fact, we anticipate some timesavings. This approach is also designed to improve the quality and consistency of case decisions.

Partnerships

To ensure that the Phase II B design changes can be implemented, several key internal and external partnerships have been created. First, liaisons will be strengthened between Appeals and all of the new operating divisions (W&I, SB/SE, LMSB and TE/GE). Emphasis will shift to resolving disputes at the lowest possible level in the IRS. When issues are not resolved by the operating division, these liaisons will ensure cases are forwarded to Appeals in a timely manner. The combined effort of Appeals and the operating division will decrease the average time required to complete cases, resolve factual issues at lower levels in the IRS organization, and ensure issues are developed properly and facts are correct so taxpayers do not experience unnecessary delays.

An internal partnership with the Compliance functions in the IRS operating divisions focuses on resolving taxpayer disputes at the lowest level in IRS. After instituting a new process, fast track mediation, Appeals will provide mediation services to taxpayers and the Service without requiring the case be transferred to Appeals. The goal is to resolve disputes in 20-30 days rather than the nine months it frequently takes now.

In cases where the taxpayer and Appeals are unable to reach agreement over a dispute, the IRS may decide to forward the case for litigation. Appeals will work to design processes and feedback mechanisms that ensure docketed cases flow smoothly between Appeals and Counsel. This allows the taxpayer to easily move to the next phase of case resolution. The Appeals function will work cooperatively with Counsel to ensure that disputes do not unnecessarily linger in the system.

Geographic Footprint

A key issue in drawing a geographic footprint for Appeals was the placement of the operating unit directors: should they be co-located with their counterparts in the operating units, or should they reside in one location with the Chief. In the end, it was decided that all members of the Appeals leadership team would co-locate with the Chief in Washington, DC. A critical factor in this decision was the need to maintain the perception of Appeals' independence. The IRS Restructuring and Reform Act of 1998 mandates that Appeals be independent, and customer surveys indicate that independence is essential to Appeals external stakeholders.

Co-locating the directors of Appeals operating units also enables them to coordinate and assign work across the entire Appeals organization and ensure that program information and expertise is consistently communicated throughout the operating units.

In the field, the sites where Appeals employees currently serve taxpayers will not change. However the new design calls for a realignment of the offices into areas that define the geographic footprint. Each of the future Appeals operating units will have a unique footprint that will align roughly to the footprint of the corresponding IRS operating division. The size of each area will be determined on the basis of span of control and the number of teams in a geographic region. The number of areas and the boundaries for each will be decided once the correct staffing for Appeals has been determined.

The Appeals LMSB Operating Unit will be administered geographically rather than by industry, as is the case with the larger LMSB Division. In addition to managing the teams in their area, the area directors in these geographic centers will have the responsibility for acting as liaison to the industry that aligns with their area. In that role, they will disseminate throughout Appeals the industry-specific information gained through their linkage with the LMSB Area Director.

Process Changes

During Phase IIB, the team brought definition to the process changes that were proposed in Phase IIA, specifically fast track mediation and the closed-case review process.

Fast track mediation focuses on resolving the tax controversies at the lowest level. When taxpayers disagree with any or all of the IRS findings in their case, they may request a meeting with the manager of the examiner or revenue officer who issued the findings. Mediation can take place at that meeting or afterwards. To begin the process, both the taxpayer and the IRS manager must sign a simple agreement form. Most cases qualify for fast track mediation. In general, a taxpayer may use the process if the case has a proposed tax deficiency of $100,000 or less and is not docketed in any court. An offer in compromise must be less than $50,000 to qualify.

The goal of mediation is to provide an impartial forum for taxpayers and the IRS to resolve the dispute. The mediator's role is to facilitate communication. The mediator will work with the taxpayer and the IRS to obtain the information necessary to understand the nature of the dispute including the issues involved and the positions of both parties.

A resolution agreed to during mediation would not be binding for any taxable years other than those covered by the agreement. The mediator has no authority to require either party to accept any resolution. If any issues remain unresolved, the taxpayer will retain all the usual appeal rights.

Under the redesign, Appeals will replace the current **closed-case review process** with a more comprehensive process that provides statistically valid data. The design calls for a staff dedicated solely to performing reviews on closed cases and providing reports at the operating unit and area director levels of the organization.

The Appeals Quality Measurement System (AQMS) will generate key output measures that will be used to assess organizational performance. The system provides the quality measure of the Business Results component of Appeals balanced measures. Each operational unit will have a customized set of output performance measures within the balanced measures framework. Benefits that AQMS will provide Appeals management and customers include:

- Ensuring taxpayer rights are protected.
- Increasing consistency in Appeals settlements.
- Identifying training needs for appeals officers.
- Providing feedback to management on areas requiring improvement in the Appeals process.
- Providing feedback to Compliance on the “fit for use” of cases sent to Appeals.

Figure 7-3: Appeals Implementation Plan

During Phase III, Appeals will move ahead with implementing the restructuring of the organization and implementing the process changes. The team will move forward on the design for the Appeals W&I Operating Unit as well as developing a system for providing feedback to the IRS operating divisions on the quality of cases referred to Appeals.

ID	Task Name	2000–2001 (Qtr 3, Qtr 4, 2000: Qtr 1–Qtr 4, 2001: Qtr 1–Qtr 4)
1	**Personnel Actions (Competitive Process)**	
2	National Chief Appeals Selected	12/31
3	All SES selected	1/7
4	Select GS-15 Area Directors & Operating Unit Managers	5/1
5	Select New GS-15/14 Front Line Manager Positions	5/22
6	Select New NBU/BU Positions	6/26
7	**Non-competitive (Restructuring Agreement)**	
8	**Establishment Phase**	
9	Commissioners' Package Signed	3/17
10	Notice 1	4/3
11	Notice 2	7/13
12	Realign/Reassign Balance of Employees	8/4
13	Adjustment Phase	
14	Bargaining Phase	
15	Implementation Phase	
16	**Infrastructure/Facilities/Systems/Processes**	
17	Infrastructure and Facilities	
18	IRM Procedures	
19	Delegation of Authority Throughout Appeals	4/7
20	ACDS Inventory Realignment/Reassignment	8/4
21	Budget	9/19
22	Fully Implement Quality Review Function (AQMS)	10/2

Chapter 8 Taxpayer Advocate Service

Taxpayer Characteristics and Responsibilities

The Taxpayer Advocate Service helps any taxpayer who has encountered a problem that is not resolved by the IRS through systemic processes. It is critical that all taxpayers are afforded an opportunity to receive independent, objective assistance when resolving problems with the IRS. In 1999, the Advocate handled approximately 200,000 taxpayer cases.

In addition to serving taxpayers one at a time, the National Taxpayer Advocate also serves all taxpayers by reporting regularly to the Congress of the United States. It is the responsibility of the National Taxpayer Advocate to keep Congress fully up-to-date on the Advocate's success at resolving taxpayer problems as well as to report any systemic issues that may be adversely affecting taxpayers. The National Taxpayer Advocate publishes two reports each year that are submitted to the House Ways and Means Committee and the Senate Finance Committee. The first report, submitted by June 30th of each year, explains the objectives of the Advocate organization for the coming year. The second report, submitted by December 31st of each year, describes the activities of the Advocate's office and specific information about problem areas and initiatives for solving problems. The report also identifies areas of the tax law that impose significant compliance burdens on either the taxpayer or the IRS and proposes remedies for these situations. In addition, the Congress is informed of the ten most litigated issues causing taxpayers to have difficulty with the tax law.

For the Fiscal Year 1999 Report, the National Taxpayer Advocate considered input from multiple stakeholders in prior years. The 20 most serious problems represent a consensus ranking. Input from individual and small business groups, tax practitioners, and the IRS were given equal weight in the ranking process. Input by the IRS was provided by the field Taxpayer Advocates. They based their input on Taxpayer Advocate Service major issue analysis, direct taxpayer contact, casework, Problem Solving Day issues, and correspondence forwarded by the Senate Finance Committee equally important. No group's input was considered more important than any others.

Overview

The105th Congress strengthened the independent role and enhanced the responsibilities of the Taxpayer Advocate, known as the Taxpayer Advocate Service within the Internal Revenue Service. To begin adapting to this new independence, the Taxpayer Advocate Service created a new mission: ***We help taxpayers solve problems with the IRS and recommend changes that will prevent the problems.*** To support this new mission, the Advocate organization clearly articulated new roles and responsibilities for all of its managers/employees:

- To effectively represent the interests of individual taxpayers in disputes with the IRS;
- To quickly and accurately address taxpayer problems when there is a failure of systems, policies or procedures;
- To operate with the utmost independence while continuing to work toward the IRS mission;
- To continuously drive procedural, systemic and legislative changes to benefit taxpayers;
- To effectively communicate with and educate stakeholders and taxpayers to ensure awareness of Advocate services; and
- To solicit feedback from taxpayers and key stakeholders about IRS problems.

Goals, Principles and Objectives

The goal of the Taxpayer Advocate Service is to develop an organization with highly skilled employees who will challenge the IRS to be more customer focused, take a more aggressive and proactive approach to advocacy, and play a larger role in policy development and decisions affecting taxpayers.

During the previous design phase, Phase IIA, a team of managers and employees from across the country reevaluated the Taxpayer Advocate organization structure to ensure that it met the requirements set by Congress and complimented the new design for the IRS. Beginning in October 1999, the Taxpayer Advocate Service received funding to support this restructured organizational design in a separate financial plan, under the centralized control of the National Taxpayer Advocate. This strengthened the independent structure of the National Taxpayer Advocate and ensured that the funds were used solely for the support of Taxpayer Advocate Service program needs and initiatives.

During Phase IIB, which ended in December 1999, the Taxpayer Advocate service had already begun implementation activities. Local site assessment/activation teams, composed of the local Taxpayer Advocate, Compliance Operations and National Treasury Employees Union representatives, were established. These teams ensured that TAS offices received space, furniture and equipment according to national standards. Funding was provided at the national level to fully support this effort. Resources were also provided to increase capacity of the Taxpayer Advocate Management Information System and align the system to the new work processes.

The National Taxpayer Advocate also established a Communications Liaison team to support the organizational transition and develop an effective communications infrastructure. The Taxpayer Advocate Service's communication objectives are to develop and deliver a comprehensive marketing campaign to increase public awareness of the Taxpayer Advocate Service. The Taxpayer Advocate continues to build and maintain a sustainable communications infrastructure throughout the organization, educate Taxpayer Advocate Service employees regarding effective communications, and establish a culture of effective communications among Taxpayer Advocate Service employees.

Taxpayer Advocate Service organizational measures aligned to advocacy, casework and outreach work processes were developed and approved in concept. Groups composed of Taxpayer Advocate Service managers and NTEU representatives are in the process of designing diagnostic tools and reports related to each measure, and are developing implementation action plans.

A comprehensive training program, requiring a substantial commitment of resources, has been developed for delivery in fiscal year 2000. The program includes training in new work processes and procedures as well as in development of required technical competencies, interpersonal communications and leadership skills.

Figure 8-1: Taxpayer Advocate Service Customer Needs

Customer	Customer Needs	Accomplishments	Objectives
Taxpayers	Taxpayers need easy access to the Taxpayer Advocate Service when they experience a problem with IRS that can not be resolved through the normal process. They expect prompt, error-free and fair handling of their tax case. To this end, they need efficient IRS policies, procedures and systems to ensure fair treatment and quality service.	The Taxpayer Advocate has created a new organizational structure and hired employees with increased independence and authority over casework decisions. We have expanded outreach efforts as well as the ability for taxpayers to reach us when they need help. The Taxpayer Advocate's toll-free phone number is now staffed 7 days a week, 24 hours per day. Last year, over 70% of taxpayers who applied for assistance were provided some degree of relief.	The Taxpayer Advocate Service will continue to develop and empower employees who will challenge the IRS to be more customer focused, take a more aggressive and proactive approach to advocacy, and play a larger role in policy development and decisions affecting taxpayers. The organization will increase case quality, with an emphasis on complex cases.
Congress	Congress needs easy access to the Taxpayer Advocate Service and an efficient and fair system for handling constituent tax cases. They expect IRS policies and procedures to be	Working with the operating divisions, Taxpayer Advocate has advocated for various systemic and technical improvements. As a result of recent advocacy efforts, there are	The Taxpayer Advocate will continually make improvements in the Congressional Report process and content. Outreach efforts will include ongoing Congressional staff briefings for

Customer	Customer Needs	Accomplishments	Objectives
	implemented that will enable IRS employees to provide efficient, effective and customer-oriented service to taxpayers. They need annual plans and reports of Taxpayer Advocate Service objectives and accomplishments to assist them in evaluating possible legislative actions.	improved procedures for liens, examinations, penalties, electronic filing, innocent spouse and the offer-in-compromise process. Chief Counsel has also provided the Taxpayer Advocate with a team of experienced lawyers to provide independent legal counsel.	constituent assistance. The Taxpayer Advocate will also continue to monitor the success of new procedures in place to ensure they are resulting in improved service to taxpayers.
Advocate Employees	Taxpayer Advocate employees need high quality systems and communications with operating divisions for efficient interactions on taxpayer cases. They need career opportunities and developmental options both inside and outside the Advocate organization. They also need continuing education to keep them knowledgeable and effective as advocates.	Taxpayer Advocate employees now have an established career path with greater opportunities for those wishing to make a career in the Taxpayer Advocate Service. Training plans have been developed that will provide a high level of expertise in all functional procedures. Orientation training to the new organization has already been completed for many new employees.	The Taxpayer Advocate Service will emphasize delivery of comprehensive training to all employees and actions to enhance the skills and abilities of leaders within the Advocate organization. They will develop a technology and systems improvement plan, including an internet site.
Operating Divisions	The operating divisions need an objective and knowledgeable Advocate staff with strong technical skills in cases involving a dispute with a taxpayer, or to provide relief when standard policies and procedures have failed. They need the Taxpayer Advocate Service to help reach a balance between service to taxpayers and enforcement objectives to ensure all taxpayers are treated fairly within the confines of the law.	The Taxpayer Advocate Service has actively participated in implementation of many Revenue Restructuring Act (RRA 98) procedures. Taxpayer Advocate input has helped to balance the focus of implementation planning. The Advocate's organization has developed and formalized the Taxpayer Equity Committee and serves as sponsor of four regional Citizen Advocacy Panels. Activities of these high profile groups have resulted in many adopted improvements to IRS general programs.	The Taxpayer Advocate Service will clarify guidelines for case acceptance and handling in coordination with the operating divisions. There will be special emphasis to support the work of the Citizen Advocacy Panels and to clarify Taxpayer Assistance Order (TAO) authority. Taxpayer Advocates will be co-located with the operating divisions. Advocacy processes to identify systemic improvements will be identifed as the new operating divisions are implemented.

Organizational Structure

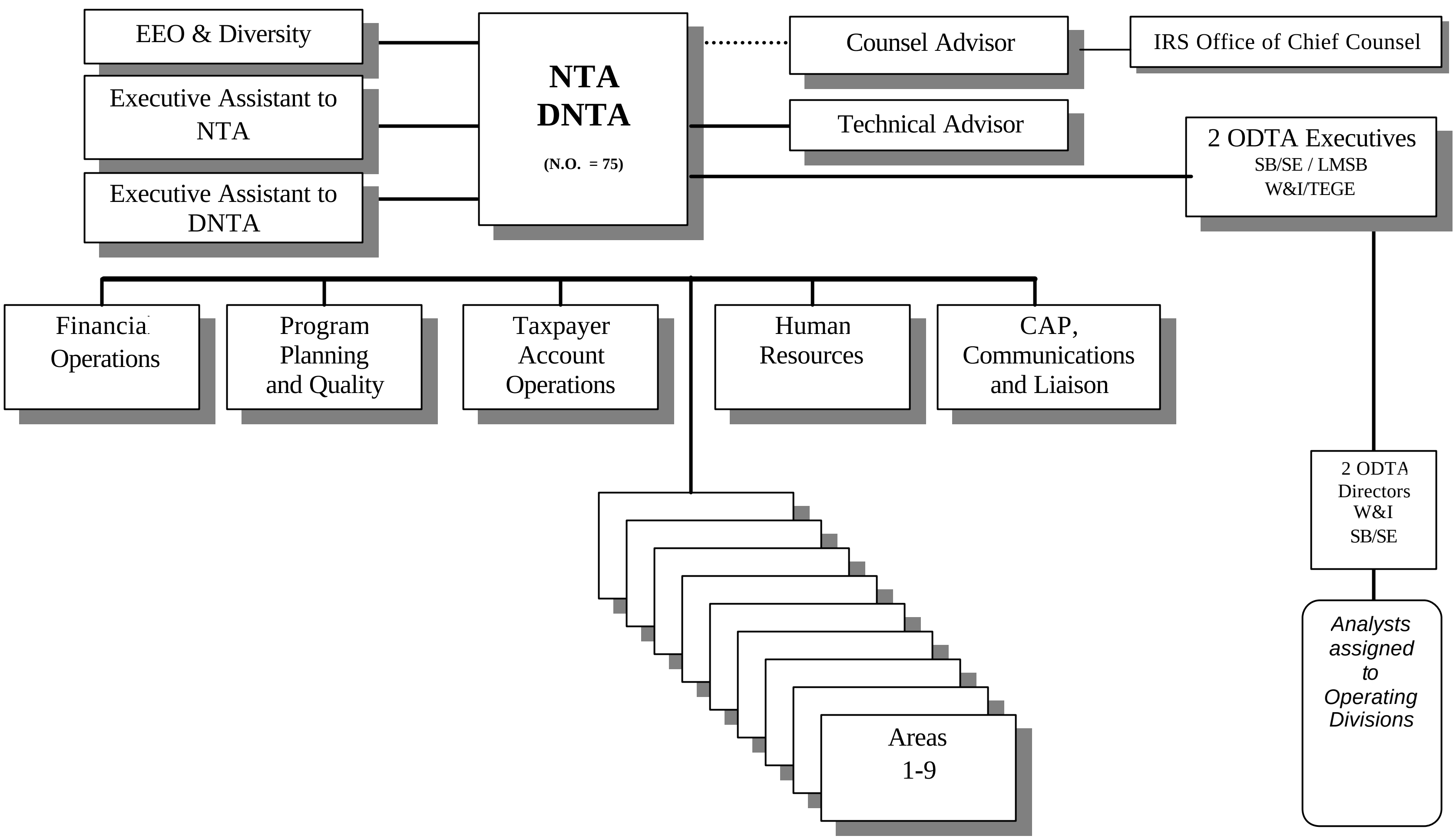
As a result of Section 1102(D) of RRA 98, the Taxpayer Advocates in regions, districts and service centers report to the National Taxpayer Advocate in Washington, DC. To ensure both independence and objectivity on the part of Advocates in dealing with tax-related concerns, in the new Advocate organization, all employees will report directly to the National Taxpayer Advocate (see Figure 8-2). This provides the taxpayers with an independent perspective and ensures that they get a second review.

The Taxpayer Advocate Service will be organized around two major functions: the Casework Function and the Systemic Analysis and Advocacy Function. The Casework Function will be responsible for resolving all individual taxpayer problems that meet Taxpayer Advocate criteria. The Systemic Analysis and Advocacy Function will be responsible for working with the operating divisions to identify systemic problems, analyze root causes, implement solutions and proactively identify potential problems with new systems and procedures. The advantages of the functional structure include:

- Providing clear accountability for advocacy results;
- Ensuring greater consistency of casework;
- Allowing greater flexibility in assigning Advocate resources between offices to cover workload fluctuations; and
- Minimizing the likelihood of Taxpayer Advocate staff being redirected to cover IRS compliance cases.

Figure 8-2 on the next page illustrates this new organization structure.

Figure 8-2: Overall Taxpayer Advocate Organization



Headquarters Casework

The Casework Function will be organized geographically with at least one Taxpayer Advocate in every state and every service center. There will be nine Area Advocates responsible for managing all local Taxpayer Advocates – seven will oversee the local offices and two will oversee the service centers.

To effectively accomplish the casework, three new types of positions have been developed: an Associate Advocate (AA), a Senior Associate Advocate (SAA) and a technical advisor.

<u>Associate Advocates</u> will possess extensive knowledge of individual and employment tax issues, return processing, liability determination and collection procedures. In addition, they will maintain a multifunctional perspective for resolving taxpayers' problems using a holistic approach.

<u>Senior Associate Advocates</u> will possess strong technical, negotiation, interpersonal and conflict management skills. They will have the ability to make independent case judgements and act on decisions. Their focus will be on cases that are more complex.

<u>Technical Advisors</u> will have strong interpersonal, negotiation and technical skills, including substantive knowledge of current tax law, regulations and IRS policies and procedures, comprehensive knowledge of compliance procedures and an understanding of accounting principles and business practices.

All AAs and SAAs will be cross-functional generalists handling problems from taxpayers in all business units. The technical advisors will be members of cross-functional teams. Each geographical area will have at least one team comprised of revenue agents and revenue officers that will handle more complex cases. The three new positions are being filled through a competitive process affording all employees the opportunity to apply. This process will ensure that the Advocate staff has the appropriate knowledge, skills and abilities to serve our taxpayers and it will provide career paths within the Taxpayer Advocate Service organization.

Systemic Analysis and Advocacy

The Systemic Analysis and Advocacy Function will be aligned to operating divisions' Taxpayer Advocates. One Term Executive will be assigned to the Wage and Investment and the Tax Exempt and Government Entities Divisions, and a second Term Executive will be assigned to the Small Business/Self-Employed and the Large and Mid-Size Business Divisions. In addition, Grade 15 Taxpayer Advocates will be assigned to both the Wage and Investment and the Small Business/Self-Employed Divisions.

Taxpayer problems will be classified into "routine" and "complex," with the AAs handling routine problems and the SAAs and Technical Advisors will be responsible for the complex cases. A case will be classified routine or complex based on set criteria; for example, a case with a single issue that can be resolved with standard procedures with no significant hardship would most likely be classified as routine. A case might be classified as complex if there are multiple issues or significant cross-functional issues, if the taxpayer has a dispute with the operating division, or if the taxpayer faces a significant hardship as a result of the IRS action. These specific criteria are currently being refined.

Approximately 2,000 of the 2,300 total Taxpayer Advocate Service staff will be assigned to the Casework Function. The remaining 300 employees will work in the Systemic Analysis and Advocacy Function and the National Office functions.

Geographic Footprint

There will be seven Area Advocates overseeing local offices (located in Manhattan, NY; Richmond, VA; Fort Lauderdale, FL; Milwaukee, WI; Dallas, TX; Seattle, WA; and Oakland, CA) and two Area Advocates overseeing the service centers (located in Atlanta, GA, and Cincinnati, OH). The two Term Executives for the Operating Division Advocates will be co-located with the respective headquarters organizations in New Carrollton, MD, and Atlanta, GA.

Area boundaries were based on the assumption that the majority of cases resolved in local offices will belong to small business, self-employed and supplemental income taxpayers. Area Advocates will be directly responsible for management of two Small Business/Self-Employed areas and the corresponding Wage and Investment areas. City locations were determined based on the location of current regional Advocates, the location of Small Business key states and the need to maintain a service-wide geographic presence.

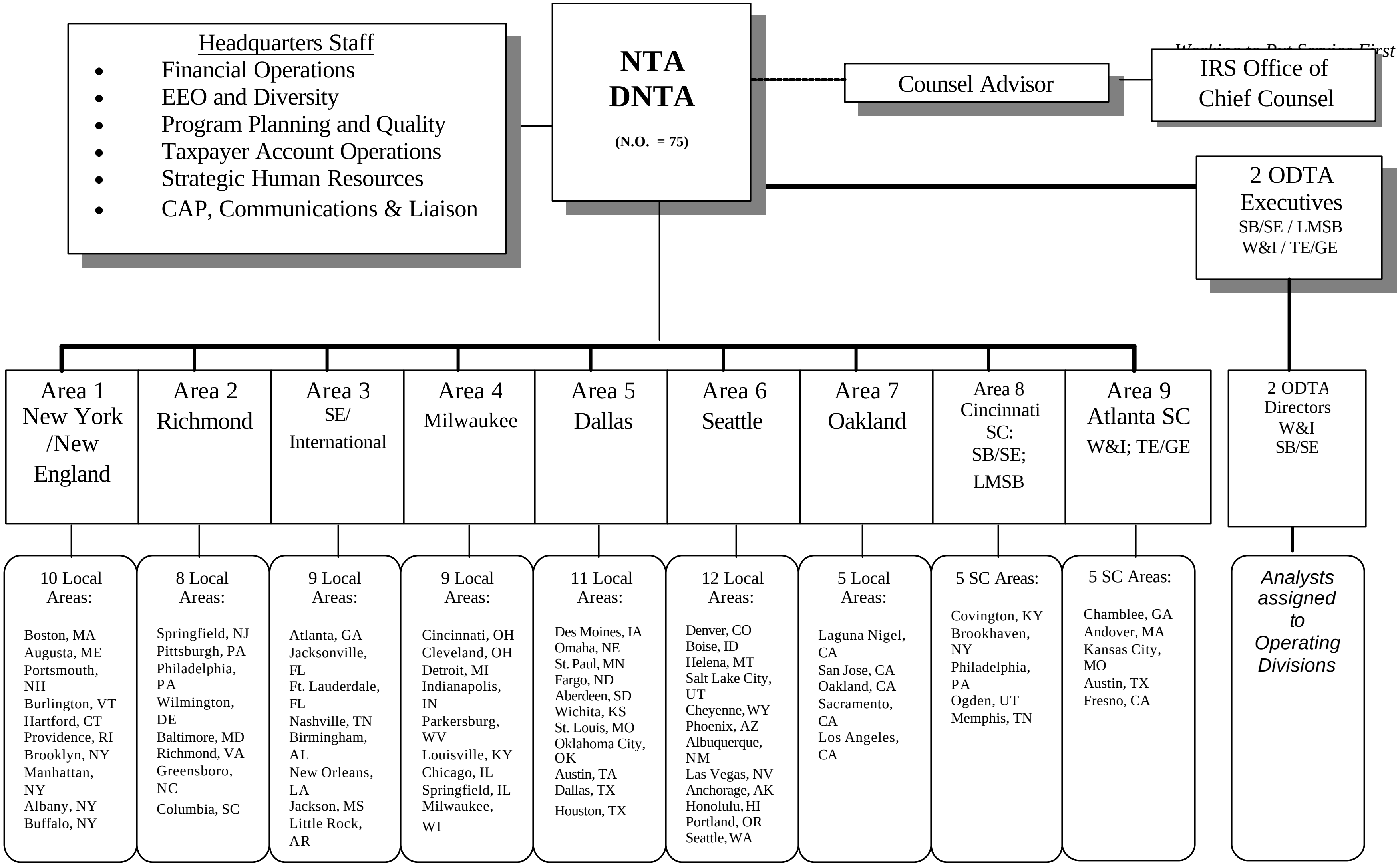
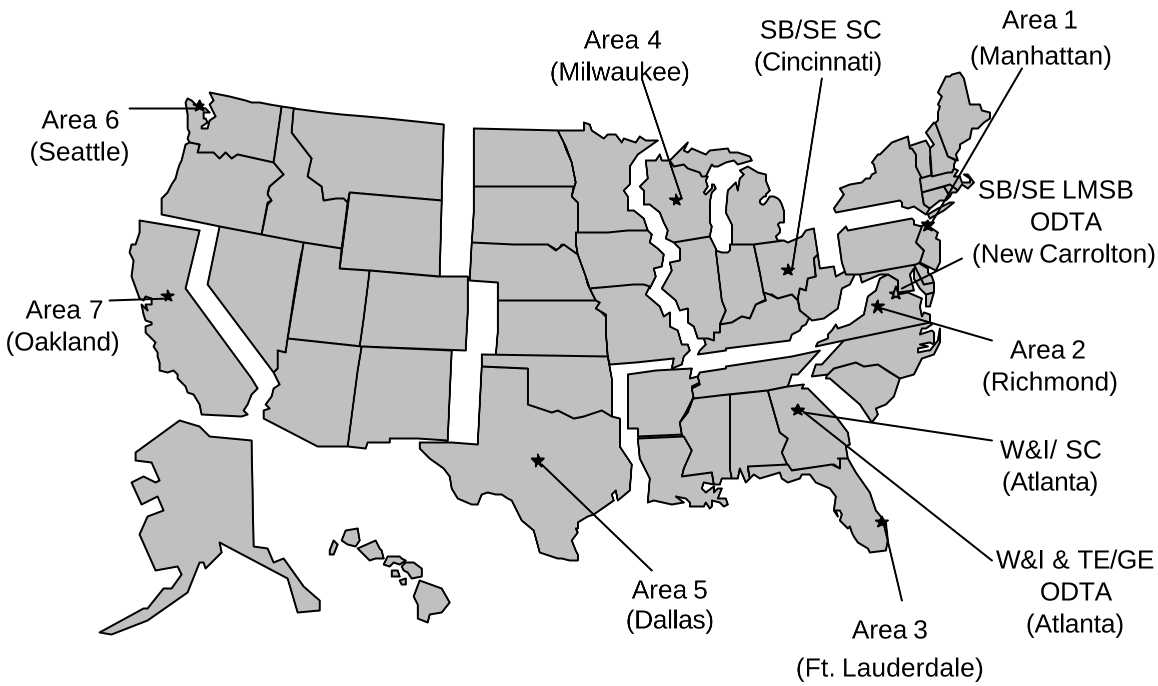

Headquarters Staff
• Financial Operations
• EEO and Diversity
• Program Planning and Quality
• Taxpayer Account Operations
• Strategic Human Resources
• CAP, Communications & Liaison
NTA
DNTA
(N.O. = 75)
Counsel Advisor
IRS Office of Chief Counsel
2 ODTA Executives
SB/SE / LMSB
W&I / TE/GE
Area 1 New York /New England
Area 2 Richmond
Area 3 SE/ International
Area 4 Milwaukee
Area 5 Dallas
Area 6 Seattle
Area 7 Oakland
Area 8 Cincinnati SC: SB/SE; LMSB
Area 9 Atlanta SC W&I; TE/GE
2 ODTA Directors W&I SB/SE
10 Local Areas:
Boston, MA
Augusta, ME
Portsmouth, NH
Burlington, VT
Hartford, CT
Providence, RI
Brooklyn, NY
Manhattan, NY
Albany, NY
Buffalo, NY
8 Local Areas:
Springfield, NJ
Pittsburgh, PA
Philadelphia, PA
Wilmington, DE
Baltimore, MD
Richmond, VA
Greensboro, NC
Columbia, SC
9 Local Areas:
Atlanta, GA
Jacksonville, FL
Ft. Lauderdale, FL
Nashville, TN
Birmingham, AL
New Orleans, LA
Jackson, MS
Little Rock, AR
9 Local Areas:
Cincinnati, OH
Cleveland, OH
Detroit, MI
Indianapolis, IN
Parkersburg, WV
Louisville, KY
Chicago, IL
Springfield, IL
Milwaukee, WI
11 Local Areas:
Des Moines, IA
Omaha, NE
St. Paul, MN
Fargo, ND
Aberdeen, SD
Wichita, KS
St. Louis, MO
Oklahoma City, OK
Austin, TA
Dallas, TX
Houston, TX
12 Local Areas:
Denver, CO
Boise, ID
Helena, MT
Salt Lake City, UT
Cheyenne, WY
Phoenix, AZ
Albuquerque, NM
Las Vegas, NV
Anchorage, AK
Honolulu, HI
Portland, OR
Seattle, WA
5 Local Areas:
Laguna Nigel, CA
San Jose, CA
Oakland, CA
Sacramento, CA
Los Angeles, CA
5 SC Areas:
Covington, KY
Brookhaven, NY
Philadelphia, PA
Ogden, UT
Memphis, TN
5 SC Areas:
Chamblee, GA
Andover, MA
Kansas City, MO
Austin, TX
Fresno, CA
Analysts assigned to Operating Divisions

Figure 8-4: Taxpayer Advocate Areas



Implementation Schedule

The Taxpayer Advocate officially "stood-up" organizationally on March 12, 2000. They have established and competitively filled most of their Executive and top management positions. In additional more than 60% of the technical positions have been filled. Support positions are in the process of being realigned within the Taxpayer Advocate Service. Remaining technical positions will be filled by June 2000.

Chapter 9 Criminal Investigation

Taxpayer Characteristics

Criminal Investigation interacts with the portion of the American public who willfully and intentionally violate their known legal duty of voluntarily filing income tax returns and/or paying their income tax due and owed. This segment includes individuals and businesses who attempt to evade taxes on income earned from legal sources as well as those who launder funds obtained through illegal activities.

Goals, Principles and Objectives

Criminal Investigation's (CI's) mission is to serve the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law.

The goal of modernization is to equip CI with the structures, systems and processes to deliver its mission. CI began its preliminary design phase (Phase IIA) in April 1999 after the conclusion of a comprehensive review led by Judge William Webster. This phase developed the concept of a new Criminal Investigation organization and concluded in August of the same year. From September through December 1999, the CI Phase IIB team refined the recommendations made in Phase IIA.

The challenge of the Phase IIA and IIB design teams was to design a new organization that encompassed many of the law enforcement specific recommendations contained in the Webster Report while ensuring that the redesigned CI would fit into the new vision of the IRS. The design teams worked toward designing an organization that would revitalize CI's mission in tax enforcement and recognize CI's unique role as a law enforcement function within the IRS.

To accomplish this, the Criminal Investigation design efforts were segmented into five areas of concentration:

<u>Headquarters</u>

The Headquarters work established CI's membership in and responsibilities for the IRS Compliance Council and the CI Leadership Team. It refined designs for the Planning and Strategy, Operations Policy and Support, Communications and Education, and EEO functions, including staffing requirements, strategy processes and linkages, and roles and responsibilities. Additionally, it established requirements for the transfer of CI Information Systems staff to the IRS Chief Information Officer.

Lead Development Center (LDC)/Fraud Referral

The LDC/Fraud Referral segment refined the lead development structure and key processes. Major structural components of the LDCs included internal structure, staffing requirements, roles and responsibilities and implementation planning. Key processes included interfaces with task forces, Financial Crimes Enforcement Network (FinCEN) and the operating divisions and methods to select, develop and assign leads. Fraud referral structures and processes were established through working closely with operating division design teams.

Counsel

The Counsel component refined the integrated case management process and the structure for a dedicated Criminal Tax Counsel organization. It designed Counsel review content, interaction processes and external interfaces. It refined Counsel structure, Counsel staffing requirements, deployment and related implementation planning. It also addressed Centralized Case Review in terms of staffing, location and responsibilities in the integrated case management process.

Field

The Field Management design refined field management processes to incorporate direct line authority and defined office requirements including investigative and support staffing levels. The team determined roles and responsibilities, key line management processes and related implementation planning. These efforts will develop the organization's capability to participate in strategy development and execute those strategies in accordance with the IRS National Compliance Strategy.

Refund Crimes

The Refund Crimes team standardized the former Criminal Investigation Branches (CIBs) and incorporated them into the CI organization. This team developed Fraud Detection Center (FDC) internal processes, linkages with Operations Policy and Support, processes for FDC interaction with operating divisions and CI interfaces. It also determined roles and responsibilities, allocated resources to service centers and created implementation plans.

New Operating Model

The Criminal Investigation's newly defined *mission to serve the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law* required a revamped operational model. This new operating model will provide a better focus on tax administration issues, a streamlined investigative review process and an alignment that is more consistent with the U.S. attorney's offices. This new model will help to reduce taxpayer burden and provide more consistency in investigative procedures. In addition, each CI function will have clear lines of authority and greater accountability for their contribution to the mission. The Figure 9-1 represents this new operating model.

Figure 9-1: The New Operating Model Results in Significant Benefits for Taxpayers

CURRENT OPERATING MODEL

Structure

- Geographic
- Functional

People

- Broad mission
- Training emphasis on general law enforcement techniques

Process

- Counsel engaged primarily as reviewer

NEW OPERATING MODEL

Structure

- Geographic
- Functional
- Direct line into Headquarters
- Centralized lead development

People

- Clear focus on tax administration
- Focus on taxpayer needs
- Alignment of field offices consistent with U.S. Attorney offices
- Enhanced tax administration training

Process

- Counsel engaged throughout investigative process
- Streamlined investigative review process

BENEFITS TO TAXPAYERS

- Consistency
- Accountability
- Clear lines of responsibility
- Reduced taxpayer burden

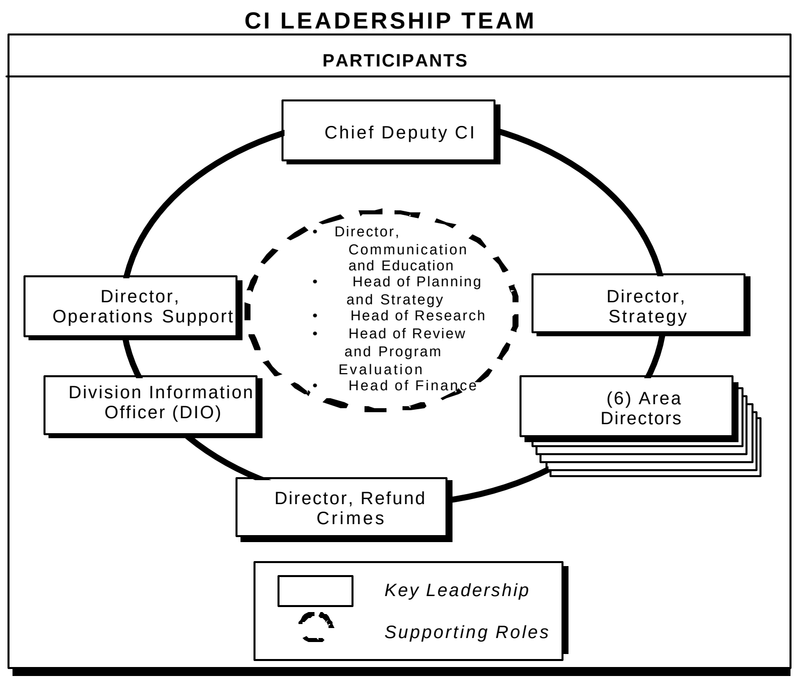
BENEFITS TO OTHER STAKEHOLDERS

- Single point of contact for other law enforcement agencies

Senior Management Team

The concept of a CI Senior Management Team is designed to ensure that all components of the new organization understand their role in achieving the mission. In addition, each senior team member will work with other functions and within CI to ensure that the overall strategy is being accomplished. Members of the CI Leadership Team will include the Chief CI, Mark Matthews and the Deputy Chief CI, Dennis Crawford; six (6) Area Directors; the Directors of Strategy, Operations Policy and Support, and Refund Crimes; and CI's Division Information Officer. The Figure 9-2 represents the relationships between each member of the CI senior management team.

Figure 9-2: CI Senior Management Team



COORDINATION REQUIREMENTS

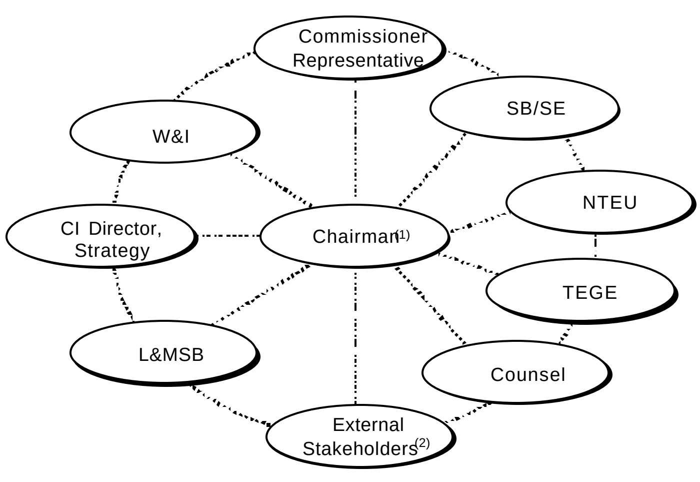
- Establish high level policies and procedures and ensure consistent deployment of CI's operations
- Ensure CI information systems support and priorities align with CI priorities and IRS National Compliance Strategy
- Support development of CI priorities
  - Used by Compliance Council when setting IRS National Compliance Strategy
  - Used by CI organization to focus efforts and allocate resources
  - Adjusted as needed to ensure alignment with IRS National Compliance Strategy
- Implement IRS National Compliance Strategy and CI priorities within CI
  - Tailor strategy and priorities to account for regional differences
  - Ensure sum of regional strategies aligns with IRS National Compliance Strategy and CI priorities
- Develop and coordinate implementation plans
- Evaluate implementation progress and program effectiveness

In addition to ensuring that the CI Senior Management operates as a cohesive, unified team, CI must also work closely with other functions within the IRS. For example, the Webster Review recommended that Counsel become an integral part of the criminal investigation process. In response to Webster's recommendation, Chief Counsel will establish a division with attorneys dedicated to CI. Criminal Tax (CT) Counsel will be a line organization which will report directly to Criminal Tax National Office. Criminal Tax attorneys will partner with CI throughout the criminal investigation process. Their legal expertise will ensure proper case development and timely identification of case weaknesses in tax and money laundering investigations.

In addition to establishing a stronger partnership with the Counsel organization, the new CI organization will also play an integral role in the development and implementation of an IRS National Compliance Strategy. An IRS Compliance Council composed of key internal and external compliance stakeholders, including CI's Director of Strategy, will establish the strategy. Participation of internal stakeholders (e.g., operating divisions) and external stakeholders (e.g., US Attorneys, DOJ Tax Division, other law enforcement agencies) will play a key role in CI's ability to manage case mix and ensure prosecution of successful investigations. Figure 9-3 represents CI's involvement in the development/delivery of an overall IRS Compliance strategy.

Figure 9-3: IRS Compliance Council

COMPLIANCE COUNCIL MEMBERSHIP



(1) Chairman role will rotate on an annual basis
(2) EOUSA , Dept. Of Justice, Treasury Enforcement

COMPLIANCE COUNCIL ROLES AND RESPONSIBILITIES

- Ensure a strategic, coordinated approach to compliance issues, programs, and systems throughout pre-filing, filing, and post-filing efforts
- Address cross-cutting / national Service-wide compliance issues with multiple compliance solutions
- Identify strategic cross-functional issues and Service-wide priorities
- Conduct high level performance reviews of strategic compliance initiatives
- Determine Service-wide staffing and budget allocation according to strategic priorities
- Ensure external stakeholder support of Service-wide compliance initiatives and priorities

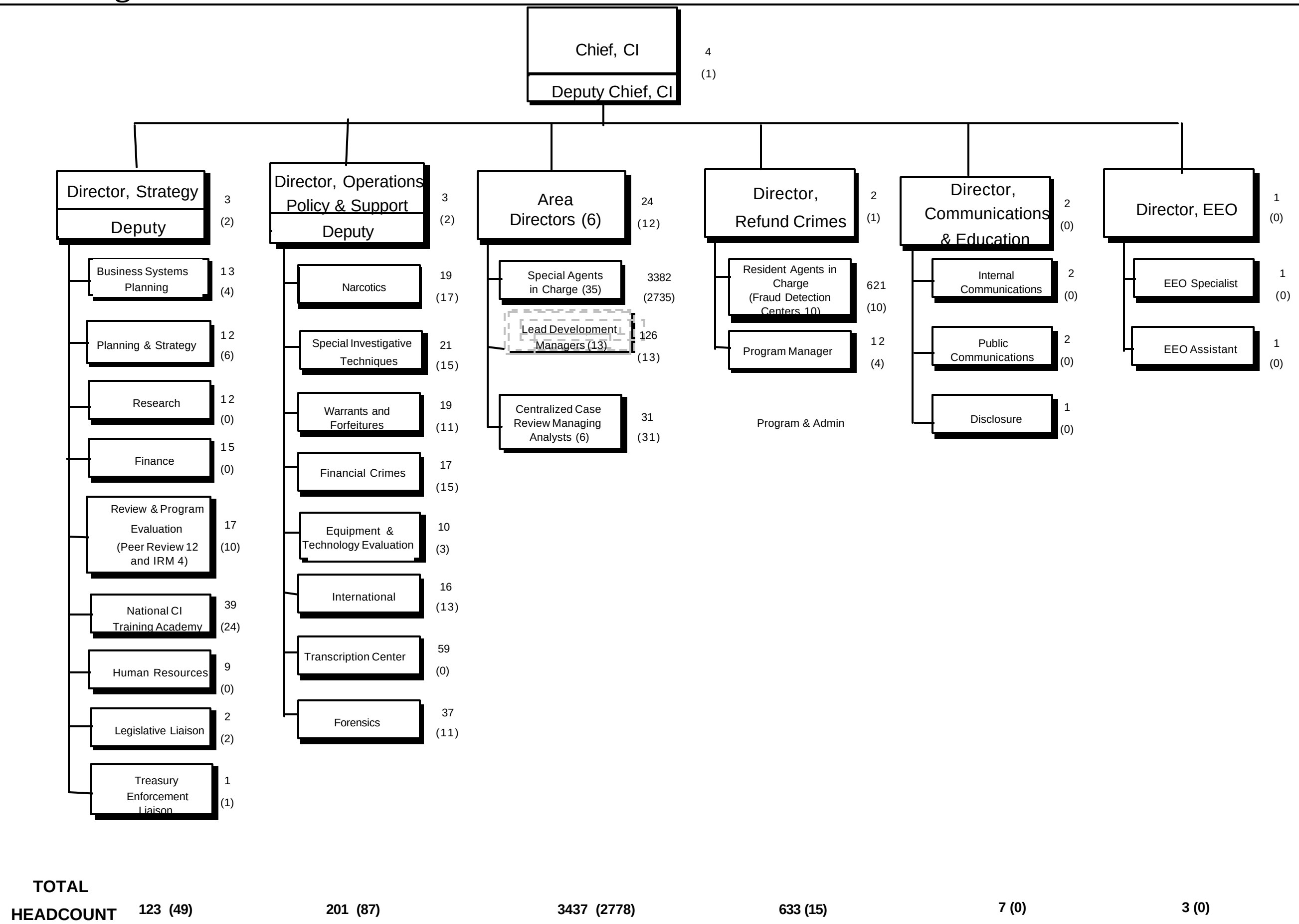
Organizational Structure

Criminal Investigation's (CI's) mission is to serve the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law.

In the modernized IRS, the Chief CI will report directly to the IRS Commissioner and CI will have direct line authority over all CI employees. As a result, there will be significant changes to both CI headquarters and the field management structure and processes.

CI headquarters will add Strategy, Refund Crimes and EEO functions. There will also be changes within the Operations Policy & Support and Communications functions to ensure clear lines of authority. Roles, responsibilities and processes will also be changed to support the modernized CI and IRS objectives.

Figure 9-4: CI Organizational Structure



GRAND TOTAL: 4408 (2930)

Note: # 1811s in parentheses

Note: Total numbers exclude Lead Development Managers and employees pending transfer to IS

Note: Grade and FTE levels are subject to position classification, final staffing alignment and budgetary constraints. Division HQ staffing (e.g. HR, Finance, Strategic Planning, etc.) remains subject to review against the final design of National Office HQ (e.g. Strategic Planning and Budget).

Strategy

The Strategy organization's primary role is to develop, support and measure CI's business plans and priorities to ensure successful implementation of a national compliance strategy. In addition to providing support to CI on strategic objectives, this staff will be responsible for other support activities including: resource allocation programs, Human Resources initiatives and Communication and Liaison activities. Some of these duties include:

<u>Strategy</u>

- Representing CI on the National Compliance Council.
- Providing strategic linkage to the operating divisions and external stakeholders.
- Leading the development of local implementation plans.
- Developing and supporting CI programs and action plans to deliver strategic objectives.
- Serving as the link between the CI organization and the dedicated CI group within Information Systems.
- Providing Servicewide input and support regarding fraud prevention through tax administration policies and procedures.
- Researching criminal compliance issues to support the development of strategic priorities and improve operational effectiveness.
- Reviewing all aspects of CI operations to ensure alignment with the National Compliance Strategy and compliance with IRM standards.

<u>Resource Allocation</u>

- Developing and administering the CI budget according to national priorities.

<u>Human Resources</u>

- Implementing IRS Strategic Human Resource programs and supports CI specific human resource needs.
- Developing and delivering CI law enforcement training consistent with national compliance strategy.

<u>Communication and Liaison Activities</u>

- Representing the CI perspective to Congress, by working with the IRS Communication and Liaison function.
- Monitoring and assessing changes to law enforcement policies and initiatives affecting CI and Treasury through

liaison with law enforcement counterparts and Treasury Executives. Coordinates implementation of Treasury law enforcement policies and special programs within CI.

Operations, Policy and Support

The Operations, Policy and Support organization provides policy and direction on various programs related to law enforcement actions taken by CI. Some of these responsibilities include:

- Providing policy, direction, oversight and support to the field offices relating to the narcotics program.
- Developing, directing and overseeing the use of special investigative techniques in CI matters.
- Providing policy, direction, oversight and support to the field offices relating to seizures, forfeitures, protective services and law enforcement actions. This includes oversight of the CIS Program and the fugitive programs (TECS/NCIC).
- Providing policy, direction, review, oversight and support to the field offices on tax, narcotics and money laundering programs.
- Ensuring proper investigative equipment is selected for and in support of the field and oversees the national radio program.
- Setting policy and facilitating the acquisition of evidence from foreign countries.
- Providing support in the input and processing of evidence for the field operations.
- Providing scientific processing of evidence in support of field operations.

Area Directors

Area Directors support the National Compliance Strategy through the investigation of potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system. These Area Directors are responsible for managing field CI staff that are responsible for:

- Planning, developing, directing and implementing a comprehensive criminal investigation program that enhances compliance, ensures consistency in taxpayer treatment and continuously improves business systems and processes.

- Investigating tax and other financial crimes.
- Linking with the operating divisions to stimulate the referral of legal source tax cases and helping ensure these cases are developed into quality referrals.
- Supporting the operating divisions' fraud coordinators who are responsible for assessing information for criminal potential developed as part of a civil case worked by revenue agents, office auditors or revenue officers.
- Providing protection and protective escort services to personnel from the operating divisions.
- Using appropriate investigative techniques for quality case development, including telephone and non-telephonic monitoring, undercover operations, wiretaps and search warrants.
- Maintaining a positive relationship with the US Attorney offices to ensure the prosecution of tax and money laundering cases and to facilitate the development of additional cases.
- Supporting the US Attorney offices through assistance with pre-trial preparation and assistance in the investigation of tax and money laundering cases.
- Maintaining relationships with other law enforcement agencies to facilitate the identification and development of additional tax cases and to obtain their assistance in the investigation of tax and/or money laundering cases.
- Supporting the Secret Service by supporting protection services as required.
- Ensuring prosecution recommendations meet legal sufficiency, accuracy and consistency through the centralized case review process.
- Promoting the effective use of resources by using the Lead Development Centers to do database research on initial primary investigations and ensuring that leads align with the IRS's National Compliance Strategy and associated CI priorities.
- Interfacing with and obtaining legal advice from Counsel's Criminal Tax Attorneys on all investigations from initiation through prosecution.
- Supporting the Organized Crime and Drug Enforcement Task Force (OCDETF) by participating in multi-agency investigations of high-level drug traffickers.

- Supporting High Intensity Drug Trafficking Area (HIDTA) initiatives by working with other federal, state and local law enforcement agencies to investigate drug traffickers.
- Ensuring employees are adequately trained in law enforcement practices, investigative techniques and all criminal statutes within CI's jurisdiction.

Refund Crimes

In support of the overall IRS Mission, Refund Crimes detects fraudulent returns and prevents issuance of related false refunds and supports the mission of Criminal Investigation field operations relative to tax administration and related financial crimes, in order to achieve, directly or indirectly, voluntary compliance with the Internal Revenue laws. These activities include:

- Continuing to detect refund fraud and identify prevention measures, including the coordination of special runs against the Master File and expanded use of secondary databases in scheme development. Providing the training necessary to ensure continued support of the program.
- Implementing and supporting national fraud programs.
- Managing the Electronic Fraud Detection System that supports the fraud detection and prevention program. Providing field operations with support as it relates to service center activities.
- Coordinating with CI Strategy Organization (Tax Administration Advisory Group) and Electronic Tax Administration on criteria for monitoring e-file program participants and their ERO (Electronic Return Originator) related support.
- Coordinating with the operating divisions and CI Field to expand their use of the Electronic Fraud Detection System.
- Expanding investigations into BMF-based refund fraud schemes.
- Expanding collaboration with CI Field on refund fraud scheme development.
- Communicating and educating Service Center personnel on fraud awareness and detection.
- Ensuring employees are adequately trained on fraud detection processes and necessary criminal statutes.

Communications and Education

The Communications and Education staff is responsible for:

- Designing, developing and disseminating CI's internal and external communications and education activities.
- Linking with operating divisions and national communications groups to integrate and coordinate communication programs.
- Compiling field level communications activities into targeted educational tools.
- Communicating significant media-related activities to the Chief, CI.
- Coordinating disclosure matters relating to CI.

Equal Employment Opportunity (EEO)

CI will have a dedicated staff that establishes and implements EEO policies, procedures and programs for the entire organization in conformance with overall Service guidelines. This staff will also perform various tasks including:

- Establishes and implements EEO policies, procedures and programs for CI in conformance with overall Service guidelines.
- Serves as CI representative on the EEO and Diversity Counsel.
- Provides training to the CI staff on EEO and Diversity related matters.
- Assists and advises the Chief, CI; Deputy Chief, CI; CI Headquarter Directors; Area Directors; Special Agents in Charge; Assistant Special Agents in Charge; and managers in planning, implementing and reviewing organizational programs.
- Prepares reports and conducts analyses on work force related trends and actions within CI.
- Establishes functional policy on reasonable accommodation in conformance with Servicewide policy and ensures that it is appropriately implemented.

Changes to Existing Organization

There are seven major changes in the way CI will operate.

Compliance – CI will increase focus on a coordinated strategy through establishment of a Strategy organization within CI and the creation of an IRS Compliance Council involving all key internal and external stakeholders.

Direct Line Authority – Criminal Investigation will have direct line authority over all CI employees, and the Chief will report directly to the Commissioner, IRS. This will impact both field management and Fraud Detection Centers (FDC, formerly CIB). FDCs will now be fully aligned with CI to better support their criminal function.

Lead Development Centers (LDC) – LDCs will be a part of the Area Director's staff. They will serve as a resource to the field by performing database analysis, developing leads to the level required for Primary Investigation (PI) assignment and reviewing leads for alignment with the IRS National Compliance Strategy. The Lead Development Manager (LDM) will work with field management to assign Primary Investigations to CI groups for investigation.

Fraud Referral – Both structural and process changes will be established in the operating divisions to revive the referral program. Both CI and operating division resources will be dedicated to fraud at key organizational levels. Formal educational, referral and feedback processes will be established.

Field Management – Review and approval processes will be streamlined to align accountability with responsibility. Field resource requirements and deployment will be finalized. Roles and responsibilities will be established to support key processes, including Integrated Case Management.

Counsel - There will be a Criminal Tax (CT) Division with attorneys dedicated to CI. CT will be involved with CI at critical touch points to provide timely legal assistance and foster an effective partnership. These touch points include case initiation, group visitations, pre-referral assistance, special investigative techniques, summons enforcement and SAR review.

Information Systems – ACI and most computer-related support will be transferred to Information Systems organization with Business Systems Planning responsibilities remaining in CI. Design efforts are underway to ensure the new design continues to support CI service level and security requirements.

Geographic Footprint

The majority of CI's front-line field employees will be at the same location doing the same job. However, CI field management structure will be changed to align with the new IRS footprint, and review and approval processes will be streamlined to align accountability with responsibility.

Six (6) Area Directors will report directly to the CI Chief/Deputy and will be responsible for all CI activity in a given geographic area. Area Directors will have direct line authority over 3-6 Centralized Case Reviewers (CCR), 5-7 Special Agents in Charge (SAC's) and the Lead Development Centers (LDC's) within their areas. In addition, Area Directors will be the key interface with their operating division counterparts to ensure an effective Fraud Referral Program.

Thirty-five (35) SACs will have direct line authority over Group Managers (GMs) and will be responsible for all CI activity in a given geographic territory. Seventeen (17) territories will also utilize a total of twenty (20) Assistant Special Agents in Charge (ASACs). Thirteen (13) of these ASAC's, in territories consisting of between 6 and 11 GMs, will serve as deputies to the SAC. In the three major metropolitan cities (Los Angeles, New York, and Chicago) where 13 - 20 GMs belong to a given territory, 2-3 ASACs will serve as a management layer between the SAC and GMs. Group Managers will maintain an average span of control of 10-12 Special Agents. Special Agents will use Title 26, Title 18 and Title 31 Criminal Statutes to investigate tax fraud and money laundering violations involving both legal source and illegal source income.

The new CI organization will have direct line authority over the Fraud Detection Centers (FDC, formerly CIB). Each FDC will have a manager, known as the Resident Agent in Charge (RAC), who will report to the Director, Refund Crimes. Each RAC will have a seat on the respective Service Center Council and will participate with Service Center management to coordinate efforts and set priorities. FDC's will be geographically deployed to maintain a local CI presence at each Service Center.

Figure 9-5: Area Director/Special Agent-in-Charge Location Summary

AREA DIRECTOR LOCATIONS	SPECIAL AGENT IN CHARGE LOCATIONS	
Philadelphia, PA	*Boston, MA*	*Springfield, NJ*
	New York, NY	*Philadelphia, PA*
	Buffalo, NY	*Pittsburgh, PA*
Baltimore, MD	*Cincinnati, OH*	*Detroit, MI*
	Baltimore, MD	*Cleveland, OH*
	Charlotte, NC	*Louisville, KY*
	Alexandria, VA	
Atlanta, GA	*Tampa, FL*	*New Orleans, LA*
	Plantation, FL	*Atlanta, GA*
	Nashville, TN	
Chicago, IL	*Chicago, IL*	*Minneapolis/St Paul, MN*
	Milwaukee, WI	*St. Louis, MO*
	Indianapolis, IN	
Dallas, TX	*OK City, OK*	*San Antonio, TX*
	Dallas/Ft. Worth, TX	*Las Vegas, NV*
	Houston, TX	*Denver, CO*
		Phoenix, AZ
Los Angeles, CA Metro Area	*Seattle, WA*	*Los Angeles, CA*
	Portland, OR	*San Diego, CA*
	San Francisco/Oakland, CA	

Figure 9-6: Criminal Investigation Implementation Plan

Implementation Schedule

The stand-up for the new Criminal Investigation organization is scheduled for June 2000. A pilot Lead Development Center will be launched in mid-2000 to refine processes and capabilities. The pilot will be followed by full-scale implementation over the next two years. The timing of the transfer of IS support is still being determined.

	1999		2000		
Stand Up	**3rd Qtr**	**4th Qtr**	**1st Qtr**	**2nd Qtr**	**3rd Qtr**
Chief Selected		▲			
Deputy Chief Selected			▲		
Personnel Actions					
All SES Selected				▲	
SACs and HQ Mgt Selected				▲	
ASACs Selected				▲	
Realignments				▲	
Commissioner's packet signed				▲	
Notice 1				▲	
Notice 2				▲	

Chapter 10 Shared Services

Customer Characteristics

The Agency Wide Shared Services (AWSS) Support Organization serves over 98,000 IRS employees directly and all taxpayers indirectly. The employees served are located in over 700 different locations across the country, from service centers where thousands work to small posts-of-duty. AWSS provides administrative services, such as agency-wide procurement, printing and publication of internal and taxpayer forms and documents, design and execution of space moves, processing of vacancy and promotional application packages, support to management and the National Treasury Employees Union (NTEU) during grievance processes and ensuring that each IRS employee receives a timely paycheck each pay period.

Goals, Principles and Objectives

The AWSS vision for the future supports the operating divisions in providing world class service to America's taxpayers. In turn, AWSS will provide world-class customer service to its internal customers – IRS employees. While we work toward our future vision, our short-term priority is to provide all of the support required for the transition to the new operating division structure while continuing to meet the day-to-day operational business needs.

Phase IIA: Developing the vision

The guiding principles of the AWSS design focused on providing best-in-class products and services using a business enterprise model. Under this model, AWSS will strive to become the provider of choice for administrative services, offering services that our customers value, identifying and deploying best practices quickly and providing an environment where work is rewarding and employee satisfaction is high.

The key results in developing this new structure include:

- A decision to align by service delivery function to create professional communities;
- Ensuring proactive customer relationship management at all levels in the organization.

Phase IIB: Designing the Organization

The Phase IIB Design built from the earlier Phase IIA design work and developed the organizational components required for the new AWSS. The team analyzed each functional area's requirements and designed the organization's footprint and reporting structure.

Senior Management Team

The senior management team will work together to make the AWSS vision a reality. During Phase IIB, the AWSS Senior Management Team was selected:

- Bill Boswell became the Chief, Agency Wide Shared Services;
- Greg Rothwell was selected as Deputy Chief, Agency Wide Shared Services.

Additionally, the executives for each functional area were selected:

- Tom Liberti will head the Facilities organization;
- Rich Cronin will lead the Personnel Services organization;
- Jim Williams will run the Procurement organization;
- Thelma Harris was chosen to head EEO Field Services;
- Steve Kunze will be the Director of Finance – which includes managing the entire AWSS budget.

This dedicated team will work to provide the best service to AWSS employees – striving to exceed customer expectations. To ensure coordination across operating divisions, the Chief, AWSS will sit on the Commissioners' Senior Management Team, forging relationships with the customer operating and functional divisions.

Business Enterprise Model

Figure 10-1 illustrates the key elements for the new AWSS business model.

Figure 10-1: Key Elements of the AWSS Business Model

ELEMENT	DESCRIPTION/PURPOSE
Portfolio of Services	• A standardized definition of each service offered will establish clear expectations for service delivery with the customer • Establishes the "product" mentality within Shared Services that all products will evolve and improve • Represents groupings of like services to create synergies
Service Level Agreements / Memos of Understanding	• Establishes clear expectations with customers on the quantity, quality, location and price of services to be provided • Forms a plan that can be managed by both parties • Establishes accountability • Provides a multi-year phased approach, starting with a Memo of Understanding
Governance	• Establishes strong linkages to operating divisions at various levels • Enables services to be planned and developed with customer feedback
Customer Relationship Management	• Provides operational linkage with customer base • Creates an advocate for the customer • Enables cross-functional coordination when necessary—builds a team approach

While each element is important, two (Service Level Agreements/Memoranda of Understanding and Governance) are of primary importance to customer engagement and satisfaction.

Service Level Agreements

Service Level Agreements (SLA) / Memoranda of Understanding (MOUs) will improve customer satisfaction by clearly establishing the expectations of both the customer and the service provider and by providing a mechanism for ensuring accountability.

MOUs will be the forerunner to SLAs, starting the process with a phased approach. As additional information on customer expectations and service delivery is collected and tracked, MOUs will evolve into fully-functioning SLAs.

Governance

In order to create a market-based partnership between the operating divisions and service providers, AWSS will operate in a governance system. The proposed governance system provides strategic and tactical linkages to our customers.

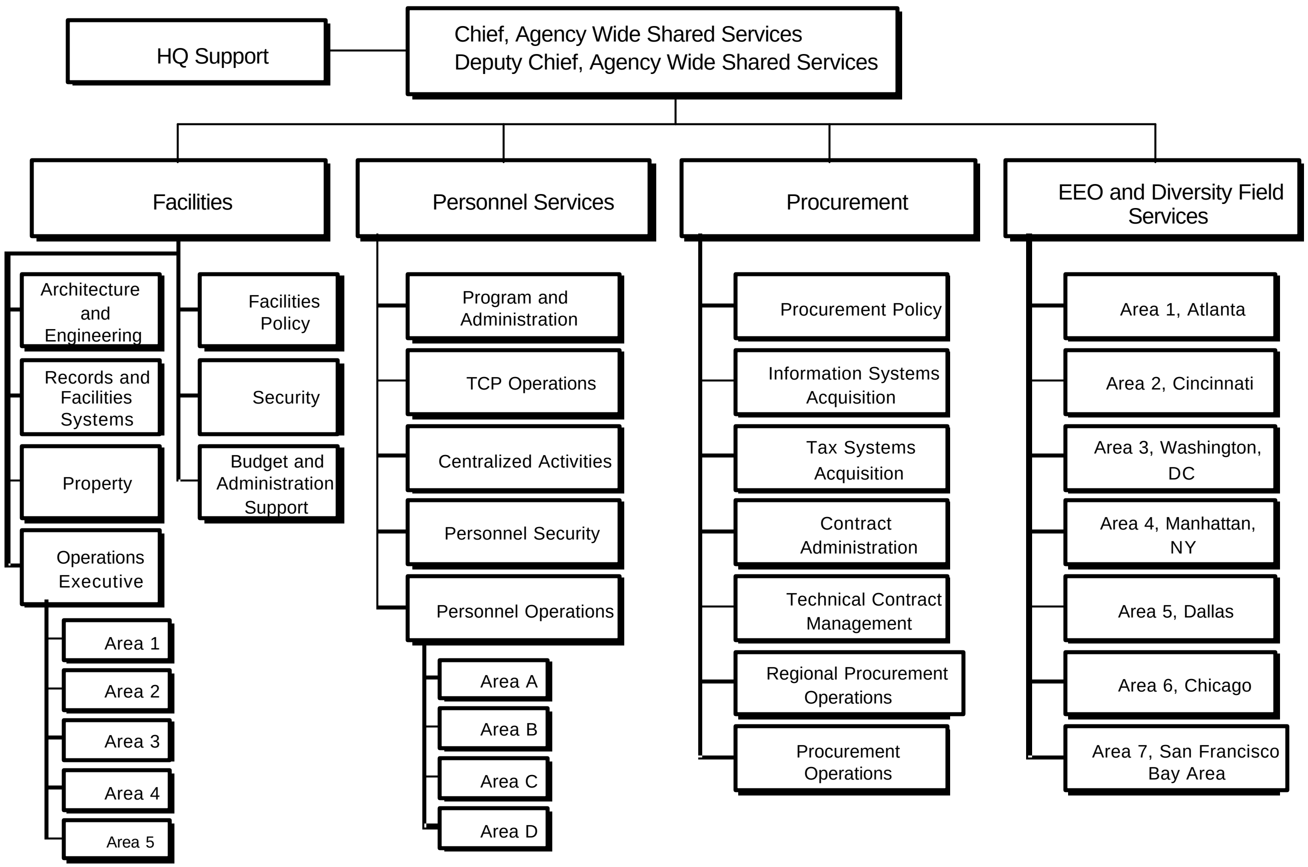
Proposed Governing Entities

- Governance Board: Comprised of each of the operating division heads, this group focuses on broad direction setting for AWSS. Example: Implementing a new Servicewide initiative in Facilities
- Geographic Councils: These councils will resolve a broad range of local issues, including those connected to AWSS functions. These may include Facilities issues (e.g., allocating space in a building shared by two operating divisions) or Personnel issues (e.g., coordinating a large-scale hiring)

AWSS Organization Structure

The new AWSS organization will be functionally aligned by service delivery area (See Figure 10-2). This will provide clear lines of authority, focus on improving program delivery, enable accurate cost management and provide customer focus and accountability.

Figure 10-2: AWSS Organizational Structure



Each of the functional service groups will be organized to meet customer needs and enable efficient and effective service delivery. Generally, Facilities Management will be functionally aligned and geographically distributed. Personnel Services will generally be aligned by customer with each operating division assigned a personnel office to coordinate services. Procurement will continue to deliver its services as a single, nationally focused organization. EEO field delivery has a geographic footprint covering the entire country.

Some components that will be functionally aligned but centralized include, Architect and Engineering, Worker's Compensation, Employee Tax Cases and Wage Garnishments. Procurement will generally be functionally aligned and centralized.

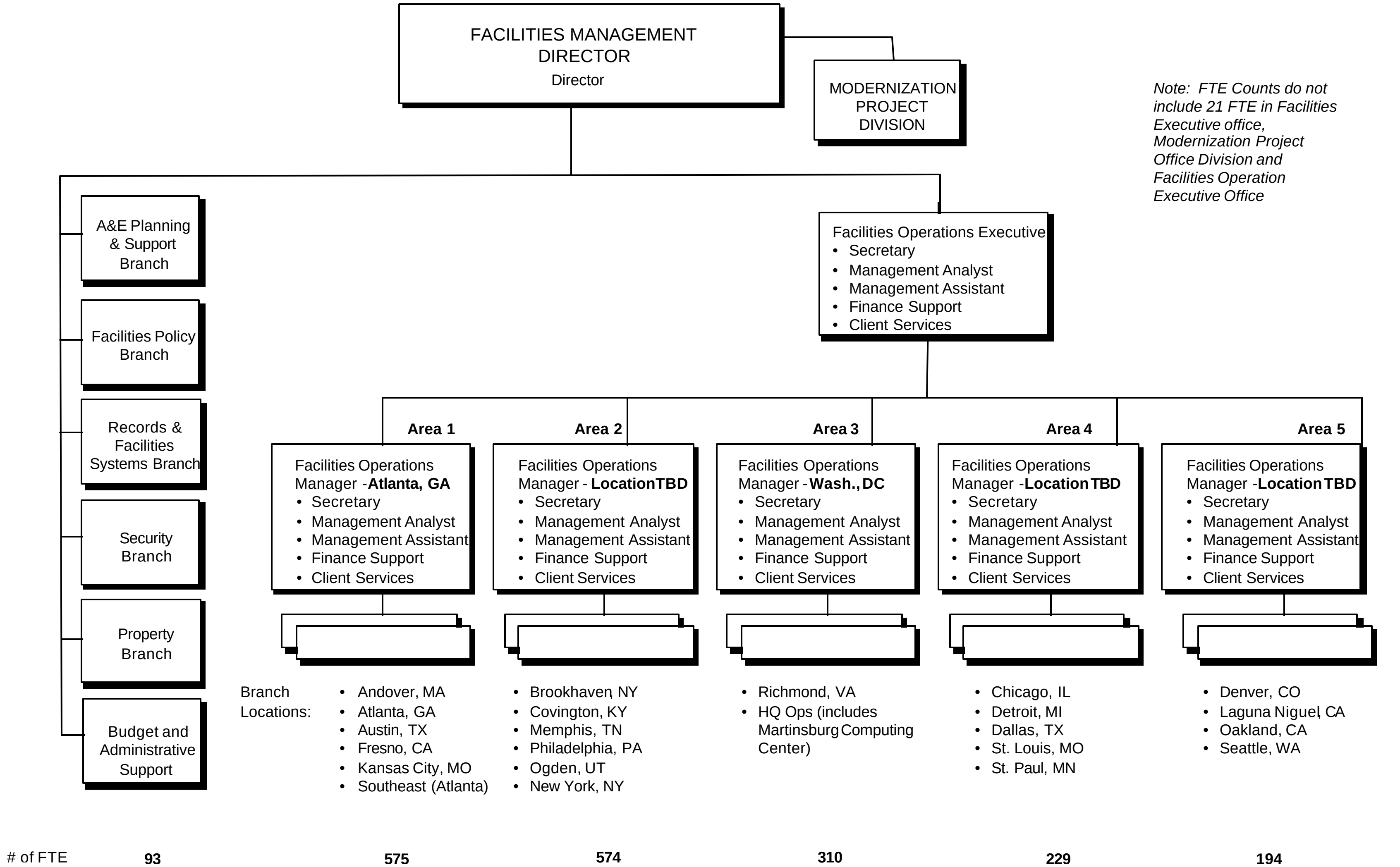
Facilities

The Facilities organization will provide best in class Facilities services to all customer segments. The new organization will merge the existing national organization and the field delivery structure into a single, cohesive organization. Program decisions and field delivery will be closely tied together, providing a unified structure to provide facilities services.

Figure 10-3 depicts the Facilities organization structure. The A&E (Architecture & Engineering) Planning and Support, Facilities Policy, Personal Property, Security and Records & Facilities Systems Branches are program-specific branches developing policy and procedures for implementation by the branch-level operating functions. These branches have common program management and oversight responsibilities. These responsibilities include:

- Consulting and advising on Servicewide policy and program issues for top-level management; evaluating program effectiveness and economy and initiating improvements as indicated;
- Planning, coordinating and establishing operating methods and procedures for the accomplishment of Servicewide programs;
- Developing and maintaining policy relating to standards and guidelines for program-related operations;
- Planning, developing, promoting and establishing standards and guidelines to carry out the scope and mission of the program(s).

Figure 10-3: Facilities Organizational Structure



These branches, along with the Modernization Project Office, also have program specific roles and responsibilities.

- **Modernization Project Office:** Develops program policies and objectives to guide Servicewide implementation of Facilities programs supporting the IRS Modernization effort;

- **Architecture & Engineering Planning and Support:** Executes and administers contracts for Architecture & Engineering services, facilities planning and relocation management services;

- **Facilities Policy:** Advises, reviews and supports IRS Headquarters, management and field locations in real estate related activities including acquisition, utilization, control, transfer and disposal of real estate;

- **Personal Property Branch:** Advises and assists the Headquarters Office and field locations in the purchase, distribution, utilization, control, transfer and disposition of property. Defines employee responsibilities for properly using and effectively managing Government property issued to them or included within their jurisdiction;

- **Security Branch:** Develops and implements Servicewide physical security policy and procedures;

- **Records and Facilities Systems Branch:** Manages the Servicewide Records program, develops new records control schedules and reviews existing schedules transfers permanent records to NARA;

- **Budget and Administrative Support Branch:** Establishes financial policies, procedures and controls for Facilities Management. Formulates and manages the IRS rent budget; reviews, approves and obligates funds for payment on all IRS real estate transactions;

- **Field Operations:** Delivers Facilities services to the IRS community, including Real Estate Management, Property Management and Physical Security.

The field delivery structure for Facilities is separated into five areas each managed by an operations manager. Facilities Management for the Service Centers was grouped together in recognition of the common issues specific to this environment. This placement will allow each operation manager to focus on his or her customer division. The remaining three areas are arranged on a geographical basis. New customer advocate positions at the Area level and at the Executive level will be a critical liaison to customers. Customer advocates will work on a range of issues, from assisting a division in its overall Facilities planning to coordinating specific projects.

Personnel

The Personnel Services organization will provide best in class personnel services efficiently and effectively to all customer segments. This organization will be responsible for all labor/employee relations, employment and transactional processing (e.g. Payroll) of personnel services. Policy issues will be handled outside of AWSS by Strategic HR.

Generally, Personnel Services will be aligned to customer divisions with each personnel office serving one or more operating divisions. (See Figure 10-4.) This alignment will help to direct each office's focus to specific customer needs. From a customer standpoint, a single point of contact for Personnel Services will allow close coordination of service delivery and issue resolution.

The personnel services organization contains multiple functions at the headquarters, plus the field operations where the majority of resources exist.

- **Director, Personnel Services:** Overall accountability for the entire Personnel Services Organization. The organization will have management and oversight responsibility for the TPC Operations, Centralized Activities, Personnel Security and Program Management and Administration;

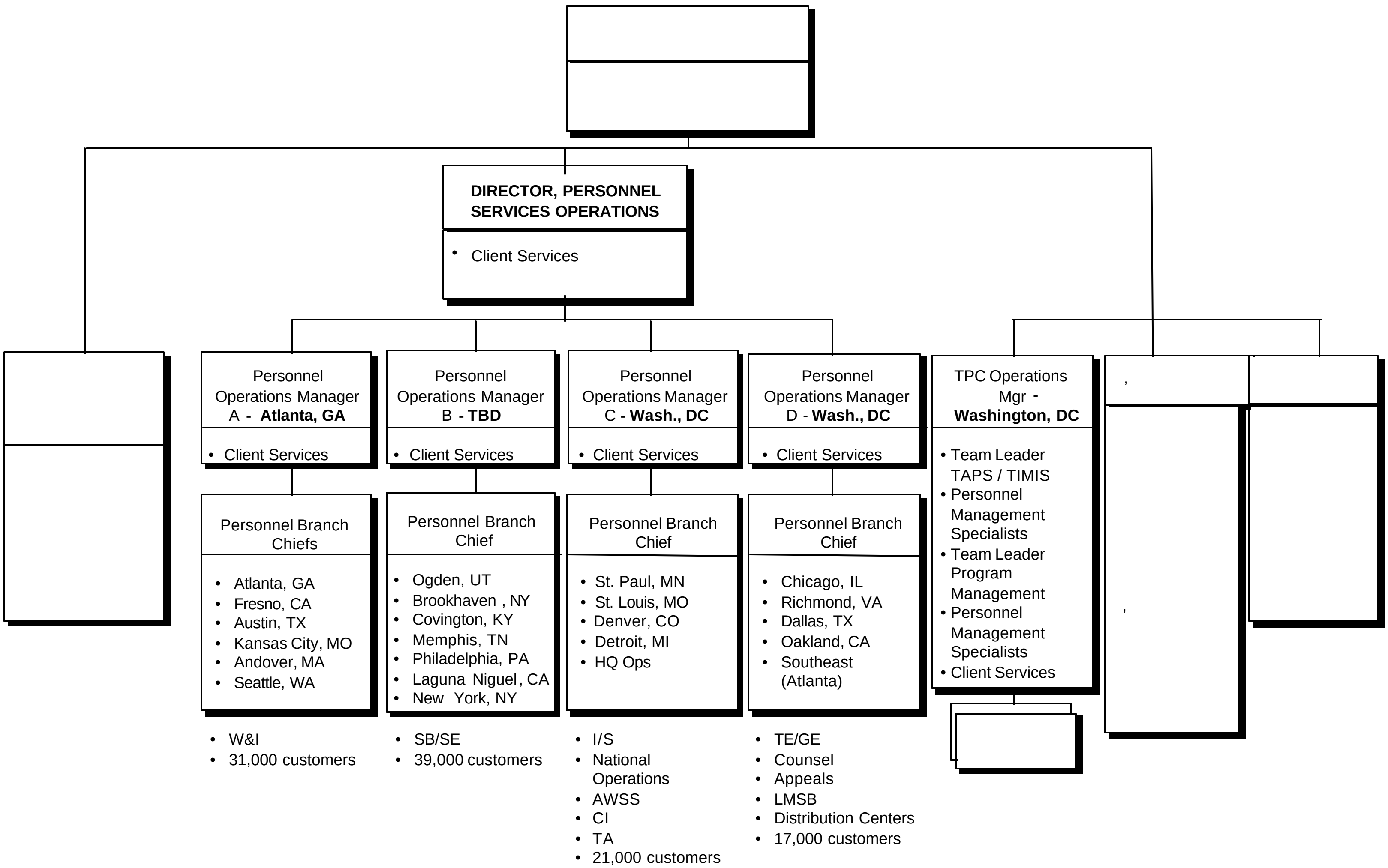
- **Chief, Program Management and Administration:** Provides program specific AWSS policy and guidance to the field personnel functions (program areas include Workforce Relations, Customer Outreach, Administrative Support and Planning and Implementation);

- **Personnel Services Operations:** Overall accountability for the four Personnel Services Operations Managers;

- **Personnel Operations/Personnel Operations Managers:** Serve as a single point of contact for the operating, functional and support divisions. Each Operating Manager will supervise staffs that provide employment support (i.e. qualification determination, recruitment support) and employee/labor relations support (i.e. negotiations, grievance and conduct case processing) to appropriate business divisions;

TPC Operations: Assumes overall responsibility for the nine Transactional Processing Centers (TPC) and Payroll/Processing administration. The nine TPC's are aligned to provide transactional processing support to all personnel offices and their customers.

Figure 10-4: Personnel Organizational Structure



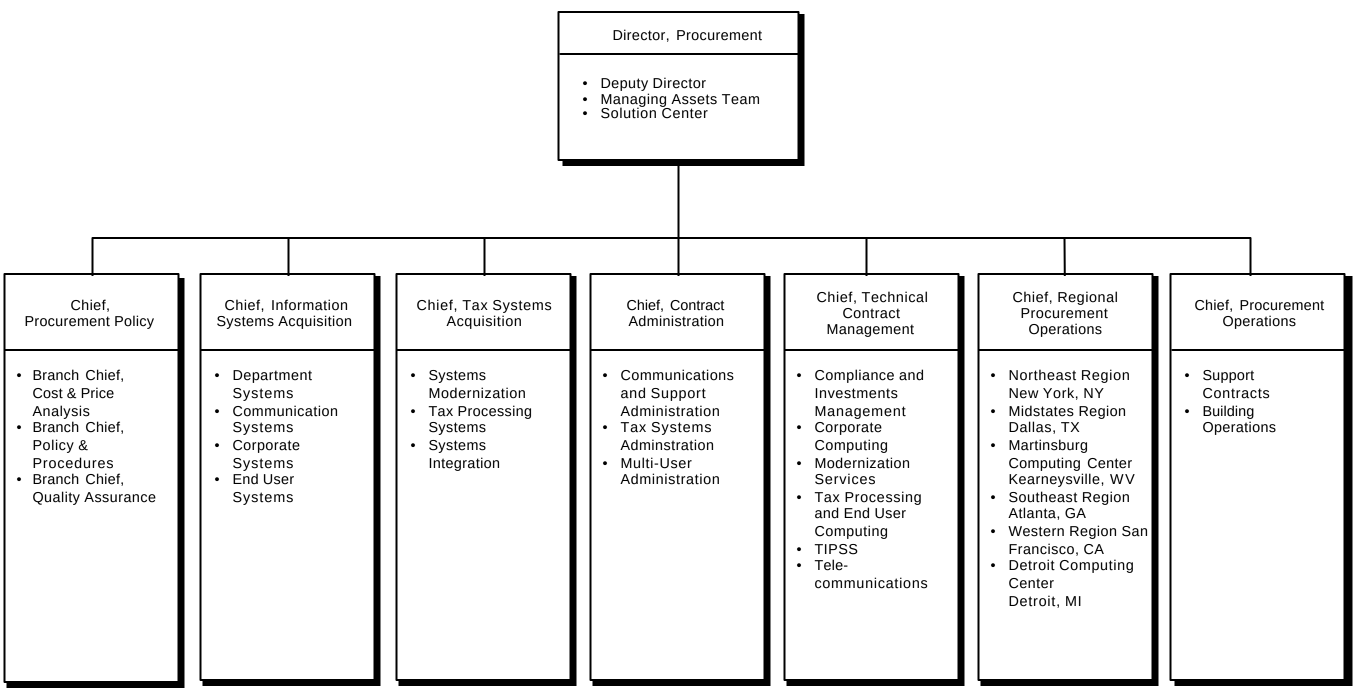
- **Centralized Activities:** Provides management oversight to all AWSS centralized support organizations (e.g., workers' compensation, employee tax compliance, garnishment of wages and employee benefits processing).

- **Personnel Security:** Coordinates the processing of all background investigations through the National Background Investigation Center. This organization has responsibility for ensuring all employee investigations are timely and accurately conducted and processed for all personnel offices.

Procurement

The Procurement Organization (shown below in Figure 10-5) will provide best-in-class Procurement services to all customer segments. This includes providing Servicewide program development and direction for Procurement services. The organization will achieve a high degree of success as measured by customer satisfaction measures, employee satisfaction measures and business results measures.

Figure 10-5: Procurement Organizational Structure

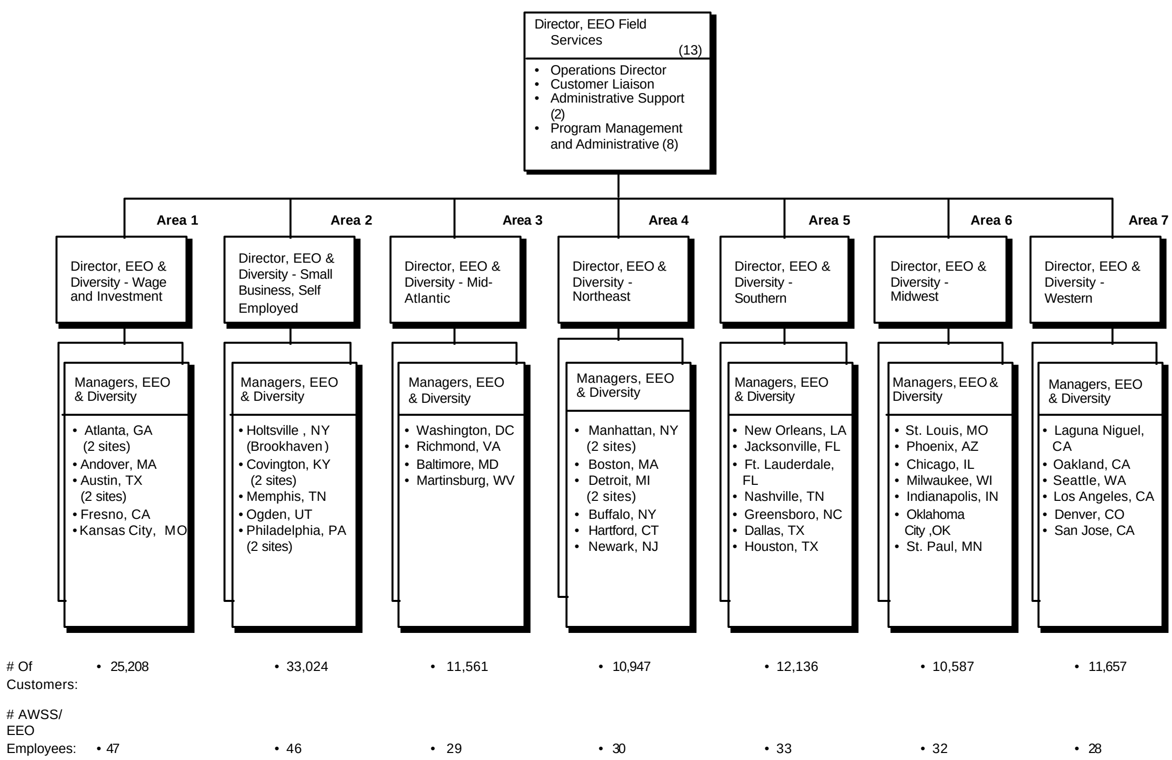


EEO

The EEO and Diversity Field Services organization will support the IRS mission, providing customers with top quality service by helping employees understand diversity and their EEO rights and responsibilities and by applying the civil rights laws with integrity and fairness to all. The AWSS EEO & Diversity organization will be responsible for all EEO & Diversity operational activities. Policy issues will continue to be handled by the Office of the Chief, EEO & Diversity National Headquarters. Each business division will have a small embedded EEO staff to handle business-specific, strategic issues.

Illustrated below in Figure 10-6, EEO and Diversity Field Services is geographically aligned, with 7 areas covering the IRS Footprint. Area 1 includes the W&I Service Centers; Area 2 includes SB/SE Service Centers. This placement will allow each Area Manager to focus on his or her customer division. The remaining five areas are arranged on a geographical basis, although each Area Manager will be designated as a point of contact for one or more customer divisions. EEO & Diversity Field Services' major program responsibilities include execution of the Complaint Processing process, overall field program management and advice and consultation to all divisions on EEO operational issues.

Figure 10-6: EEO Organizational Structure



Organizational Footprint

In the Phase IIB design, AWSS staffing exceeds 5,400 FTEs. The structure of the AWSS organization has realigned FTEs in several ways:

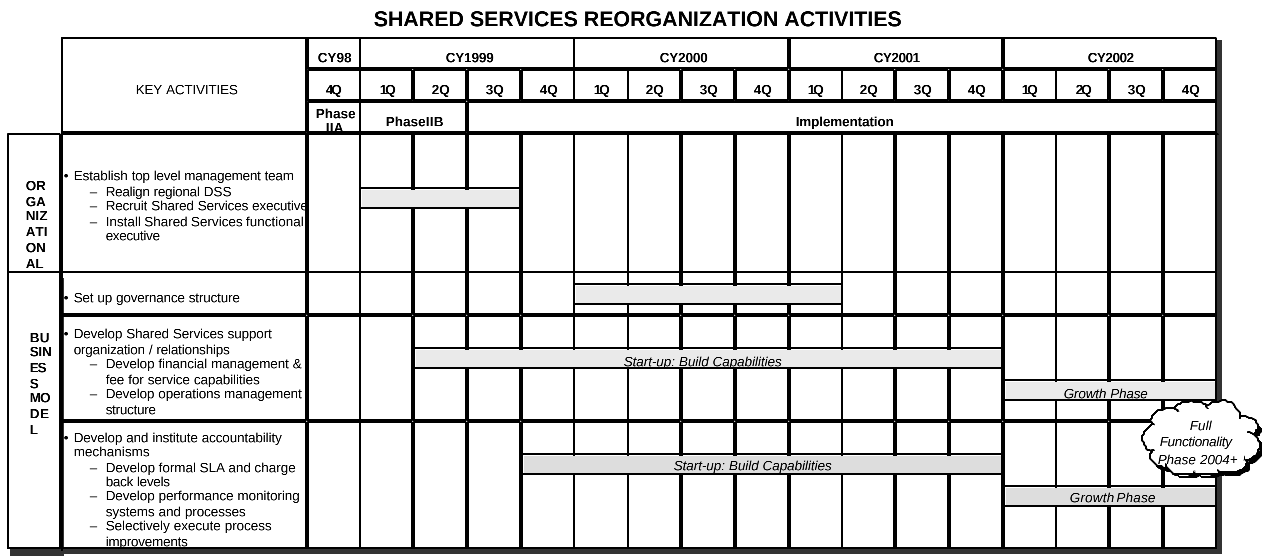
- Reductions in staffing due to components of Personnel and Education being realigned to the National Office staff or embedded in the operating divisions (Labor Relations Oversight, Policy and National Negotiations; Strategic Recruiting, Education; Career Counseling and Organizational Development; and Centralized Position Management and Position Classification);
- Adding staff from Information Systems to Procurement to manage technical contracts;
- Adding a new organization – EEO Field Services;
- Additions in staffing due to Meeting Services being moved from Education to Facilities.

Frontline and first-level manager positions will remain relatively unchanged. The vast majority of employees moving into AWSS will continue to perform the same jobs in their existing locations. Minimal disruption will support our goal of ensuring that all current and transition business needs are met during the stand-up of each operating division.

Figure 10-7: AWSS Implementation Plan

AWSS has begun to function under an October 1, 1999 interim realignment. At that time, the Regional Directors of Support Services, the A/C Procurement, Chief Headquarters Operations and National Office Facilities Management & Personnel Services organizations were all brought under the same organization reporting to the Chief, AWSS. Prior to stand-up, Facilities, Personnel and EEO Field Services will have their executive leaders selected. By October 1, 2000, the AWSS organization will be functionally aligned, ending the regional / host site structure and aligning purely along functional lines.

After "standing-up" the new organization, AWSS will able to develop Shared Service Business Model capabilities. These include rolling out Memos of Understanding to the AWSS customer divisions, identifying process standardization issues and implementing performance monitoring processes under the Balanced Measures program.



Chapter 11 Information Systems

Customer Characteristics

Over 70,000 IRS employees depend on a highly diverse information technology (IT) inventory of computer hardware, software and data networks to provide high-quality customer service directly to taxpayers. The current IT configuration relies on a tape-based Master File system to hold all taxpayer account data. This system feeds many other operational systems and causes a week or longer delay in placing current information on systems used by IRS customer service representatives.

The current IT configuration includes 41 mainframe computers, 713 mid-range computers from 7 vendors, over 100,000 personal computers and 8,000 vendor-supplied software products. IRS' web of systems poses a fundamental barrier to quick, efficient service to taxpayers, including high costs, long timelines to implement changes and improvements, and difficult control and security issues. This translates into a serious risk for the IRS to achieve its strategic goals.

Over the next several years, the IRS will resolve technology barriers. In the short-term, the IRS will implement several small improvements that will equate to real leaps in the ability to provide top quality customer service. Success of these efforts will depend on transitioning the current Master File to a modern database.

In redesigning the Information Systems organization, the IS Phase IIB team focused on creating work processes that would improve the way the IRS plans, prioritizes and manages organization-wide systems initiatives. The traditional IS organization structure created a number of challenges.

- Multiple points of contact between business users and IS create a confusing environment to adequately respond to new service requests;
- Operational processes are complex and inefficient; thus, end-user problems take too long to resolve;
- Resources are locked up in operational activities leaving very few staff available for new strategic capabilities such as new applications. Only about 13% of IS resources are available for "discretionary" demand;
- Technical and managerial skills are concentrated on legacy systems (e.g., ALC, Cobol) and need to be upgraded to support technology modernization needs; and
- Lack of standards and non-integrated systems across the IS organization result in fragmented delivery and expensive, time-consuming roll-out of applications.

The new IS Division addresses these challenges through building in key organization features that focus the organization on serving customers. These include:

- A strategic customer service capability to better manage IS' relationships with customers;
- Service management functions created to provide service delivery accountability and cost effectiveness;
- A systems development organization that acts as a shared service; and
- Technical resources consolidated to manage cost-effective services end-to-end.

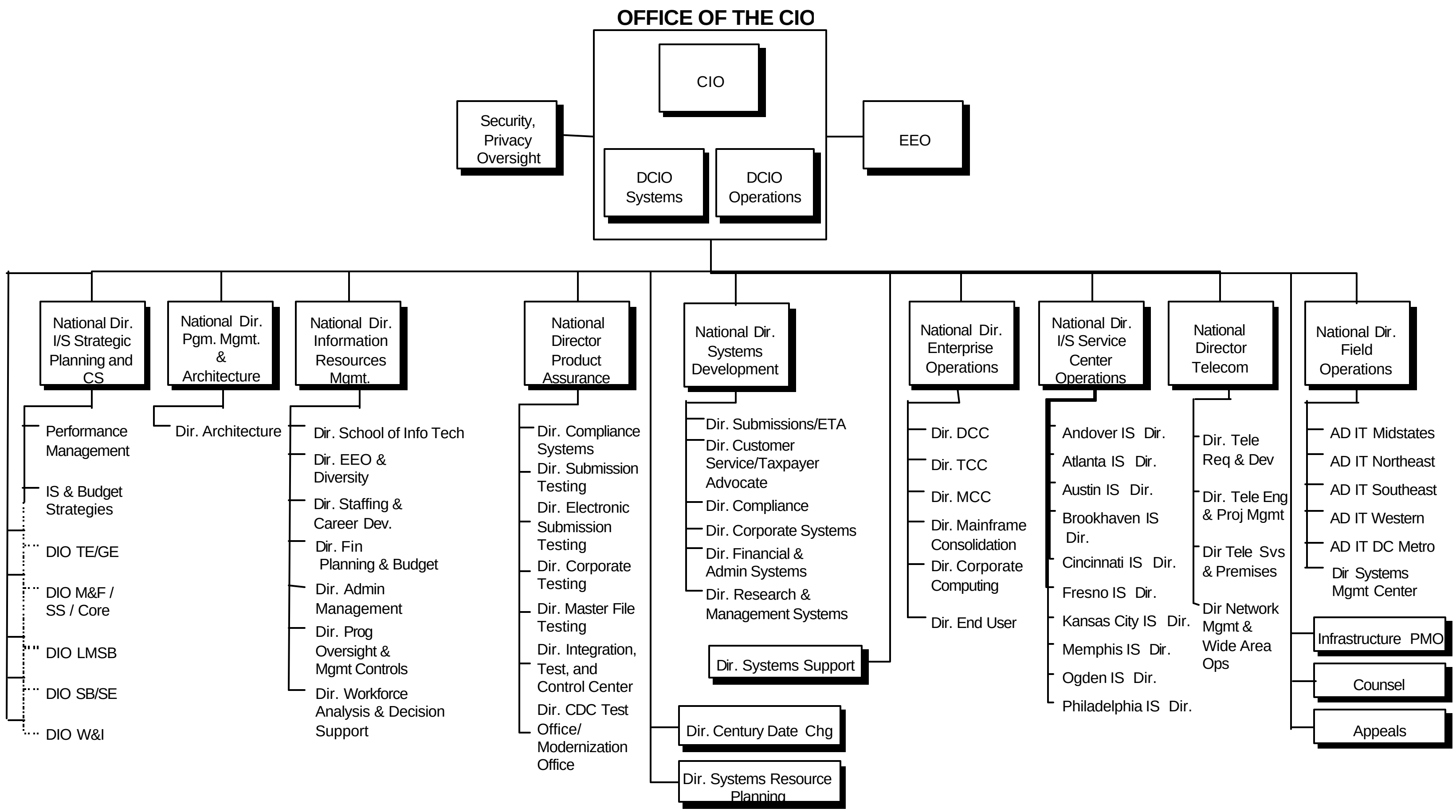
Goals, Principles and Objectives

The Information Systems (IS) Organization Phase IIB team's objective was to enable IS to meet overall demand more efficiently and to increase resources available for new, strategic capabilities. Four IS strategic goals guided the Phase IIB efforts:

- develop a strong partnership between IS and the customer divisions;
- maintain or increase service levels throughout the organization and technology modernization processes;
- reallocate IS resources to support proposed modernization initiatives while maintaining legacy systems; and
- achieve day-to-day operational efficiencies and realize savings opportunities.

With the completion of IIB, the IS organization is positioned to support modernization and achieve dramatic service improvements for the business. IS had major accomplishments on an operating division level, the most significant being the approval by the Commissioner and the subsequent realignment of the IS organization into the high-level organization configuration designed in IIA. This structure is shown in Figure 11-1.

Figure 11-1: Information Systems Design Implemented October 1999

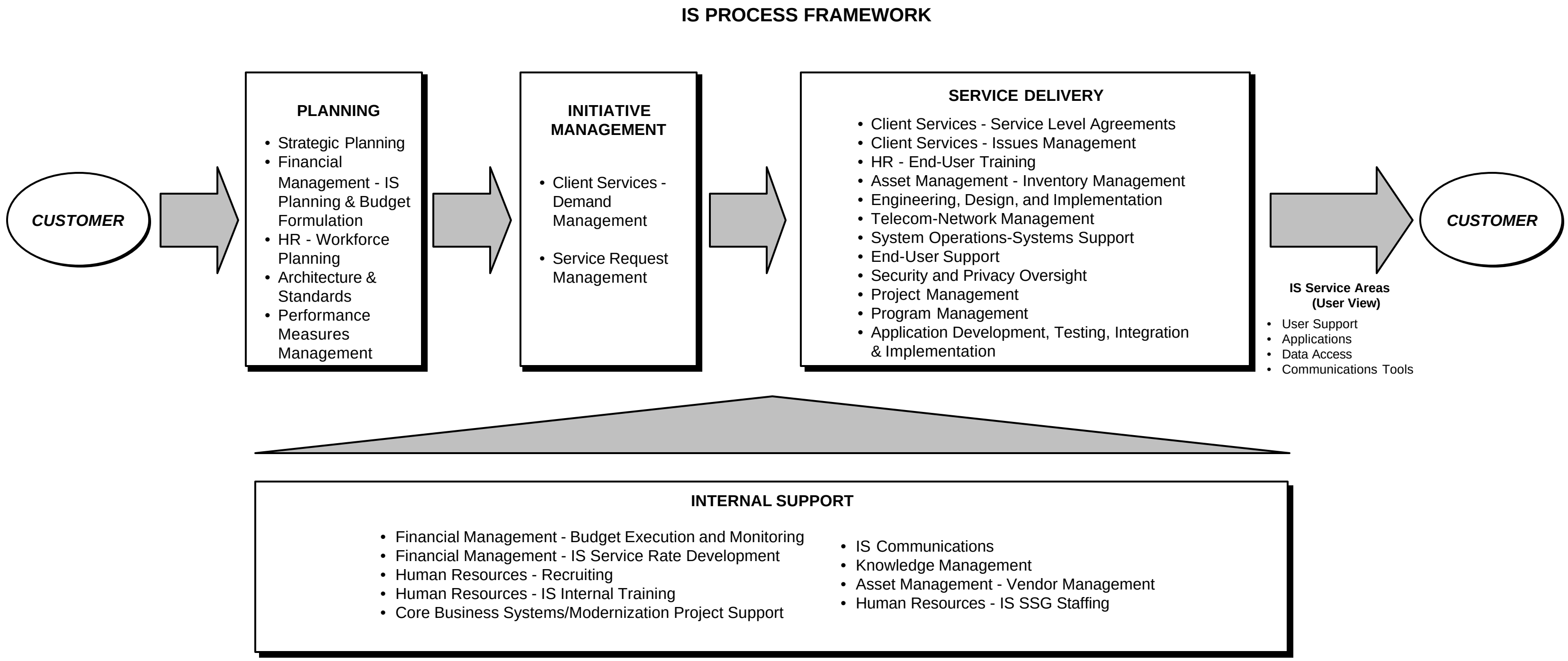


In October and November 1999, IS employees were realigned to populate the new high-level structure, per the Restructuring Agreement, and IS and NTEU formed a Joint Transition Planning Team to address implementation issues. All IS staff in the regional, service center and district offices report to the Chief Information Officer (CIO). The CIO gained centralized control of the $1.6 billion IRS IS budget. Working closely with customer divisions, IS completed the centralization of about 235 non-IS employees performing IS work from Appeals, Counsel, International and EP/EO. Phase IIB identified and began negotiations for an additional 354 employees.

Phase IIB also identified opportunities across the IS organization to realign approximately 650 systems staff to support priority projects and improve service levels and to reallocate $271 million based on specific improvement opportunities in telecommunications, desktop, Tier 1, Tier 2 and Systems service areas.

Finally, IS Phase IIB completed design of 20 customer-focused processes which guided the design and sizing of the IS organization down to the work unit level. An aggressive migration approach was developed to guide Phase III implementation of the savings and realignment opportunities, the roll out of the new processes and the final steps of organizational change.

Figure 11-2: Information Systems Process Framework



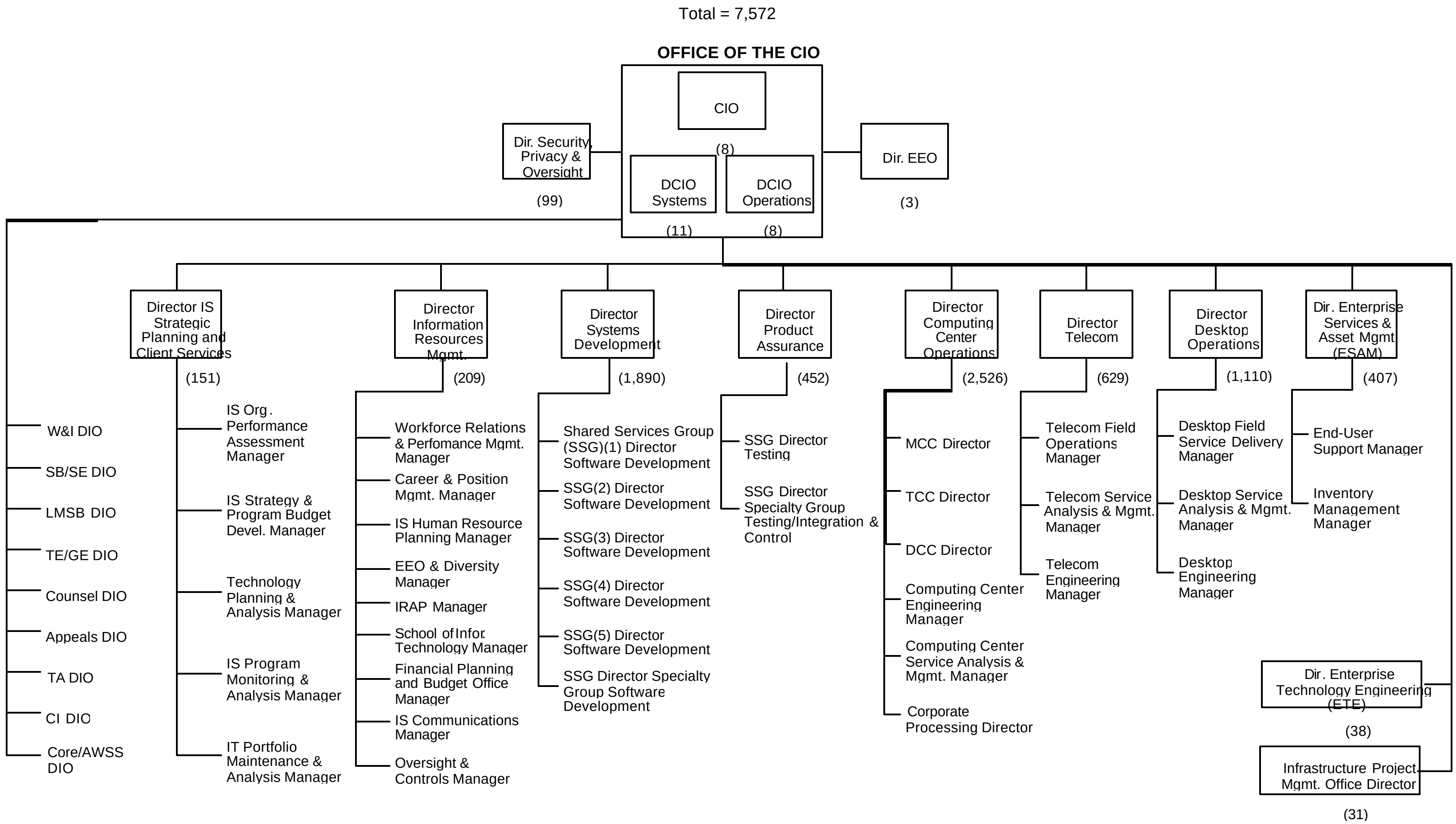
Phase IIB developed the detailed organization design by first defining critical customer-oriented processes. Six principles guided the design of IS processes:

- design around customer needs;
- ensure proper business representation and accountability;
- design a market competitive service provider organization;
- create an organization that allows people to develop;
- maximize shared knowledge and assets where possible; and
- leverage a cross functional process approach.

The processes form four logical groups – planning, initiative management, service delivery and internal support – and provide the basis for the new organization structure. Figure 11-2 shows the IS process framework. To start, the team designed the processes required to deliver IS services – the processes identified the roles/jobs and the necessary skills to perform them.

The IIB team next designed the organizational structure needed to perform the processes and then sized the organization based on the process work drivers.

Figure 11-3: Phase IIB IS Organizational Design (Projected for 2002)



FTE		151	209	1890	452	2526	629	1110	407
TOTAL	7572								

Organization Structure

As illustrated in Figure 11-3, accountability and responsibility for each IS process delivering services to customers will lie with a single executive. The planning and initiative management processes align with Strategic Planning/Client Services. Service delivery processes align to the Systems and Operations organizations. Internal support processes align with Information Resources Management. The key organizational characteristics are functional and customer focused under central management rather than a traditional geographic orientation. For example, software programmers continue to work in many locations; they are centrally managed by the Director Systems Development.

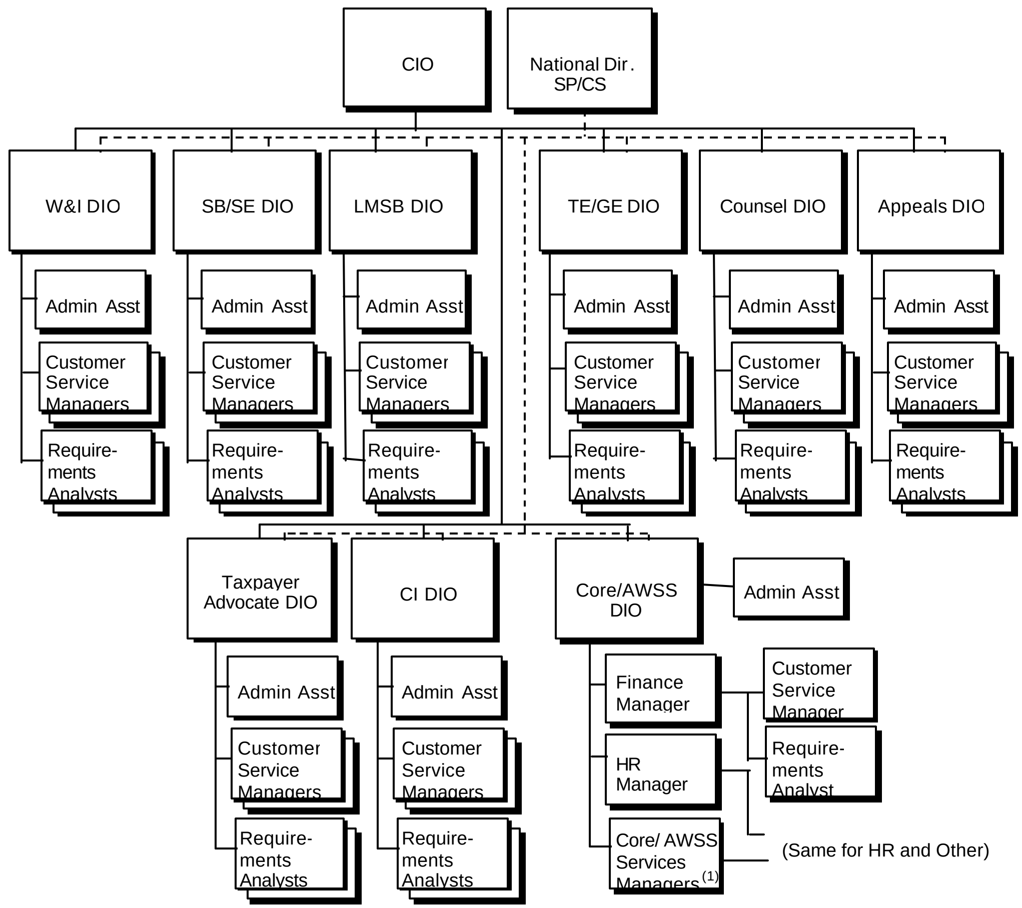
Office of the Chief Information Officer (CIO)

The Office of the CIO works with the IRS leadership to drive organizational change and service improvements. The CIO and the Deputy CIO (DCIO) Systems and DCIO Operations work as a team. All Directors are aligned to one individual in the office – the CIO, DCIO Systems or DCIO Operations. The Director Security Privacy Oversight and the Director EEO provide the CIO and DCIOs with policy advice in their respective program areas.

Division Information Officers

The Division Information Officers (DIO) are dedicated senior-level IS points of contacts for each operating, functional or support division commissioner. The small DIO staff is aligned along the two major functions of the DIO – ensuring customer needs are being met and aiding the customer with balancing service demand with supply. DIOs and staff will be co-located with their customer's headquarters. Figure 11-4 shows the projected structure of the DIO offices. Each office will consist of the DIO, four IS technical staff and an administrative support person; the three largest and most complex offices from a service perspective, W&I, SB/SE and AWSS will have appropriately larger staffs. During a transition period, the DIOs are also managing the non–IS staffs doing IS work centralized from Appeals, Counsel, EP/EO and International.

Figure 11-4: Division Information Officer Organization



(1) Includes everything except Finance & HR)

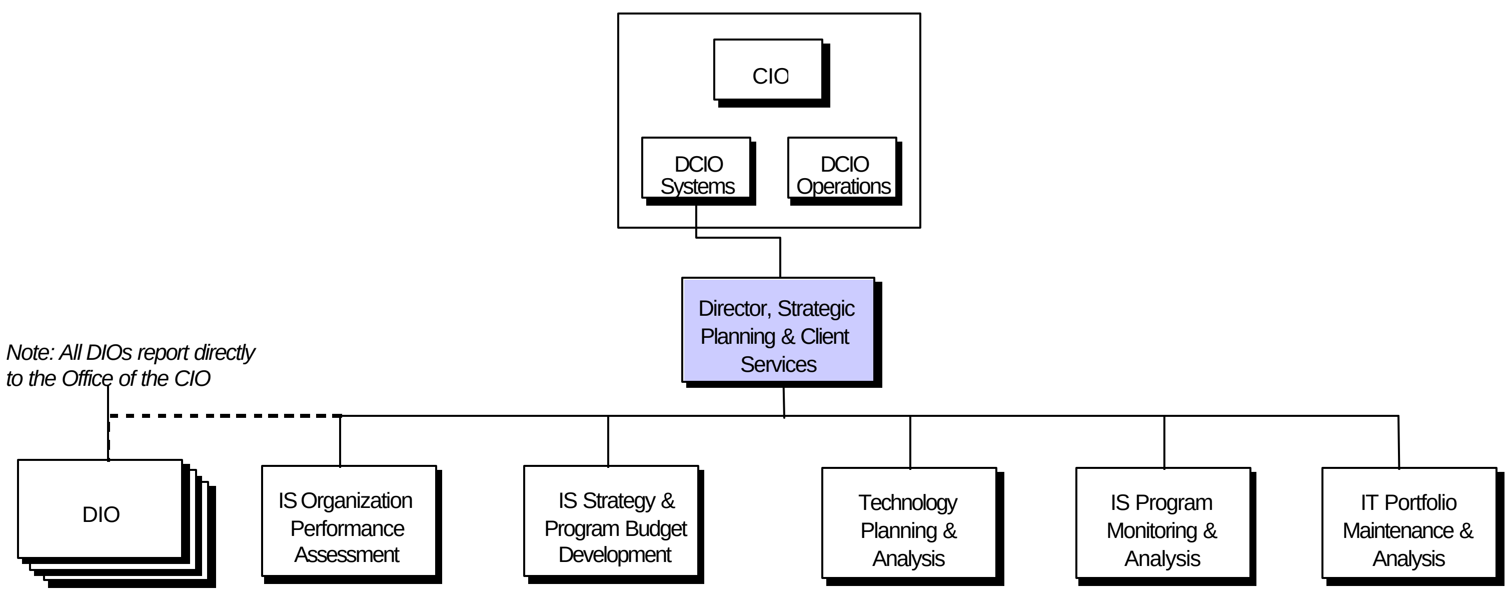
Note: Core/AWSS DIO's office covers a breadth of functions (e.g., Finance, HR) and two organizations – given the complexity, the level of coordination needed across functions, this office has a functional substructure

Strategic Planning and Client Services

Under the leadership of an SES executive who is a member of the CIO's senior management team, SP/CS is organized into five offices to provide performance measures development and assessment functions; strategic planning capability; technical alternatives analysis for the operating divisions; independent program monitoring for the CIO and customers; and, maintenance of the IT work portfolio providing a consolidated view of all current and proposed IS work. Consisting of 151 positions, these offices are located in the Washington DC metropolitan area.

Figure 11-5 shows the SP/CS organizational structure. This office works so closely with the DIOs that the IIB team emphasized this by showing a dotted line relationship. DIOs are linked to SP/CS to ensure customer needs are incorporated in all aspects of IS planning, performance assessment and service delivery.

Figure 11-5: Strategic Planning/Client Services Organization



Information Resources Management

Information Resources Management (IRM) provides financial, human resources and administrative support to the IS organization. The Director is a member of the IS senior management team. Through the Workforce relations and Performance Management, the Career and Position Management and EEO and Diversity offices, IRM ensures that agency-wide Human Resources policies and strategies are executed in IS.

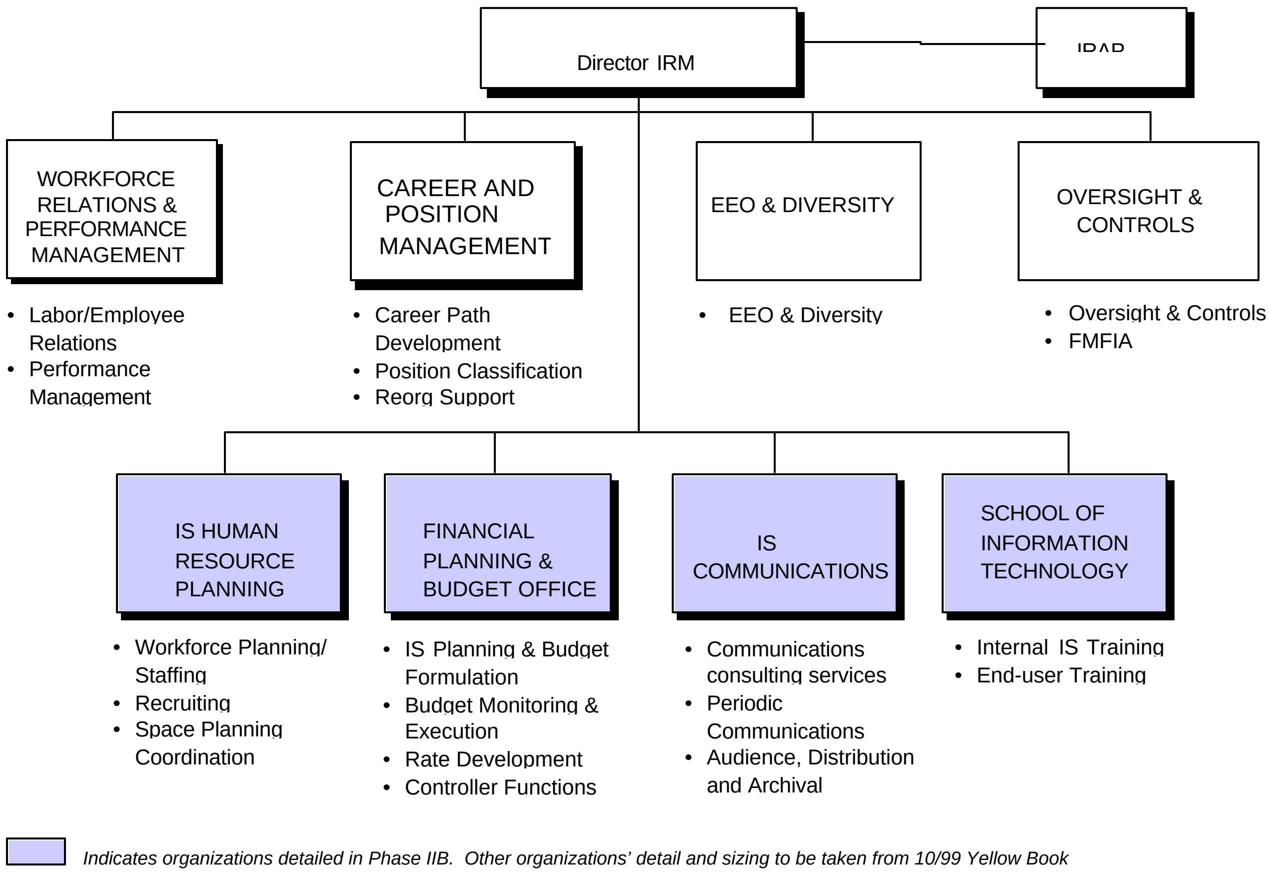
The IS Human Resources Planning office and the School of Information Technology work closely with SP/CS to position the IS workforce to meet the needs of customers by planning and delivering the recruitment, retention and training programs needed to maintain a skilled IS workforce.

The Financial Planning and Budgeting (FPB) office translates the IS Strategic Plan into an annual budget request and shepherds this request through the appropriation approval process. FPB will direct the development of spending and financial plans, track actual spending and work with IS managers to develop service rates.

IS Communications will craft, deliver and archive key messages throughout the IS organization. Oversight and Controls will represent IS in TIGTA and GAO audits and for other oversight inquiries. Finally, the Information Resources Accessibility Program assists in making IS systems and applications accessible by assuring the consistent availability of adaptive equipment across IRS.

Overall, IRM will have 209 positions located primarily in the Washington DC metropolitan area with School of IT components continuing in Cincinnati OH, Austin TX and Martinsburg WV. Figure 11-6 shows the IRM high-level organization chart.

Figure 11-6: Information Resources Management Organization

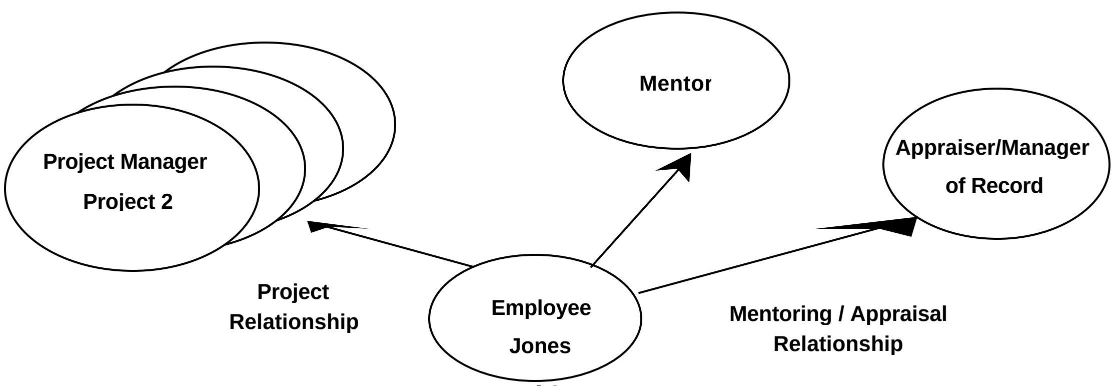


Systems

The Systems organizations are Systems Development and Product Assurance. Each are headed by an SES Director who is a member of the IS senior management team and who ensures IS delivers high quality software applications meeting customer demand. The IIB team proposed, and IRS senior management approved the adoption of, a new organizational model for software development, maintenance and testing.

The future Systems organization will consist of multiple shared services groups (SSG) supported by specialty teams. An SSG is a flexible organization. Each SSG will have logically assigned functional/organizational tasks. Developers and testers are assigned to projects for short time periods based on project need, staff skills and career goals. Figure 11-7 shows the SSG model from an employee prospective and Figure 11- 8 on the next page shows the overall Systems organizational structure.

Figure 11-7: Shared Services Group Model in Systems Organization



Jones would report to …

his/her current project manager for all assignment related activities…

- Work assignments
- Deliverables
- Project performance review
- Project related training

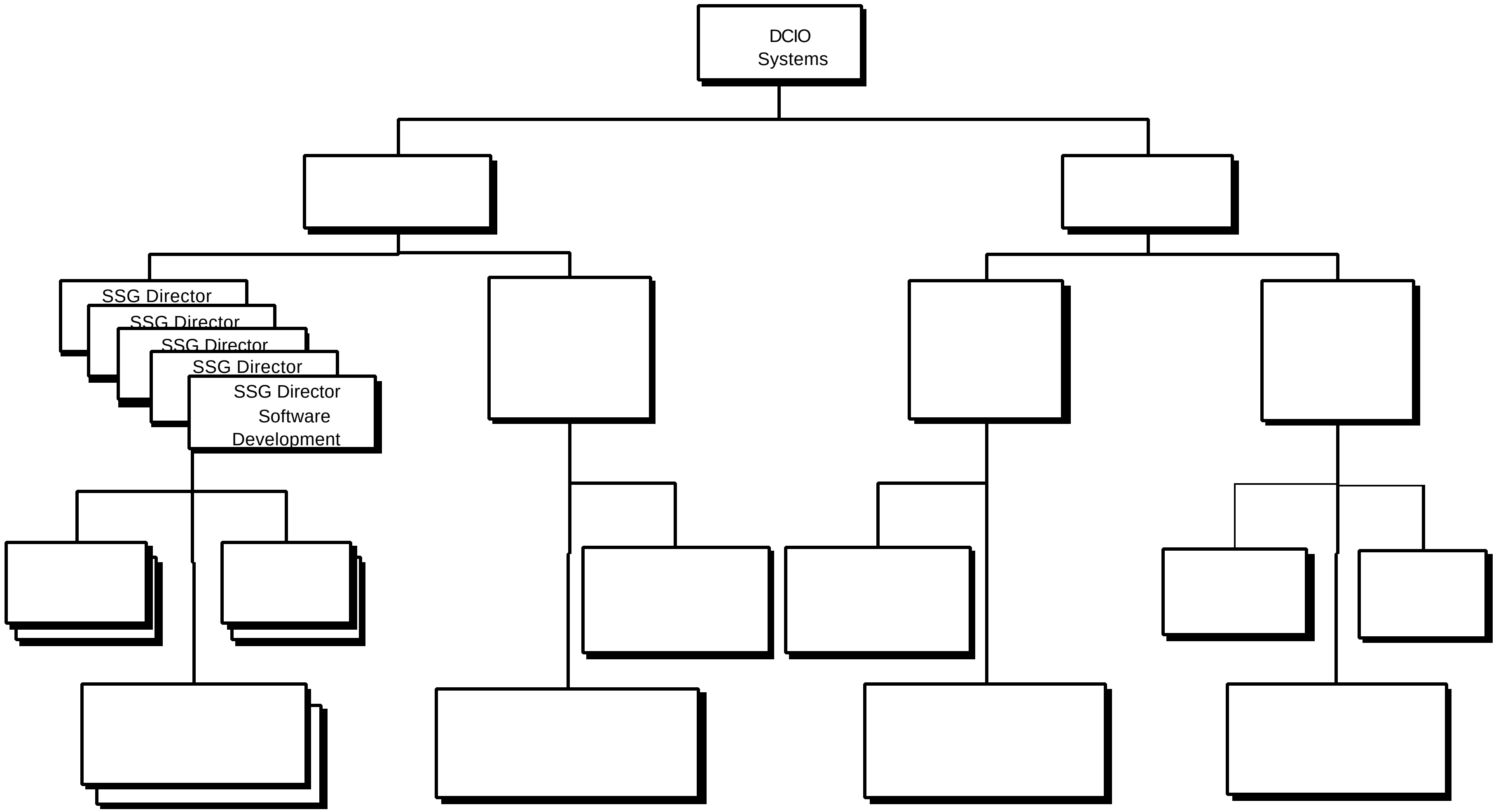
…his/her mentor for:

- Career development
- Non-project related training
- Career development, guidance, and counseling

…his/her appraiser/manager of record for:

- Overall performance appraisal
- Conduct and Ethics Issues

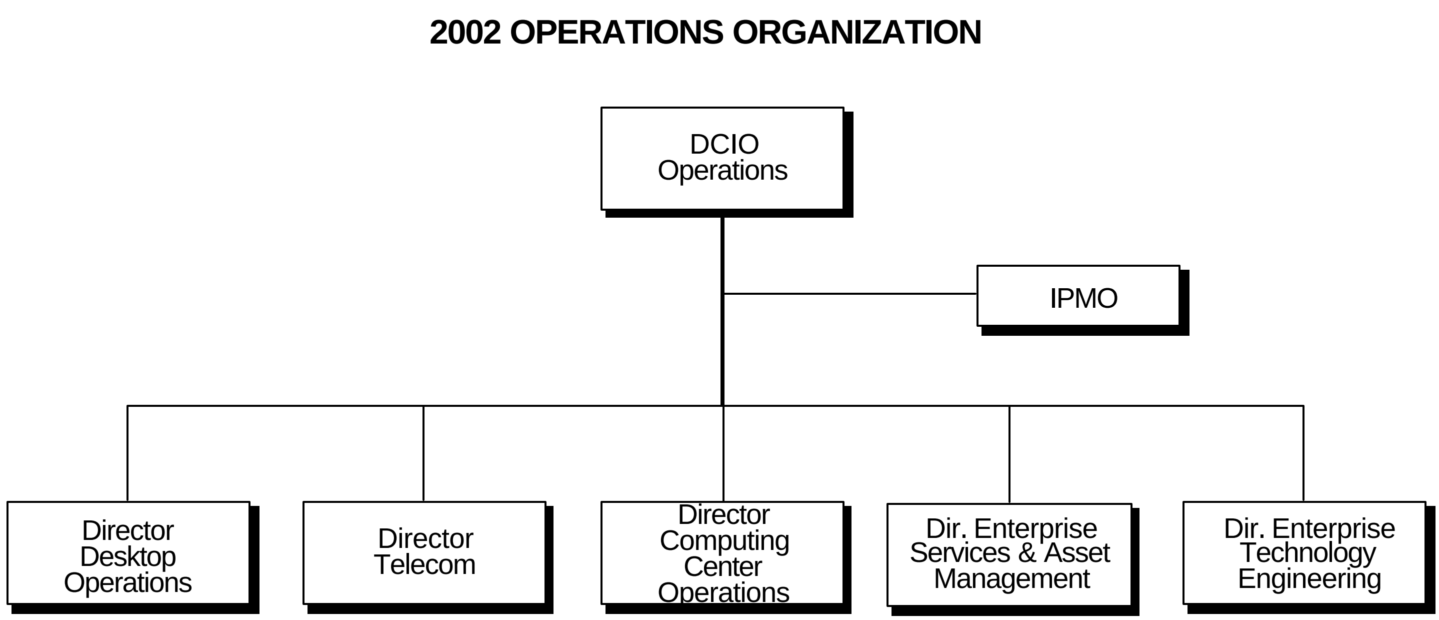
Figure 11-8: Deputy CIO Systems Organization



Operations

Operations is structured for service delivery along functional lines, centrally managed and geographically deployed. The three service management organizations, each headed by an executive service manager, provide daily infrastructure services to all IRS employees. These service delivery organizations are: Desktop Operations, Telecommunications and Computing Center Operations. Three organizations span all operations services. Enterprise Services and Asset Management provides the end user with a single point of contact for all their requirements and provides problem management, network monitoring and user account management. Enterprise Technology Engineering engineers, designs and operationalizes IRS infrastructure changes, enterprise-wide. The Infrastructure Project Management Office coordinates all modernization efforts, major projects and system demand from Strategic Planning and Systems with Operations. Figure 11- 9 provides the Operations organizational picture.

Figure 11-9: Deputy CIO Operations Organization



Senior Management Team

The IS Senior Management Team is a team of professionals, customer focused, who provide quality information systems to deliver the business vision of the IRS. The Senior Management Team is composed of:

Paul Cosgrave – Chief Information Officer
Bob Albicker – Deputy Chief Information Officer Systems
Toni Zimmerman – Deputy Chief Information Officer Operations
Len Baptiste, Director Security and Privacy Oversight

In addition, the IS top management team includes:
Ed Curvey – Acting Director Strategic Planning/Client Services
Al Mazei – Acting Director Architecture, Engineering and Technical Support
Dave Junkins – Director Information Resources Management
Martin Baer – Director Systems Development
Renee Shaw – Director Product Assurance
Dick Trainor – Director Enterprise Operations
Tom Dega – Director IS Service Center Operations
Al Whitley – Director Telecommunications
Dave Gaugler – Director Field Operations
Jim Dumais – DIO W&I
Vince Conti – DIO NHQ/AWSS
Tony Forte (Acting) – DIO TE/GE
Jim Gaul (Acting) – DIO LMSB
Richard Lehman (Acting) – DIO SB/SE
Rick Hynek (Acting) – DIO Counsel
Bill O’Meara (Acting) – DIO Appeals
Gene Barbato (Acting) - DIO Submission Processing/ETA
Brad Strohecker – Director Systems Resource Planning Office
John Fay – Director Systems Support
Lauretta Brown – Director Infrastructure Program Management Office

The top management team brings the customer focus and technical expertise needed to inform the strategic and operational decision making of the senior team.

IS Role in the New Management Structure

The CIO is part of the IRS Commissioner’s top management team. The CIO advises the Commissioner on IT matters, manages all IRS IT resources and assumes responsibility for delivering and maintaining modernized IT systems throughout the IRS.

The CIO works closely with the chief executives of each operating division to ensure delivery of quality IT systems and services. The DIOs represent the CIO in carrying out this critical customer service responsibility. This balance between managing IS as a national resource and delivering specific services to each operating division is at the heart of the new IS management role. The new IS organizational structure mixes current and new offices with redesigned responsibilities to help manage these responsibilities.

Geographic Footprint

The IS organization footprint will remain similar to the current footprint; minor adjustments will take place over time as customer divisions stand up. Since IS is primarily aligned functionally with central management, IS employees in the same metropolitan area may work for different parts of the IS organization. Figure 11-10 identifies main locations supported by IS.

Figure 11-10: Deputy CIO Systems Organization

IS ORGANIZATION	MAIN LOCATIONS			
Strategic Planning and Client Services (SP&CS)	• Atlanta • Washington Metro Area • Austin • Baltimore • Birmingham • Boston • Chicago • Cincinnati • Cleveland • Dallas	• Denver • Detroit • Hartford • Houston • Indianapolis • Jacksonville • Laguna Niguel • Las Vegas • Long Island • Los Angeles	• Miami • Milwaukee • New York • Newark • Oklahoma • Philadelphia • Phoenix • Pittsburgh • Portland • Puerto Rico	• Salt Lake City • San Diego • San Francisco • San Jose • Seattle • St. Louis • St. Paul
Information Resource Management (IRM)	• Washington Metro Area	• Cincinnati	• Austin	• Martinsburg
Operations	• Aberdeen • Albany • Albuquerque • Anchorage • Andover • Austin • Atlanta • Baltimore • Birmingham • Bloomington • Boston • Brooklyn • Buffalo • Chamblee • Chicago • Cincinnati • Columbia • Covington	• Dallas • Denver • Detroit • Cleveland • Fargo • Fitchburg • Ft Lauderdale • Fresno • Greensboro • Hartford • Houston • Honolulu • Holtsville/ Brookhaven • Indianapolis • Jackson • Jacksonville • Kansas City • Laguna Nigel	• Las Vegas • Louisville • Los Angeles • Manhattan • Martinsburg • Memphis • Milwaukee • Minneapolis/St Paul • Nashville • New Orleans • Oklahoma City • Ogden/ Salt Lake City • Overland Park • Philadelphia • Phoenix • Pittsburgh • Plantation	• Portland • Providence • Puerto Rico • Richmond • Sacramento • San Antonio • San Francisco • San Jose • Seattle • Springfield, NJ • St Louis • San Bernadino • San Diego • Santa Ana/Long Beach • Springfield, IL • Washington Metro • Wichita
Systems	• Andover • Atlanta • Brookhaven • Charlotte • Cincinnati • Cleveland	• Dallas • Detroit • Florence • Fresno • Houston • Indianapolis	• Las Vegas • Martinsburg • Minnesota • Nashville • Ogden • Philadelphia	• Pittsburgh • Portland • Portsmouth • Puerto Rico • Washington Metro Area
Security and Privacy Oversight (SPO)	• Washington Metro Area	• TBD		

Migration

As described earlier, the Information Systems Division began implementing its new organization in October 1999 by centralizing offices nationwide under the direction of the Chief Information Officer. Over the next several years, IS will migrate from its current state to a more cost-effective and service-oriented organization.

The overall timeframe for the migration is approximately three years, as shown in Figure 11-11.

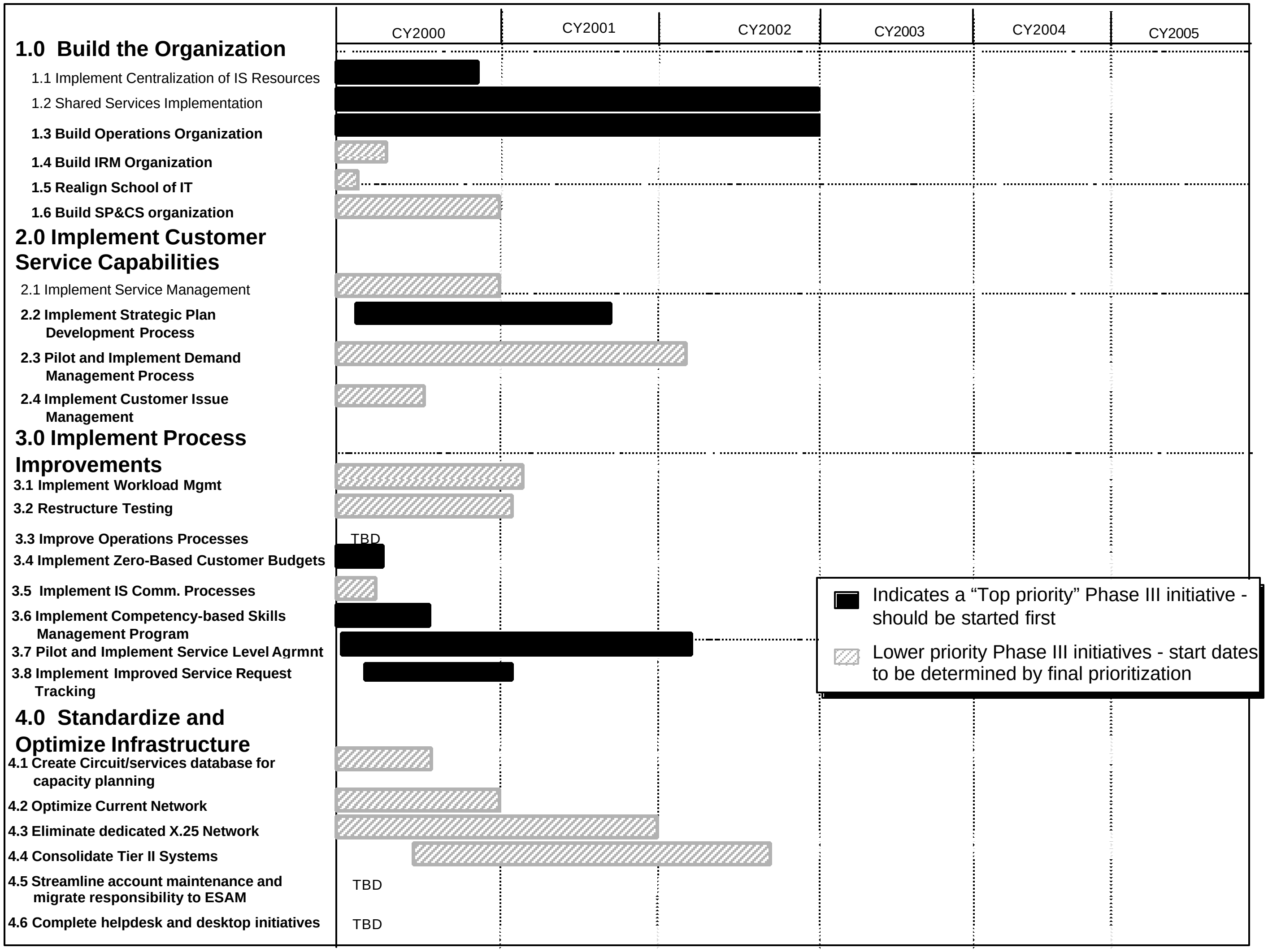
Business Systems Modernization Organization

The Business Systems Modernization Organization (BSMO) is jointly led by executives from the Information Systems Division and the operating divisions. The BSMO is responsible for planning, developing and implementing new redesigned business processes and new technology.

While not part of the Phase IIB Design, the Business Systems Modernization Organization will have significant interactions with the new IRS organization. Each new operating division contains a Business Systems Planning Office. These staff will work closely with the Division Information Officers and the Business Systems Modernization Office to identify necessary investments in new systems and prioritize all systems investments across the Service.

Figure 11-11: IS Division Migration Schedule

IS Organization Phase III Initiatives -- Preliminary



Chapter 12 Communications and Liaison

Customer Characteristics

Communications and Liaison (C&L) provides services to both internal and external customers. Within the IRS, C&L communicates with managers and employees to provide timely, credible, concise and consistent information. Transition activities related to the stand-down of today's IRS and stand-up of the new IRS are the major focus of internal communication messages for the short term.

External customers include wage and investment taxpayers, large, mid-size, and small business groups, tax exempt organizations, practitioners, Congress, state governments and special interest groups. C&L will focus on the customer service improvement aspects of modernization when communicating with wage and investment taxpayers. Business groups require information that is tailored to their specific interests, as well as a means for providing feedback to the IRS. Communications with practitioners will focus on ensuring the opportunities for input and feedback in the short term, and improving the practitioner's ability to service clients in the long term. The objective of communications with Congress is to inform members about IRS progress on reform and ensure continued support for the modernization effort.

Goals, Principles and Objectives

The goal of the C&L Phase IIB team was to design the C&L organization. C&L did not have a Phase IIA design team. The Phase IIB C&L team was composed of approximately 25 people.

The design team started the Phase IIB effort by reviewing some Phase IIA decisions made by the Core design team:

- National Headquarters C&L will comprise Governmental Liaison and Disclosure, External Communications, Internal Communications, National Public Liaison and Legislative Affairs.
- Marketing and Internal Communications activities specific to an OD will be owned by that OD (i.e., will not be the responsibility of NHQ C&L).
- The field external communicator position reporting to NHQ C&L will be geographically dispersed and will focus on local media relations, acting as a point of entry for the media and providing information to them.

- The Office of National Public Liaison/IRPAC will proactively manage national public liaison stakeholder and professional relationships. This office will also assume the responsibility for the coordination of policy direction and relationship management component of IRP. An executive position will be created for these policy level and liaison management issues.
- An executive position will be created to manage Governmental Liaison and Disclosure, and will report to the Chief of C&L.
- Disclosure personnel will report centrally to the Head of Disclosure in the NHQ C&L.

The Phase IIA decisions left several questions to be addressed during Phase IIB. For example, how should the C&L roles be split between NHQ and ODs/other divisions and how does IRS ensure that activities and partnerships are not lost in the transition process? Similarly, what are the linkage requirements on communications matters across the organization and what are the most effective mechanisms to provide those linkages? What is an optimal structure and staffing for NHQ C&L and where would Disclosure and Governmental Liaison Managers and field communicators be best placed.

To address those outstanding issues, the Phase IIB team worked with the ODs/FDs to determine optimal allocation and ownership of activities and identify key linkages, researched communications best practices and maintained dialogue with key stakeholders to obtain feedback and buy-in regarding C&L geographical structure. Phase IIB conducted detailed workload analysis of current and projected C&L activities and initiatives and determined each C&L sub-team's optimal footprint based on estimated workload and interaction with the divisions and stakeholder needs in the field.

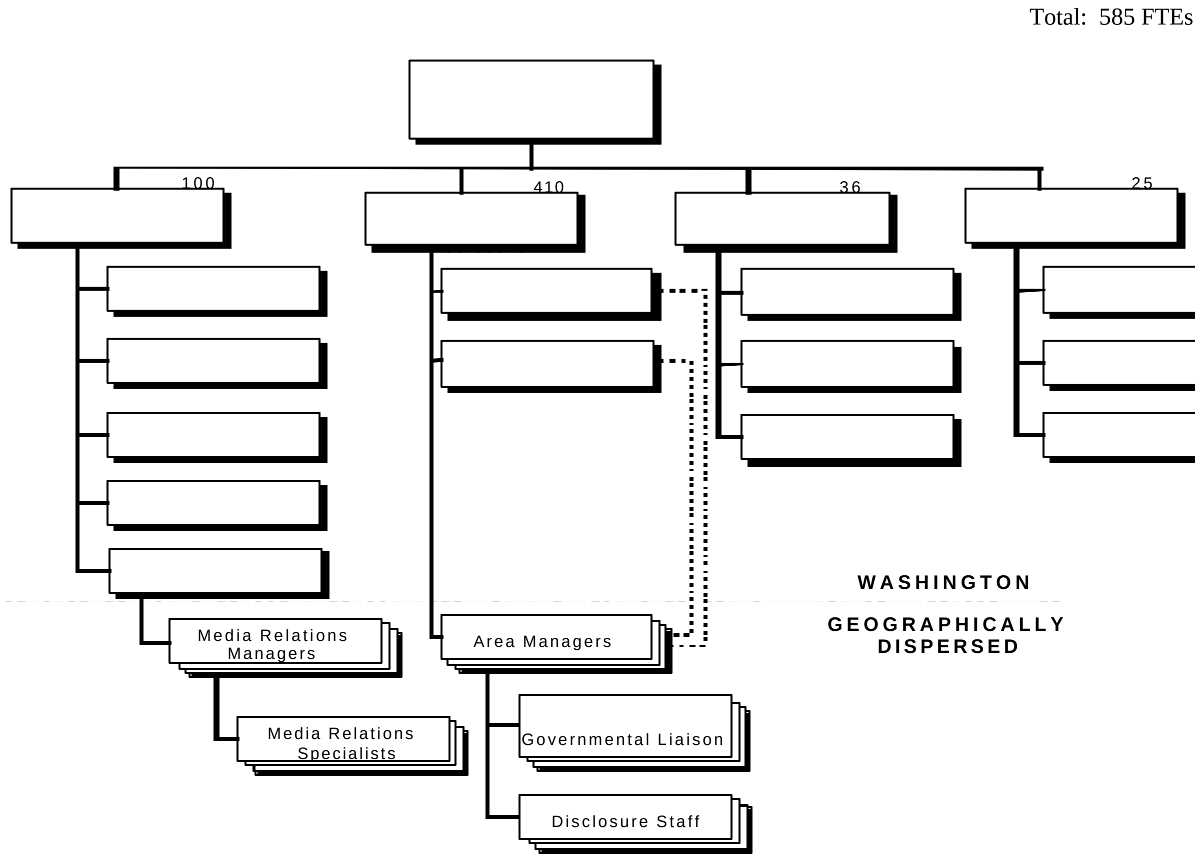
Organizational Structure

The mission of Communications and Liaison is to "*provide IRS employees and external stakeholders a communications capability that promotes understanding of the corporate mission and goals, promotes two-way dialogue, enhances relationships with legislative, executive, state, business and professional stakeholders, balances confidentiality rights with rights to access information, and helps taxpayers understand and meet their tax responsibilities.*"

The future organization of Communications and Liaison will be composed of a National Headquarters and of four divisions: Communications, Governmental Liaison and Disclosure (GLD), Legislative Affairs and National Public Liaison. All of those divisions are located in Washington, DC. The Communications and GLD divisions also have a field component.

The future C&L structure is illustrated in Figure 12-1.

Figure 12-1: Organizational Structure of Communications and Liaison



HEADQUARTERS

DESCRIPTION	ROLE
• 169 FTEs • All located in DC	• Sets strategic direction for Communications, Governmental Liaison & Disclosure, Legislative Affairs and Public Liaison • Handles Congressional, state and national stakeholders relationships and issues • Handles national media contacts • Ensures Agency compliance with Disclosure & Privacy laws • Identifies emerging issues • Coordinates cross-cutting issues • Manages cross-cutting processes, audits and legislation implementation

FIELD

DESCRIPTION	ROLE
• 374 Governmental & Liaison & Disclosure field FTEs – 7 F/S and Disclosure Area – 59 FSGL – 292 Disclosure (incl. 10 Service Center Disclosure Offices) • 42 Media Relations FTEs – 4 Media Relations Areas Managers – 38 Media Specialists	• Coordinates local Governmental & Liaison relationships and initiatives with the Divisions • Represents IRS to local congressional offices • Handles Disclosure requests • Manages local Media relationships

Senior Management Team

The Chief of C&L reports directly to the Commissioner of the IRS and is a member of the Commissioner's senior management team.

The C&L Senior Management team will provide seamless customer service to IRS stakeholders. Communications, Governmental Liaison and Disclosure, Legislative Affairs and National Public Liaison leaders will coordinate and facilitate a cross-functional approach to communications and liaison opportunities. To ensure a cross-functional approach, the senior management team will drive a strategic relationship integration and delivery team ("STRIDE"). Membership on the STRIDE team will be selected from each C&L functional area.

Modernization will change the way C&L senior managers interact with their internal customers. Prior to IRS modernization, C&L was a primary communicator for the IRS, in addition to communications experts distributed throughout the districts. In the new IRS, the business units will have embedded communications and liaison capabilities. Therefore, the IRS needs effective coordination among the different embedded capabilities and between the business units and C&L. Coordination will be assured by a Servicewide Communications and Liaison Council.

The Servicewide Communications and Liaison Council will provide the mechanism to facilitate "one voice, one ear" for the Agency. It will also:

- Develop strategy for external stakeholder engagement including Legislative Affairs, National Public Liaison, Media Relations, Marketing, Internet, etc.
- Facilitate and institutionalize an integrated communications approach.
- Ensure buy-in, coordination and timely information sharing across the Agency.
- Leverage communication expertise and processes.
- Provide a forum for resolution of issues.

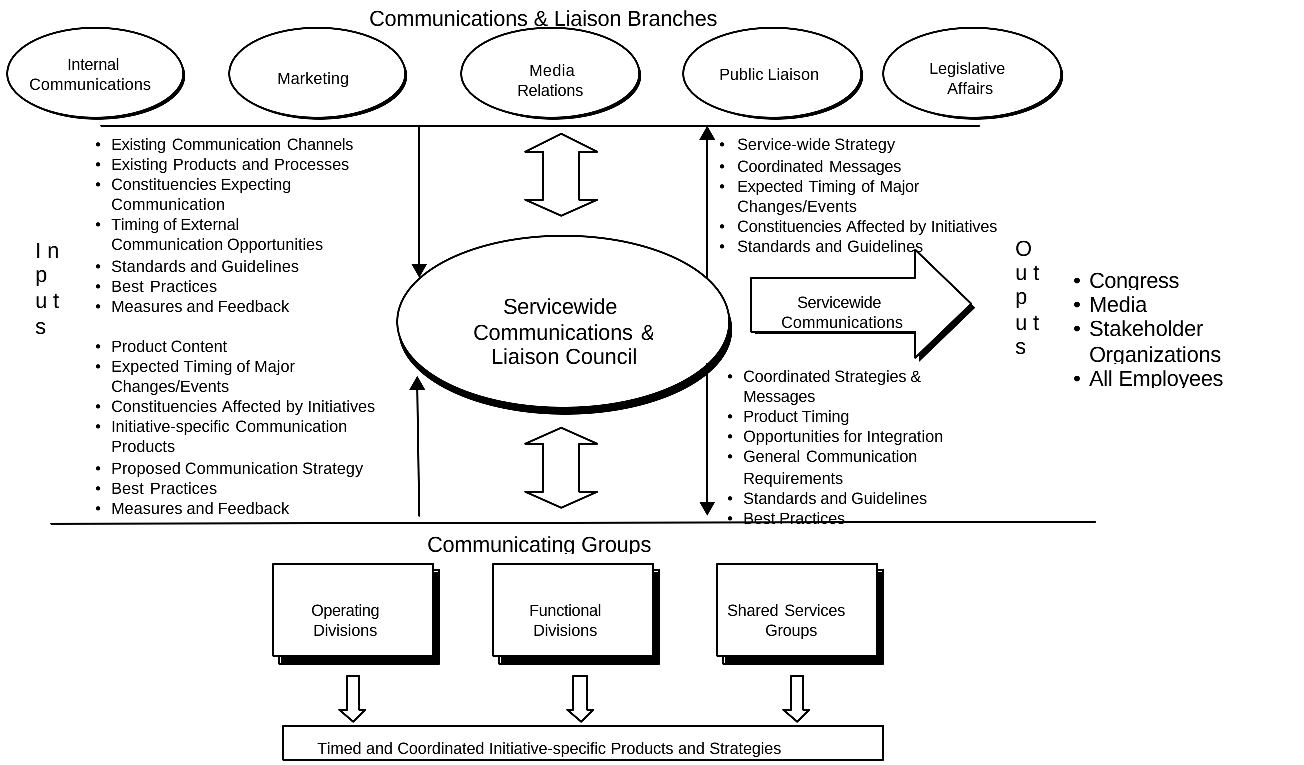
The assumption is that the Council will be composed of a working and an executive group. The following represents each group’s respective roles.

- A working group consisting of key Agency communications and liaison professionals, to share and coordinate information, strategies and messages, and to identify and resolve issues

- An executive group consisting of the highest-level executive leadership in the Agency, to provide strategic guidance and resolve outstanding conflicts

The current concept is illustrated in Figure 12-2.

Figure 12-2: Servicewide C&L Council



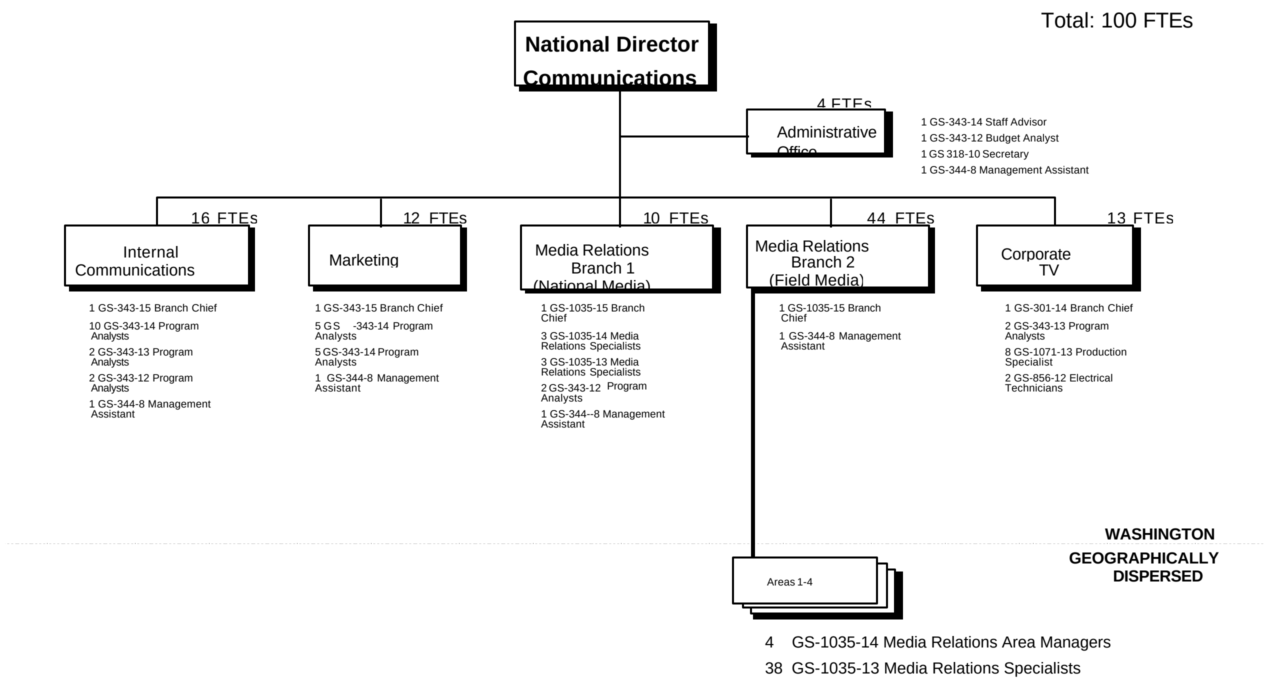
Communications Division

The mission of the Communications Division is "*to create understanding among internal and external stakeholders of the corporate vision, mission and goals and influence behavior by listening to employees and taxpayers while sharing consistent, Servicewide messages.*"

The Director, Communications Division, reports directly to the Chief, Communications & Liaison, and is responsible for planning, managing, directing and executing Servicewide communications and all media relations. The five branches that make up the Communications Division are Internal Communications, Marketing, Corporate Television, National Media Relations and Field Media Relations, including four area managers who supervise 38 field media relations personnel.

Figure 12-3 on the next page illustrates the new structure of the Communications Division.

Figure 12-3: Communications Division Organization



Internal Communications Branch

The Internal Communications Branch is responsible for developing and implementing the Servicewide strategy to communicate the IRS's corporate vision, mission and goals to IRS managers and employees. This branch develops Servicewide standards and guidelines, coordinates strategies, messages and products with the OD/FD/SD, and supports NHQ executives. The branch oversees the IRS Intranet and participates in the Servicewide Communications & Liaison Council.

Marketing Branch

The Marketing branch is responsible for collaborating with ODs/FDs/SDs to define the overall standards and guidelines for all IRS marketing campaigns. The branch develops Servicewide marketing campaigns, messages and products with OD/FD/SS input and collaborates with OD/FD/SS on all OD/FD/SS-specific marketing efforts.

National and Field Media Relations Branches

The Media Relations Branches are responsible for developing and implementing overall media strategy in support of each OD within the overall National strategy. The staffs also serve as the IRS's single point of contact for all media. This includes handling media requests by directly interacting with media and coordinating responses with OD/FD/SS or NHQ executives. The National Media Relations serves as single point of contact for national media, national stories or NHQ issues. The new field media specialist positions, which are geographically distributed and report to the Field Media Relations Branch, will serve as single point of contact for local media, local stories or field geographic issues.

Corporate Television Branch

The Corporate Television Branch is responsible for developing and implementing a Servicewide broadcasting strategy to communicate the corporate vision, mission and goals. This includes supporting all executives in the development and implementation of strategies to communicate Servicewide and organization specific messages.

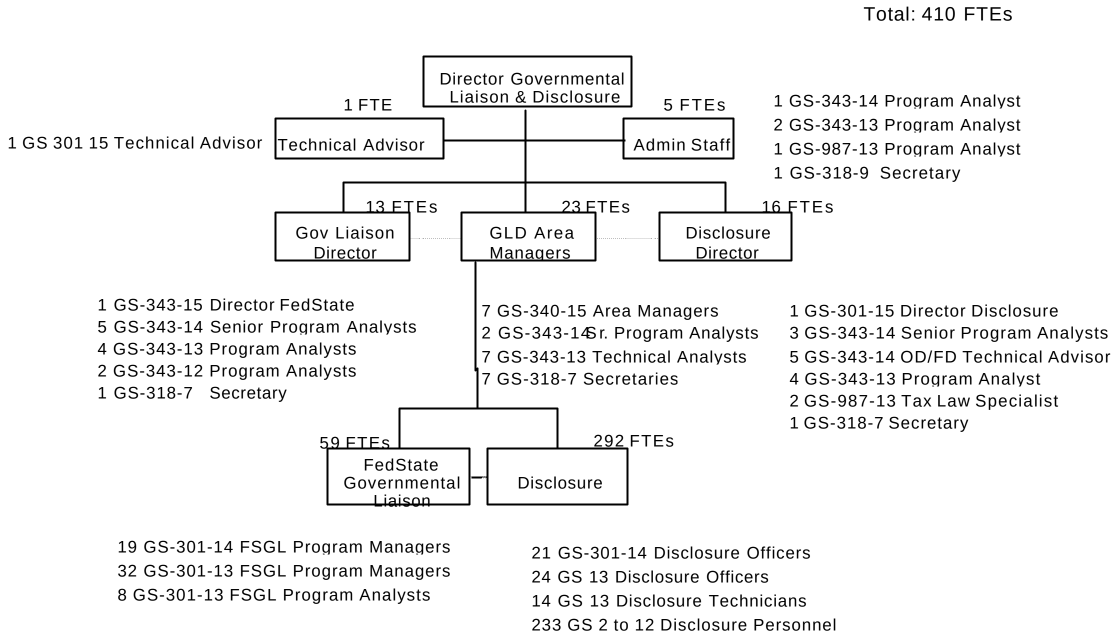
Governmental Liaison & Disclosure Division

The mission of the Governmental Liaison and Disclosure Division is "*to provide oversight and education to IRS and external partners to ensure protection of taxpayer and employee confidentiality rights while addressing the public's rights to access information; and, through partnerships with federal, state and local governmental agencies, to simplify the ability of taxpayers to meet their tax obligations, with focus on customer service, integrity and fairness to all.*"

The Director, Governmental Liaison and Disclosure, reports directly to the Chief, Communications & Liaison (C&L), and is responsible for planning, managing, directing and executing the full range of programs Servicewide for Disclosure and Governmental Liaison relations. Two branches and seven Areas make up the Governmental Liaison and Disclosure Division. The branches are Disclosure and Governmental Liaison, and the seven areas represent jointly managed Disclosure and Governmental Liaison operations.

Figure 12-4 illustrates the overall structure of Governmental Liaison and Disclosure.

Figure 12-4: Governmental Liaison and Disclosure Organization



Governmental Liaison and Disclosure (GLD) Areas

GLD includes seven geographic areas where Governmental Liaison and Disclosure functions are performed. Each area manager is responsible for full integration of the Governmental Liaison and Disclosure programs within a specific area.

The 59 field Governmental Liaison staff are distributed across the seven areas, with at least one in each state, plus the District of Columbia/International. These employees serve as a single point of contact for state, local and Federal agencies, and local congressional offices seeking partnerships or information (other than casework related) from the Service. Among the 310 Field Disclosure employees located throughout the country, there are forty-five Disclosure Officers who are responsible for providing expertise and guidance to the IRS and outside agencies. The officers ensure understanding of, and compliance with, the confidentiality statutes and ensure the proper balance between protecting IRS-held information and providing public access to this information. Disclosure Officers supervise staff located throughout the country.

The placement of GLD Area staff is based on state population, geographical coverage, number of tax agency, non-tax agency and federal partners, number of tape extract exchanges, Governmental Liaison initiative activity, and the FTEs required to support the Congressional Affairs Program. Figure 12-5 on the next page shows the results of the area placement analysis.

Figure 12-5: GLD Areas Location Matrix

STATE	POTENTIAL FEDSTATE LOCATION
Alabama	Birmingham (FSPM)
Alaska	Anchorage (FSPM)
Arizona	Phoenix (FSPM)
Arkansas	Little Rock (FSPM)
California*	Sacramento (FSPM), Los Angeles (PA), Laguna Niguel (PA), San Jose (PA)
Colorado	Denver (FSPM)
Connecticut	Hartford (FSPM)
Delaware	Wilmington (FSPM)
District of Columbia - International	District of Columbia / International (FSPM)
Florida*	Jacksonville (FSPM), Fort Lauderdale (PA)
Georgia	Atlanta (FSPM)
Hawaii	Honolulu (FSPM)
Idaho	Boise (FSPM)
Illinois	Chicago (FSPM)
Indiana	Indianapolis (FSPM)
Iowa	Des Moines (FSPM)
Kansas	Topeka (FSPM)
Kentucky	Louisville (FSPM)
Louisiana	New Orleans (FSPM)
Maine	Augusta (FSPM)
Maryland	Baltimore (FSPM)
Massachusetts	Boston (FSPM)
Michigan	Detroit (FSPM
Minnesota	St. Paul (FSPM
Mississippi	Jackson (FSPM)
Missouri*	St. Louis (FSPM)

STATE	POTENTIAL FEDSTATE LOCATION
Montana	Helena (FSPM)
Nebraska	Omaha (FSPM)
Nevada	Las Vegas (FSPM)
New Hampshire	Portsmouth (FSPM)
New Jersey	Trenton (FSPM)
New Mexico	Albuquerque (FSPM)
New York*	Albany (FSPM, PA), New York City (PA)
North Carolina	Greensboro (FSPM)
North Dakota	Bismarck (FSPM)
Ohio	Columbus (FSPM)
Oklahoma	Oklahoma City (FSPM)
Oregon	Portland (FSPM)
Pennsylvania	Philadelphia (FSPM)
Rhode Island	Providence (FSPM)
South Carolina	Columbia (FSPM)
South Dakota	Aberdeen (FSPM)
Tennessee	Nashville (FSPM)
Texas*	Austin (FSPM), Dallas (PA), Houston (PA)
Utah	Salt Lake City (FSPM)
Vermont	Montpelier (FSPM)
Virginia	Richmond (FSPM)
Washington	Seattle (FSPM)
West Virginia	Charleston (FSPM)
Wisconsin	Milwaukee (FSPM)
Wyoming	Cheyenne (FSPM)

*Based on workload matrix, several states were determined to require more than one FTE.
NOTE : Abbreviations FSPM=FedState Program Manager; PA=Program Analyst

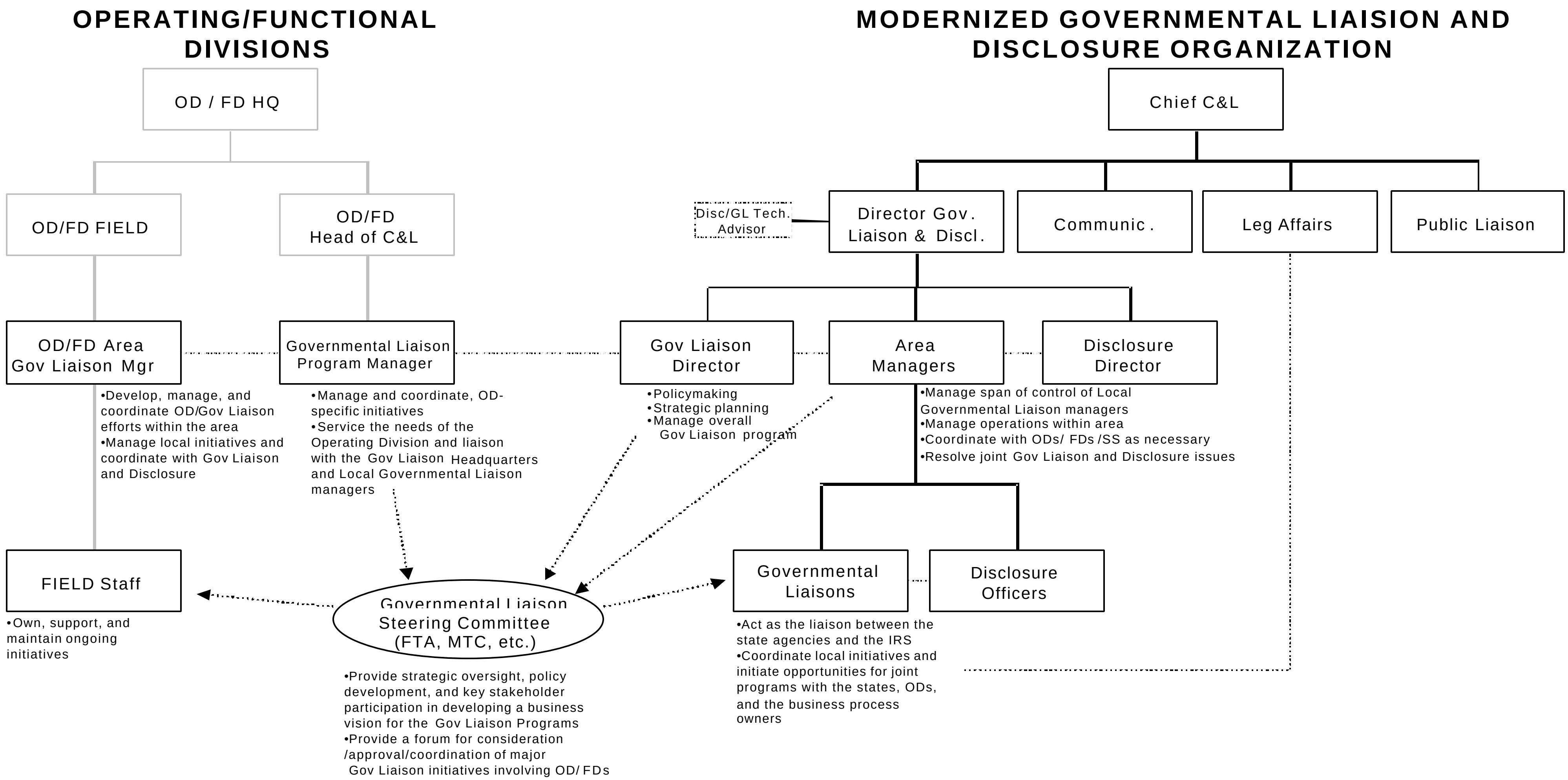
Governmental Liaison

The Governmental Liaison branch (headquarters and field) is responsible for liaison and partnership between IRS and its federal and state partners to simplify the ability of taxpayers to meet their tax obligations. The branch facilitates the exchange of taxpayer data and provides assistance to taxpayers to improve compliance and enhance communications. The branch also provides support for the Congressional Affairs Program. Data exchange responsibilities include partnering with Disclosure and IRS offices to provide guidance, training seminars and information to federal and state agencies to ensure they meet their obligations under the Taxpayer Browsing Protection Act and related safeguards. Taxpayer assistance activities include arranging reciprocal forms bulk distribution in IRS and state locations, and identifying opportunities for development of mutually beneficial taxpayer advocacy initiatives such as joint problem solving events, joint outreach and education related to local issues.

Because the National Taxpayer Advocate is independent by statute and does not speak for the Commissioner or the IRS, CAP will remain with Communications & Liaison. CAP activities include managing relationships with local congressional offices in every state and serving as the local primary point of contact for coordinating congressional correspondence relating to tax administration and general Agency issues (non-casework). In addition to the Governmental Liaison staff located throughout the seven areas, each IRS operating division will have their own embedded liaison with the C&L Governmental Liaison organization both in headquarters and the field. The Governmental Liaison Steering Committee will be the main cross-functional integration mechanism for the Governmental Liaison program, responsible for overall strategic direction and coordination with the operating divisions.

Figure 12-6 on the next page illustrates the new Governmental Liaison organization.

Figure 12-6: The New Governmental Liaison Organization



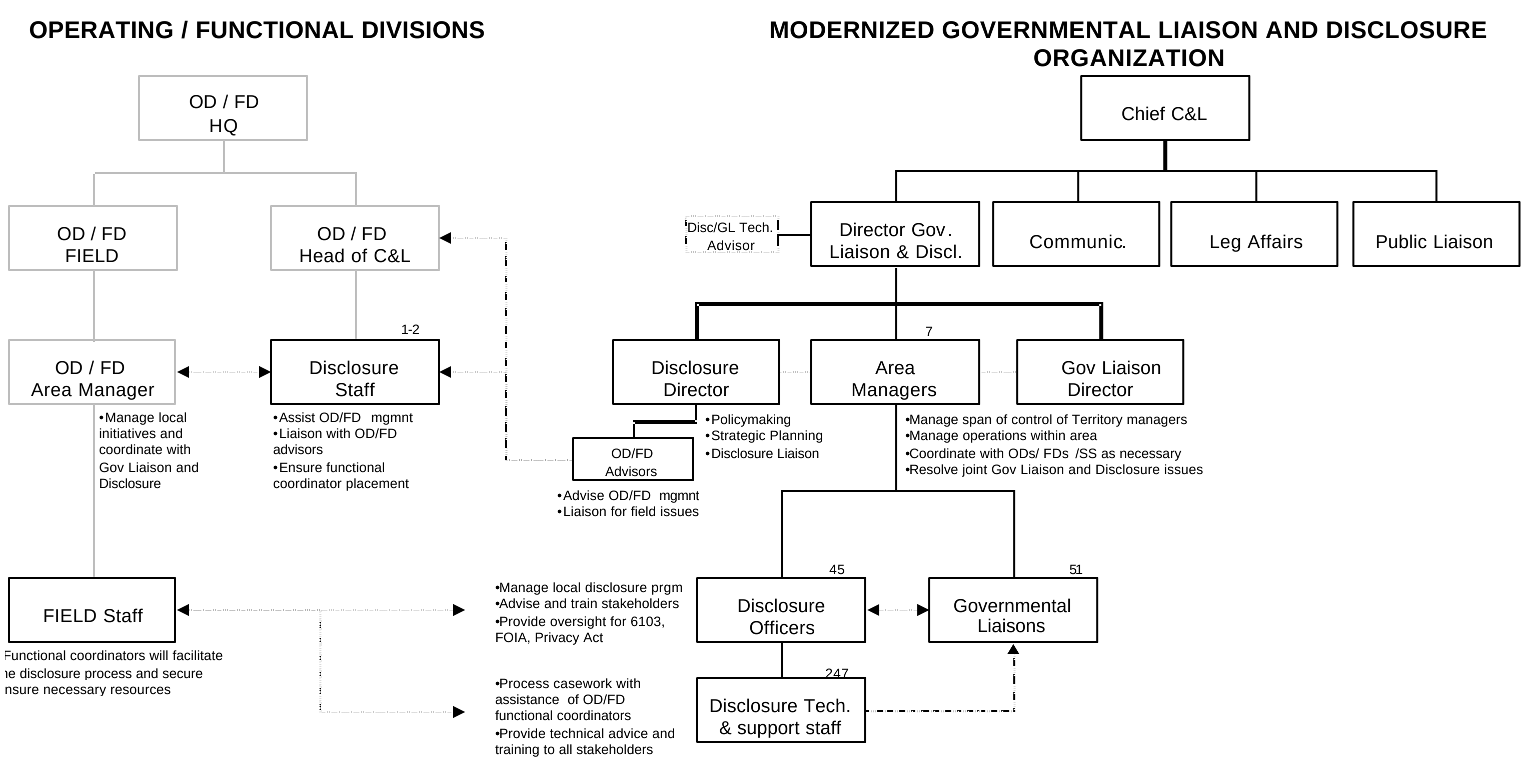
<u>Disclosure</u>

The Disclosure branch is responsible for promoting awareness of, reviewing adherence to, and reporting activity related to disclosure of taxpayer and employee information.

The branch develops Servicewide standards and guidelines to ensure Servicewide quality of activities under Internal Revenue Code 6103, the Privacy Act, the Freedom of Information Act, the Taxpayer Browsing Protection Act and Treasury order 150-29, which provides for tax checks on government officials. Disclosure Officers located throughout the country respond to requests for taxpayer information from corporations and individuals, conduct technical training to Service employees on their responsibility to protect taxpayer rights to privacy and confidentiality, and perform quality/awareness reviews of Headquarters and field functions. Headquarters acts as the liaison with Congress by collecting and maintaining the information needed to comply with mandated and ad-hoc reporting requirements.

Disclosure employees maintain the Service's Freedom of Information Reading Room, ensure timely and accurate processing of Exparte Court Orders from United States District Courts and initiate testimony authorizations and records release authority in response to subpoenas or requests for IRS witnesses and records in non-tax cases. Figure 12-7 below illustrates the new Disclosure organization.

Figure 12-7: New Disclosure Organization

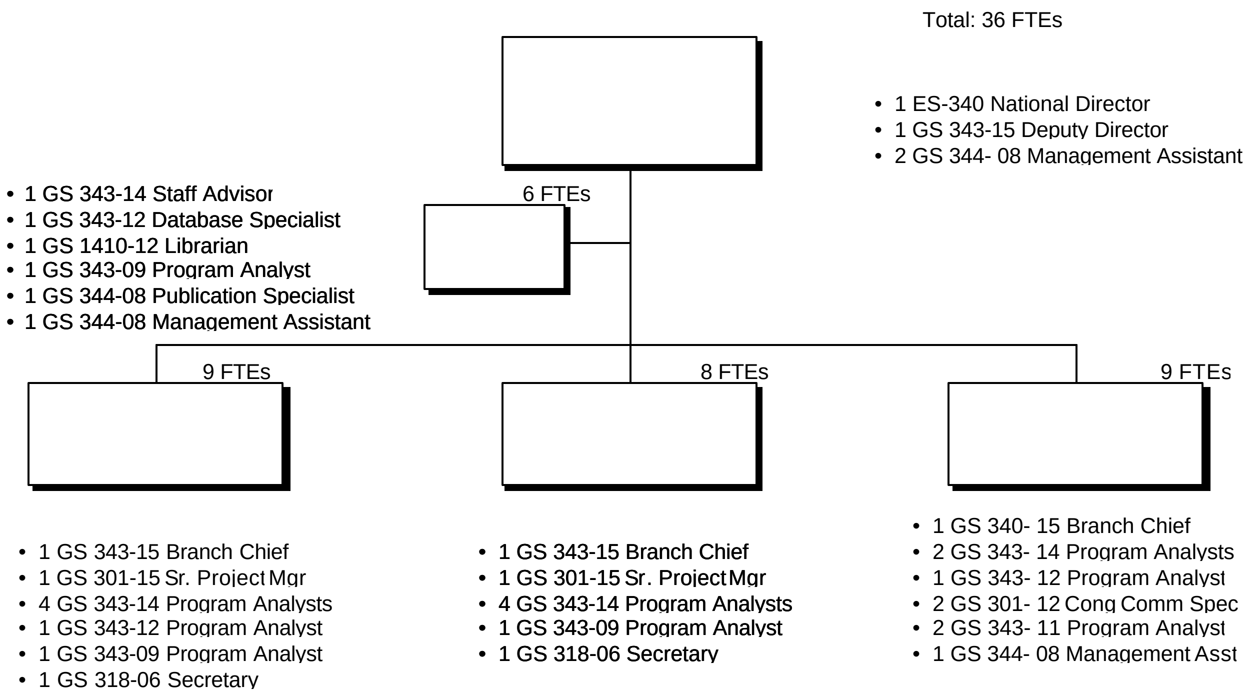


Legislative Affairs Division

The mission of the Legislative Affairs Division is *"to manage and enhance IRS' relationships with Members of Congress and their staffs, to serve as the central coordinating point that enables IRS to achieve its legislative objectives and to assist the IRS in ensuring continued Congressional support for modernization."*

The National Director for Legislative Affairs reports to the Chief, Communications and Liaison, and is responsible for planning, managing directing and executing the efforts of the division, and for keeping the Chief, the Commissioner and other top officials appraised of significant congressional activities. Figure 12-8 shows the three branches that make up the Legislative Affairs Division – Legislation and Reports, Congressional Affairs and Congressional Correspondence.

Figure 12-8: The Legislative Affairs Organization



<u>Legislation and Reports Branch</u>

The Legislation and Reports branch is responsible for tracking pending tax and non-tax legislation to determine administrative implications for taxpayers and the IRS and recommending changes to reduce burden. Employees work with OD/FD/SS's to develop legislative proposals that enhance tax administration, form plans to implement provisions of newly-enacted tax legislation and manage the GAO/TIGTA review process.

Congressional Affairs Branch

The Congressional Affairs Branch manages the relationship between IRS, members of Congress and their staffs. Responsibilities include developing outreach efforts to provide congressional offices with information and materials on tax administration issues and identifying critical meetings between the Commissioner of IRS, other IRS officials and Members of Congress. Branch employees collaborate with ODs to prepare testimony and briefing materials for congressional hearings and determine the best strategy for witness preparation. The branch coordinates with the Director, Governmental Liaison and Disclosure, in managing the Congressional Affairs Program, which provides IRS field executives and staffs help in establishing ongoing, positive relationships with local congressional offices.

Congressional Correspondence Branch

This branch manages the processing of congressional correspondence sent to the Commissioner of IRS. Key activities include evaluating IRS responses to members of Congress, taking action to improve accuracy, tone and messages in all IRS outgoing correspondence and identifying trends in congressional activity. The branch also provides executive level Servicewide training on written responses to congressional correspondence and serves as the primary point of contact for congressional phone calls.

The Congressional Affairs Program (CAP) is a key aspect of the IRS Legislative Affairs function. Because the National Taxpayer Advocate (NTA) is independent by statute and does not speak for the Commissioner or the IRS, CAP will remain with Communications & Liaison. Policy, standards and guidelines for the CAP are the responsibility of Legislative Affairs. CAP duties will be performed as collateral duties by the Governmental Liaison field personnel. Local Taxpayer Advocates will continue to perform the constituent casework activities generated by local congressional offices.

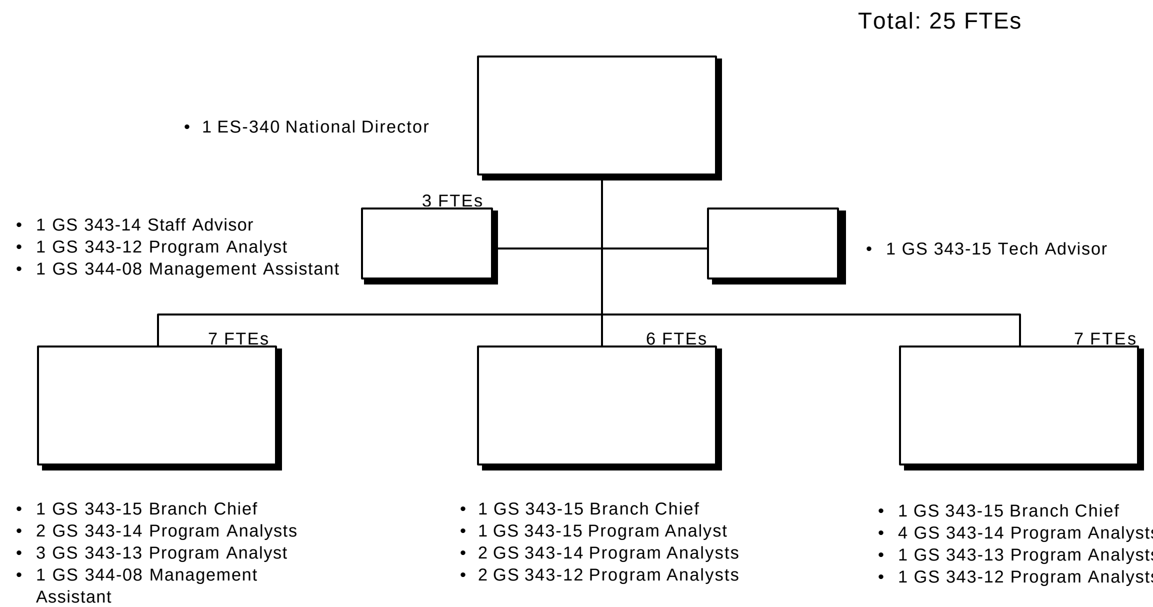
National Public Liaison Division

The mission of the National Public Liaison Division is *"to enhance, promote and manage the IRS' relationships with professional and business entities to improve and increase voluntary compliance and reduce burden."*

The Director, National Public Liaison (NPL), reports to the Chief, Communication and Liaison, and serves as the Commissioner's representative in dealing with external organizations and other federal agencies on an extensive range of issues, including high-level policy matters related to tax administration. National Public Liaison is responsible for managing relationships with national stakeholder organizations, business and professional associations, IRS Advisory Council and other national level organizations with an interest in tax administration and IRS activities and programs. The three branches that make up the National Public Liaison Division are Public Liaison, Planning & Advisory Councils and Business Liaison.

Figure 12-9 illustrates the new National Public Liaison structure.

Figure 12-9: National Public Liaison Organization



Public Liaison Branch

The Public Liaison Branch is responsible for the strategic direction of the non-business external liaison program, which includes national tax professional, payroll, electronic commerce, volunteer taxpayer assistance and other associations/organizations. The branch maintains an effective communications program to keep stakeholders informed of IRS initiatives, policies, procedures and regulations and solicits input and ideas from national stakeholders to identify emerging national issues, provide awareness to internal and external customers and track follow-up issues. The branch manages the National Public Liaison and National Speakers' Corner sites on the IRS Intranet and manages the Tax Pro Corner site of the IRS Internet.

Planning and Advisory Councils Branch

The Planning and Advisory Councils Branch develops the strategic direction of the business external liaison program and ensures that national business liaison relationships are maintained and enhanced. Key branch activities include keeping stakeholders informed of IRS initiatives, policies, procedures and regulations, soliciting ideas from national stakeholders to identify emerging national issues, responding to national business stakeholder requests and facilitating resolution of stakeholder issues.

Business Liaison Branch

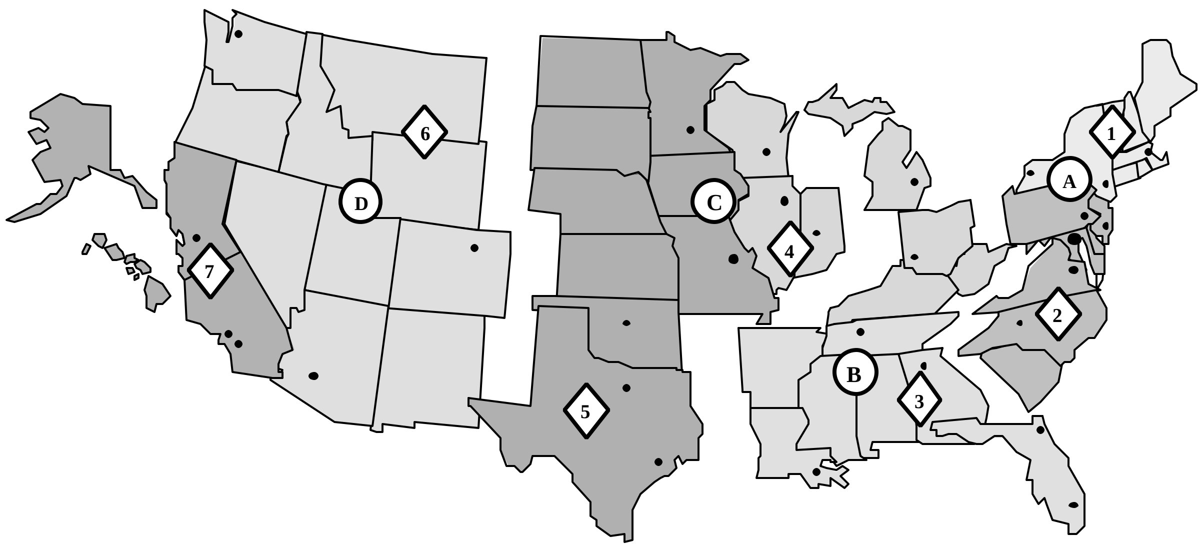
This branch plans, coordinates and manages the activities of the Internal Revenue Service Advisory Council (IRSAC) and the Information Reporting Program Advisory Committee (IRPAC). Branch employees coordinate and maintain communications links and vehicles, including the National Speakers' Corner and the Tax Professional's Corner, and work with internal and external stakeholders to identify IRS small business tax products and services for development or improvement.

C&L Field Footprint

An optimal and integrated C&L geographic footprint required analysis of the potential collateral duties in the field, as well as the options to share support functions. The process to define the C&L integrated footprint involved estimating each functions' FTE requirements, defining their location criteria and mapping staff on a combined footprint. In parallel of each sub-teams' individual analysis, a matrix identifying the locations of the future IRS players and of key communications criteria was developed. This included identifying: the location of each OD, FD, service centers and computing centers; the location of the top 50 radio/TV markets, the largest 50 cities, the state capitals and the locations of current C&L family components.

The results of this analysis indicated that Governmental Liaison and Disclosure have a combined field footprint of seven areas, while media relations requires four. The areas are driven mainly by workload distribution, future division locations and current location of C&L staff. Figure 12-10 illustrates the C&L future footprint.

Figure 12-10: Communications and Liaison Future Footprint



(A) through (D) denote Media Relations areas
(1) through (7) denote Governmental Liaison & Disclosure areas
• denote Media Relations field locations

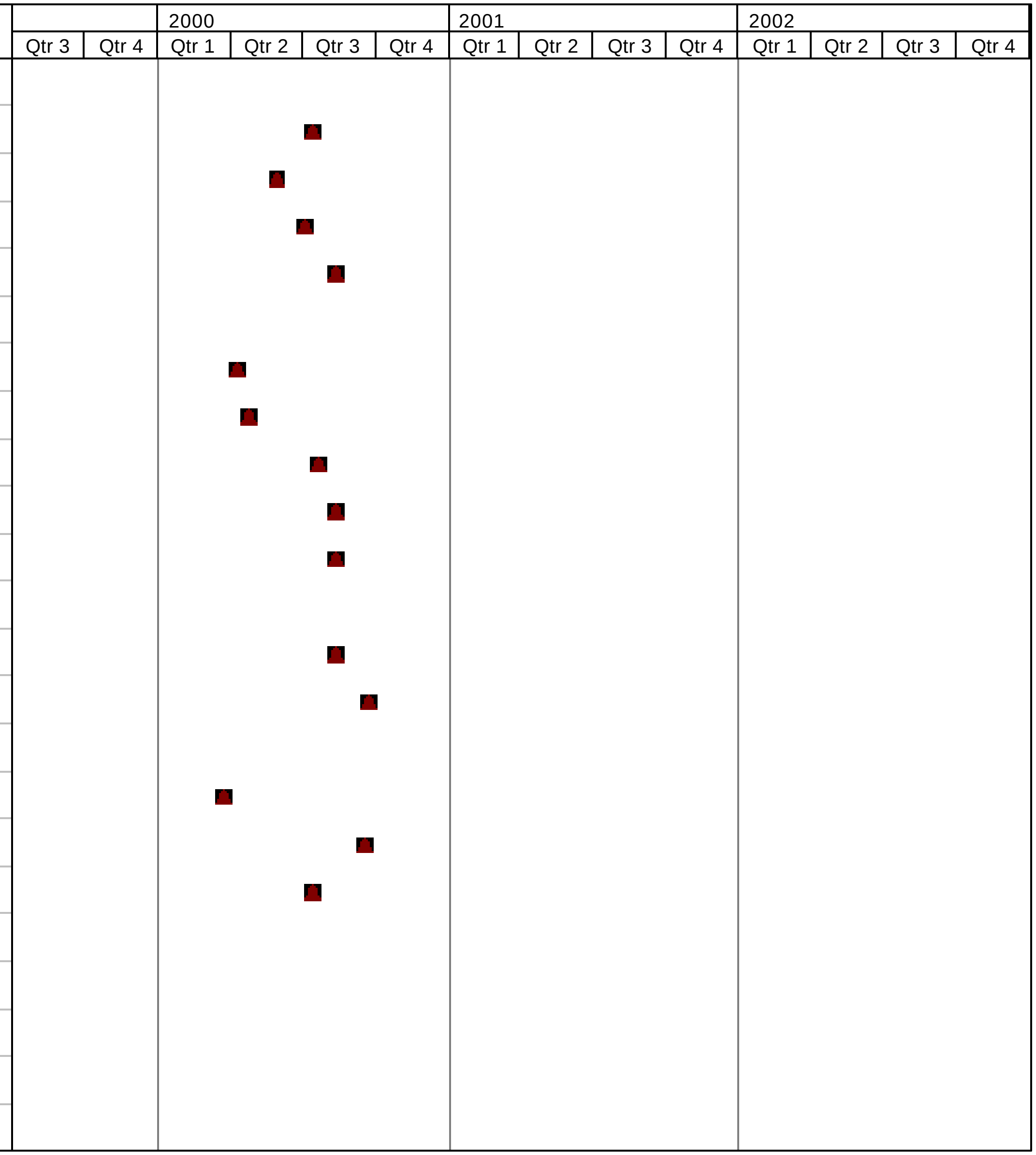
Phase III and Implementation Timing

The focus for Phase III will be to resolve outstanding issues from Phase IIB and support stand up of the new C&L organization. C&L's implementation objective is to accomplish a smooth transition with minimal impact on customers and employees.

C&L hopes to be fully stood up by the end of the year 2000. The key C&L implementation milestones are shown in Figure 12-11 on the next page.

Figure 12-11: C&L Implementation Plan

ID	Task Name
1	**Competitive Personnel Actions**
2	All SES Selected
3	Area Managers Selected
4	GS-15 Managers Selected
5	Select Balance of Staff
6	**Non Competitive Actions**
7	Commisioners Packet Signed
8	Notice 1
9	Notice 2
10	Workforce Migration Complete
11	Effective Date of Stand up
12	**Budget Authority**
13	Budget Authority Transferred
14	Key Personnel and Finance Systems Operational
15	**Systems / Processes**
16	Revalidate Interim Delegation Orders
17	Ensure Necessary IRM Changes are Made
18	Establish Necessary Linkages with OD/FD/SS Embedded Staffs



Chapter 13 National Headquarters

Goals, Principles and Objectives

The National Headquarters will be comprised of 6 principal organizations:

- Chief, EEO and Diversity
- Chief Financial Officer
- Strategic Human Resources
- Office of Tax Administration Coordination
- Research, Analysis and Statistics of Income
- Complaint Processing and Analysis Group

The organizational design for the above listed functions is currently underway. This effort is an accelerated process that combines Phase IIA, Phase IIB and Phase III decisions. The key functions to be performed by the National Headquarters were initially proposed in December 1999, when realignment of key National Headquarters functions were researched by the Core Design Team. Through the current design effort, National Headquarters has established baselines for existing organizations that will map to the new organization. The National Headquarters functions are presently defining their future missions, functions, work-streams and customers.

Organization Structure

A high-level organizational structure of the National Headquarters organization has been drafted, but not approved and is therefore not included in this document. However, each of the National Headquarters organizations is described in more detail on the pages which follow. The organizations are in differing stages of the design process, with some undergoing little change from their current state and others either being developed from mergers and modifications of existing organizations, or being created as new functions.

EEO and Diversity

The National Headquarters Office of the Chief, EEO and Diversity provides overall policy direction and program oversight for the Service's equal employment opportunity, diversity and external civil rights programs. Through these programs, this office creates awareness of prohibited discriminatory actions and establishes complaint prevention and resolution programs, thus encouraging a work environment that is free from discrimination and which encourages equal and fair treatment of all employees and taxpayers.

The Chief, EEO and Diversity serves as the principal advisor on matters relating to equal employment opportunity, affirmative employment and diversity. Through strategic partnerships with other functions within the Service, the office develops Servicewide EEO and diversity strategies, guiding principles and policies.

The National Headquarters EEO and Diversity office is composed of three staffs, which are responsible for the various programs for which the EEO and Diversity function is responsible.

Servicewide EEO and Diversity Staff is responsible for primary development and oversight of EEO and Diversity policy in such areas as:

- Affirmative Employment
- Complaint Administration
- Prevention of Sexual Harassment
- Disability Compliance
- Diversity

In addition to serving in an advisory capacity to AWSS EEO field staff, the office is also responsible for development of Servicewide affirmative employment plans and policy statements, monitoring complaint activity, conducting program reviews and delivering Treasury policy to IRS. The staff, through ongoing monitoring of Servicewide complaint and workforce data, identifies and analyzes trends and makes recommendations for addressing concerns.

The External Civil Rights Unit is responsible for ensuring that no person in the United States, on the grounds of race, color, national origin, sex, age or disability, is excluded from participation in, denied the benefits of, subjected to discrimination in any program or activity funded or conducted by the Internal Revenue Service. In conformity with the Restructuring and Reform Act of 1998, the external civil rights unit is responsible for enforcing and implementing the following:

- Title VI of the Civil Rights Act of 1964;
- Section 504 of the Rehabilitation Act of 1973, as amended;
- Title IX of the Education Amendments of 1972; and
- Age Discrimination Act of 1975.

These civil rights programs involve our external customers, i.e., taxpayers, educational institutions, tax clinics, etc., that are federally-funded or federally-conducted programs. The enforcement of the IRS external civil rights program will be achieved through continued data collection, reporting, compliance reviews and, if necessary, investigation for remedial and enforcement sanctions.

The Discrimination Complaint Review Unit (DCRU) was created in support of the Restructuring and Reform Act of 1998 to review settlement agreements and findings of discrimination to determine if potential 1203 violations exist. The DCRU is responsible for:

- Making a preliminary determination, based on the record, that a *prima facie* case of intentional discrimination exists, i.e., a person was treated differently on the basis of race, color, religion, sex, national origin, reprisal, age or disability, as defined by the civil rights statutes.

- Conducting onsite fact-findings to determine whether a potential violation of 1203(b)(3)(B) has occurred.

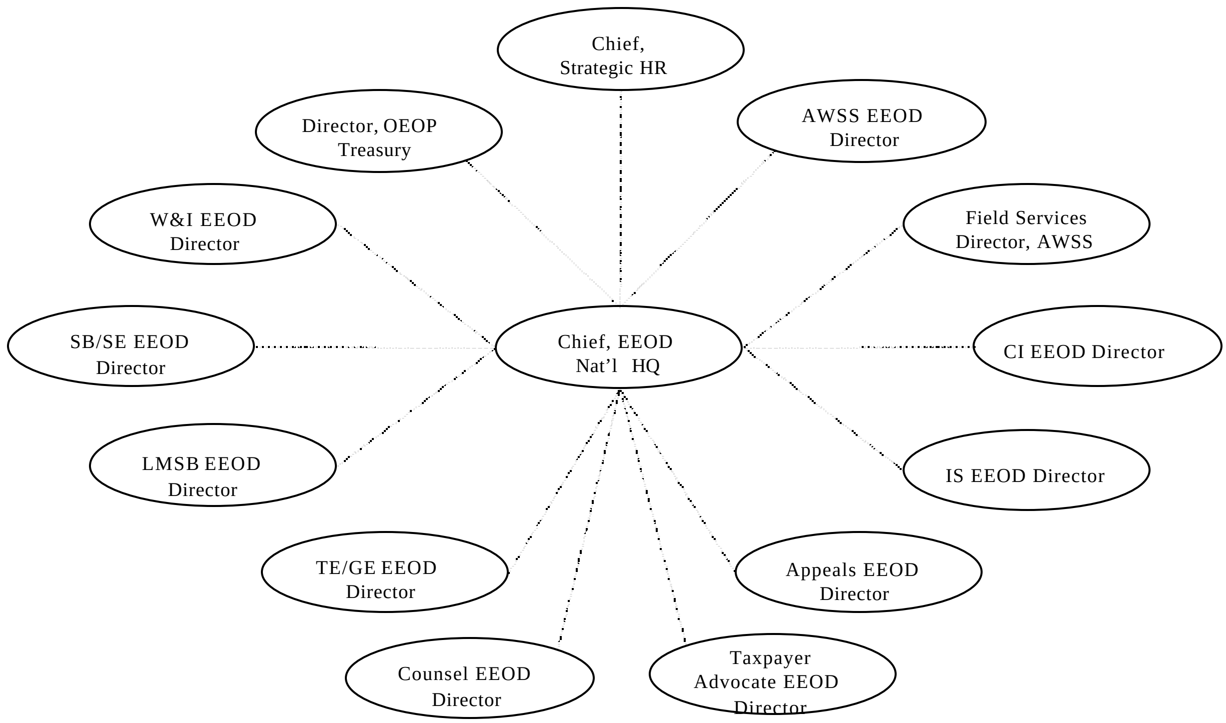
- Making referrals to the Treasury Inspector General for Tax Administration (TIGTA) for further investigation, if warranted.

If the DCRU's review determines that there is a 1203(b)(3)(B) violation, the Head of Office will be notified and will coordinate the next steps with Labor Relations. Labor Relations will then forward the case to the Review Board, which is responsible for considering mitigating factors such as the nature of the misconduct, the employee's work history, and for making the final recommendation to the Commissioner.

The purpose of the EEO and Diversity Council is to provide functional leadership by ensuring a coordinated approach to Servicewide equal employment opportunity and diversity programs, issues, systems and strategies. The Council will identify and make recommendations to the National Headquarters on such cross-cutting issues and emerging priorities as budget, training, staffing, information systems and program measures. The Council will also ensure that cross-division linkages are in place, thus facilitating cross-functional communication and coordination.

The Council, chaired by the Chief, EEO and Diversity, will be composed of the EEO and Diversity Directors from operating divisions, functional units and shared services, as well as representatives from Counsel and Department of Treasury (see Figure 13-1 on the next page). Members of the Council will play unique roles. The Chairperson will drive the Council agenda and represent Servicewide interests. Other IRS members will represent their own organizations and the needs of its employees while also considering the needs and priorities of the Service as a whole. In addition, the Director, Office of Equal Opportunity Program in Treasury, will represent the Complaint Centers and Departmental EEO program.

Figure 13-1: EEO and Diversity Council



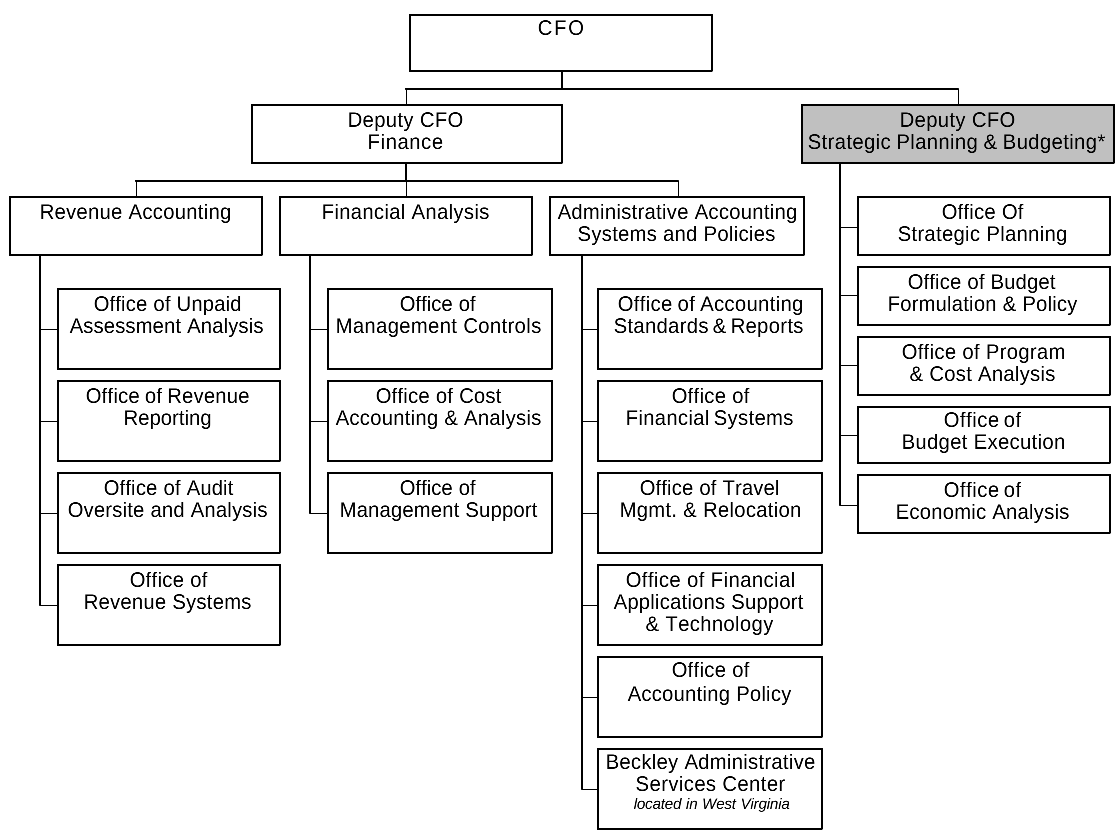
Chief Financial Officer

The Chief Financial Officer (CFO) is responsible for the acquisition, planning, control and management of all Service financial resources, including administrative and revenue accounting.

The Chief Financial Officer organization will undergo several changes from its present state. First, the Strategic Planning and Budgeting organization will be integrated into the CFO organization. Responsibility for the Internal Revenue Accounting System (IRACS) and oversight of the ESC FMC process will also be acquired. Finally, the Office of Revenue Analysis will be transferred to the new Research, Analysis and Statistics of Income organization.

The CFO organization consists of four divisions: the Revenue Accounting Division, the Financial Analysis Division, the Administrative Accounting, Systems and Policies Division, and the Strategic Planning and Budgeting Division. These divisions and their sub-units are depicted in Figure 13-2.

Figure 13-2: Chief Financial Officer Organization



* Indicates organizational structure is subject to change.

Revenue Accounting key responsibilities include:

- monitoring and providing guidance to senior program managers on issues related to the long-term financial management of the Service;
- coordinating with the General Accounting Office (GAO) on the audit of custodial financial statements;
- developing and managing the IRS revenue accounting process, including coordinating key issues related to reporting accounts receivable in the financial statements and other reports;
- preparing and issuing the IRS financial statements;
- ensuring compliance with the CFO Act;
- establishing policy and guidance related revenue accounting; and
- maintaining and ensuring the integrity of master file reports for revenue accounting.

Financial Analysis key responsibilities include:

- coordinating and providing program guidance on meeting the Service's Internal Control objectives;
- supporting the Executive Steering Committee for Financial Management Controls;
- monitoring the progress of FMFIA, FFMIA and financial statement audit corrective actions and preparing the Service's annual assurance letter;
- coordinating organization, staffing and training issues for the CFO and embedded finance staffs;
- developing cost accounting systems requirements; and
- conducting cost/benefit analyses and studies of cross-functional issues.

Administrative Accounting, Systems and Policies key responsibilities include:

- preparing the IRS administrative financial statements and other financial reports;
- coordinating the annual administrative financial audit and serving as liaison with field financial offices, Treasury, Financial Management Service and Office of Management and Budget on financial reconciliation, reports and reporting requirements;
- establishing and prescribing IRS financial policies for administrative accounting operations, budgeting, and reporting;
- maintaining the Servicewide Automated Financial System (AFS);
- developing and administering IRS travel policy and relocation services; and
- administering Servicewide financial accounting functions for cash management, disbursements, management reporting, data entry, customer assistance, quality assurance and internal control.

The Strategic Planning and Budgeting key responsibilities include:

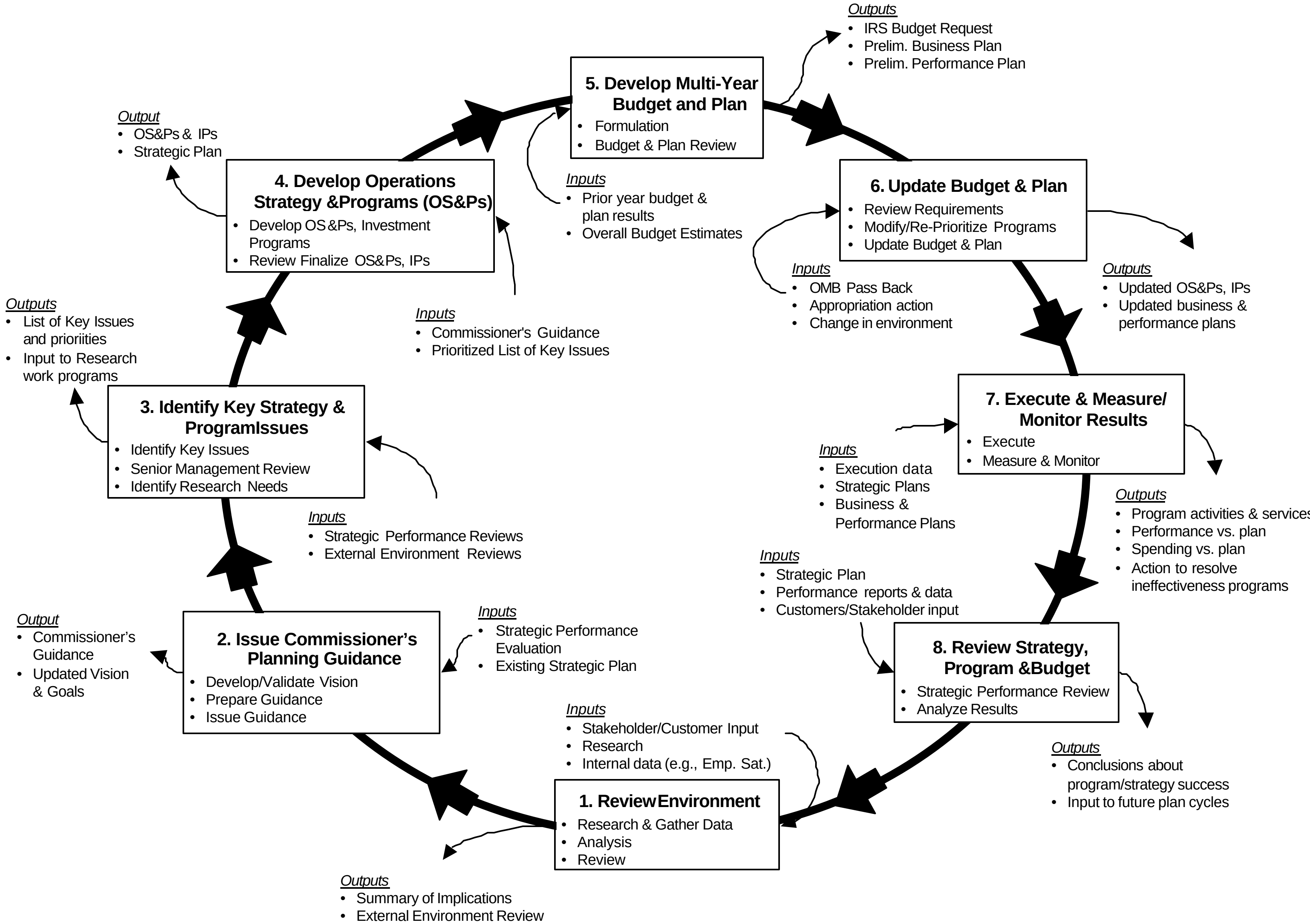
- providing Servicewide strategic planning policies, guidance and procedures;
- managing the development, consolidation, communication, and distribution of the IRS Strategic Plan;
- preparing and coordinating budget submissions, appeals and hearing materials;
- ensuring quality and realistic costing of IRS budget submissions and labor force;
- managing and controlling budgetary resources;
- developing and implementing financial operating guidelines;
- ensuring compliance with statutory budgetary requirements; and
- developing and maintaining the Investment Decision Making process.

The IRS strategic planning process is based on three main themes:

- **Start with a thorough understanding of strategic forces and their future impact.** The process should identify key external forces and understand their implications, allocate resources to efforts that address issues raised in the understanding of key forces, take a multi-year approach, and drive high-level strategic decisions.
- **Use a clearly defined strategic planning process linked to budgeting.** This process should include clearly defined and logical steps, key deliverables for each phase, development roles for senior management and operating units, and operations strategy and investment programs.
- **Encourage heads of the operating units to propose and execute most of the programs.** Identify and develop programs which address key strategic issues, use programs to seek resources and manage effort, develop explicit deliverables, align resources to programs, structure programs accordingly – within or across organizations, and allocate resources in ways that link them to strategic priorities.

Figure 13-3 on the next page shows the Strategic Planning and Budgeting Process. While senior management leads the process, it integrates participation from across the IRS, and its success requires close cooperation between the IRS and Treasury department. Success will also require a common understanding of timing, responsibilities, and deliverables.

Figure 13-3: Strategic Planning and Budgeting Process



Strategic Human Resources

The Strategic Human Resources (SHR) organization devises new strategies and develops HR policy focusing on agency-wide people issues. These issues include instilling core values; leading and developing employees; promoting partnership; and ensuring a positive work environment.

This new organization which was designed in Phase IIA, and implemented in Phase IIB, will enable the IRS workforce to perform at its full potential by supporting a high-performance work environment. Strategic Human Resources is composed of experts in key Human Resources (HR) fields whose collective role is to set the overall agency strategy for human resources, align that strategy with the mission of the Modernized IRS, and design high performance HR systems that work effectively within and across the operating divisions.

Four main elements were necessary to create a Strategic Human Resources capability:

- new and enhanced processes;
- new competencies of our Human Resources professionals;
- enabling technologies and systems; and
- a supporting organization structure.

These elements are guided by an overarching philosophy on attracting, retaining, and developing employees. Eight functions now align HR responsibilities to business priorities.

The following is a description of their major roles.

- *Workforce Planning* provides a planning process and analytical capability to measure and compare the current workforce (supply) with the future workforce (demand). The process provides insight into the best policies and initiatives needed to recruit, develop, and retain a highly competent, committed, and customer focused workforce. The function also has a critical role in developing the personnel requirements system, which is linked to strategic planning and budgeting, recurring recruitment needs, and training requirements.

- *Career Management and Recruitment* provides an integrated approach for managing the development and progression of employees in order to field a workforce with the competencies necessary to achieve current and future organizational performance. Career Management develops the framework to identify competencies required for Service occupations, create tools to assess those competencies, and prepare roadmaps for career planning within and among major occupations, workforce components, and organizational units such as the new operating divisions. The Recruitment function develops recruiting programs and guidelines and creates and implements approaches to market IRS as an employer of choice.

- *Leadership and Organizational Development* designs and delivers education and training for Service executives, managers, and supervisors and is responsible for the Service's efforts to build and implement a leadership development system. The function provides products and services that support business improvement outcomes and manages the IRS change management program.

- *Learning and Education* function develops and delivers training and education services and products to all IRS employees. In FY 2000, over 10 million hours of sustainment training and 2.4 million hours of modernization training will be delivered. A major redesign initiative is currently underway that will result in the realignment of certain institutes and functions to the operating divisions. This realignment is projected for FY 2001.

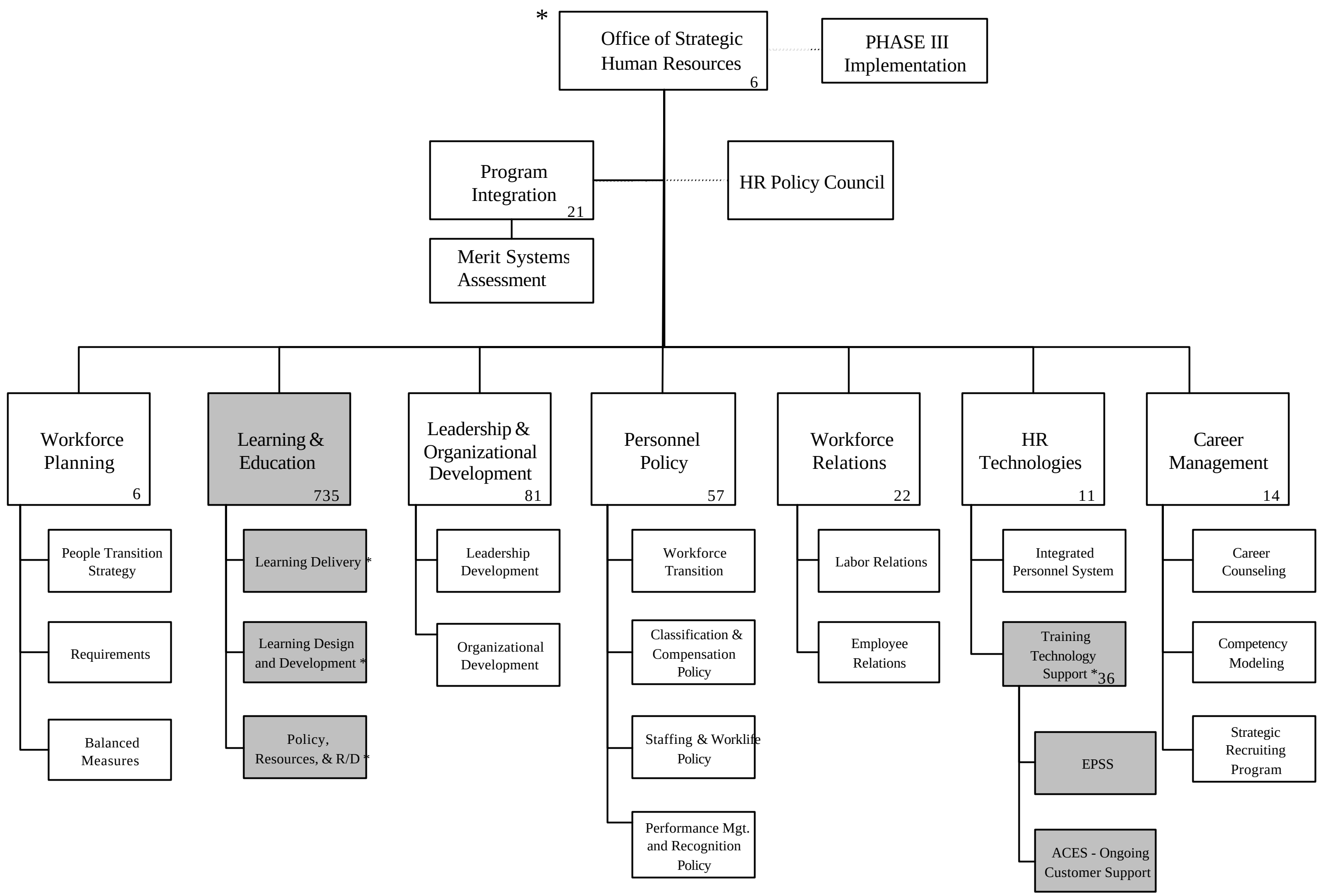
- *Workforce Relations* establishes policy and provides expertise and support with regard to national IRS labor and employee relations. The Labor Relations function provides technical guidance on the current national labor contract, prepares the Service for future national negotiations, and negotiates mid-term agreements as well as issues related to the Service's modernization. The Employee Relations function provides technical and policy guidance for programs such as employee discipline and adverse actions, RRA 98, Section 1203, employee tax compliance, background investigations, Whistleblower Protection, and Ethics and Standards of Conduct.

- *Personnel Policy* leads the Service in the development and implementation of comprehensive strategies and policies for numerous functions in personnel management such as classification and compensation, performance management and recognition, staffing and worklife, and transition issues. The function establishes agency-wide policies that enable the Service to place the right people in the right jobs; enhance recruitment and retention of the most qualified individuals; provide incentives to maximize the potential of the most qualified individuals and the workforce; provide effective compensation strategies; and provide personnel strategies for an effective restructuring and maintenance effort.

- *Human Resource (HR) Technologies* designs, develops, and implements the enterprise-wide HR systems in support of the IRS mission, goals and objectives. The function helps to determine the appropriate technology solution to apply to business problems associated with HR processes, training, and employee performance.

- *Program Integration* is responsible for the oversight and coordination of all aspects of SHR including program and resource management. Viewing all resources from a strategic perspective, this function provides oversight for the SHR budget, acquisition and contract review, and internal personnel planning. Program Integration provides support to the HR Policy Council and the systematic dissemination of HR policies and guidelines; provides oversight and direction to the Senior Account Executives; and coordinates externally mandated activities such as TSI, RRA 98 and GAO audits. In addition, the newly created Merit System Assessment function monitors and evaluates Service-wide trends and conditions in personnel, labor relations and training programs.

On the next page in Figure 13-4, the Strategic Human Resources organization can be seen in its entirety.



* Indicates organization currently under major redesign during Phase III implementation.

The Operating Division Human Resources Function

A mirror structure in the operating division headquarters will ensure that strategic HR capabilities are aligned with both the goals of the Service and the needs of the business. Designed in Phase IIB, a structure similar to core HR is to be embedded in each operating division during Phase III. This structure will customize HR programs and processes to satisfy each operating division's unique needs and optimize overall performance. While the SHR is responsible for HR functions relating to the IRS as a whole, each operating division will have an embedded HR that focuses on creating HR systems and procedures tailored to their unique needs. Examples include career paths for predominant occupations, the development of operating division unique training, job-specific career counseling, and external recruiting for specific occupations.

Strategic Human Resources Policy Council

A separate component of the HR network is the Strategic HR Policy Council. This Council provides governance, assurance, and functional leadership. The Council addresses crosscutting HR issues that cannot be resolved at lower levels. Issues are screened and prioritized for inclusion on the regularly scheduled meeting agenda or handled through an offline process used when their input is urgently needed prior to the next formal meeting. The Council examines agency-wide people issues and ensures that agency-wide decisions do not adversely impact any facet of the organization. It is the sole body within the IRS responsible for approval of new HR policies. The Council ensures that issues crossing division lines are coordinated. The Council monitors the activities of the Agency-Wide Shared Services organization in delivering HR support. In their advisory capacity, the Council provides strategic HR advice and recommendations to the Commission and IRS senior staff.

The Chief Human Resource Officer chairs the Council, and senior executives representing each operating and functional division are voting members. NTEU and EEO/Diversity also participate on the Council as voting members. The Council also includes advisors as non-voting members who provide advice and make recommendations based on their areas of expertise and/or responsibility. They represent professional organizations, SHR divisions, and other interested stakeholders.

The Council is viewed as an impartial, professional and insightful entity that can assume several potential duties. It can identify and analyze issues for discussion, evaluate policy effects, make HR policy, and support the implementation of decisions.

Office of Tax Administration Coordination

The Office of Tax Administration Coordination manages the Tax Administration Council, provides the Office of the Commissioner, operating divisions and functional divisions with strategic guidance on Service business strategies and priorities, provides standards and guidance on the development and use of performance measures, coordinates and compiles internal and external reports on measures, manages the Business Performance Review System, provides business improvement assistance, and manages both the customer and employee satisfaction survey process.

The Chief of Office of Tax Administration Coordination reports to the Assistant Deputy Commissioner for Operations and is responsible for the planning, managing, and directing of a full range of services and activities to ensure the accomplishments of OTAC. The Office is divided into two business functions: Program and Project Coordination and Measures and Organizational Performance.

The Office of Tax Administration Coordination:

- Manages the Tax Administration Council
- Provides the Office of the Commissioner and the operating divisions strategic guidance on Service business strategies and priorities
- Oversees near-term improvement projects that cross operating division lines or are of such importance as to affect tax administration as a whole and fall under the jurisdiction of the Tax Administration Council
- Manages the implementation of recently enacted legislation
- Oversees the development of strategic measures of performance for each taxpayer
- Refines standards and guidance on performance measures
- Manages the Business Performance Review System
- Provides business improvement assistance
- Manages both the customer and employee satisfaction survey process

Program and Project Coordination Division

The Program and Project Coordination Division manages the Tax Administration Council, provides the Office of the Commissioner and the operating divisions strategic guidance on Service business strategies and priorities, oversees near-term improvement projects that cross operating division lines or are of such importance as to affect tax administration as a whole and fall under the jurisdiction of the Tax Administration Council, and manages the implementation of recently enacted legislation.

The Director of Program and Project Coordination Division reports directly to the Chief, Office of Tax Administration Coordination (OTAC), and is responsible for planning, managing, and directing the full range of activities to ensure program accomplishment.

The Program and Project Coordination staff:

- Manages the Tax Administration Council.
- Oversees the analysis of cross-division issues identified by the Commissioner, the operating divisions, Treasury, and external groups.
- Assesses impact of policies across taxpayer groups.
- Assists the Council to ensure consistency of taxpayer treatment or determine when differences are justified.
- Manages the Council's responsibility regarding implementing newly enacted tax legislation.
- Manages the meeting by coordinating the agenda, recording the minutes and resulting decisions, and ensuring follow-up actions.
- Provides strategic guidance by:
    - Assisting the Commissioner in identification of Operational Priorities and Improvement Projects through the Strategic Planning and Budgeting Process (SP&B Process) based on an analysis of operating division and functional division Strategic Assessments.
    - Providing a standard prioritization criteria and guidance to Operating and Functional Divisions for scoping program plans.
    - Analyzing draft program plans to ensure appropriate coordination and balance across Operating and Functional Divisions.
- Provides governance for selected high impact cross-divisional improvement initiatives from the current TSI portfolio, and for future cross-divisional initiatives proposed by the operating divisions.
- Aligns priorities to strategic goals and ensuring that these adhere to priorities set in the SP&B Process.
- Assigns executive ownership and accountability.
- Ensures cross-functional coordination.
- Facilitates decisions on recommendations.
- Manages the ranking or prioritization process for competing initiatives of issues that are raised outside of the normal SP&B cycle.
- Oversees tax legislation implementation.
- Oversees the development of comprehensive implementation plans for new legislation and assigns executive ownership and accountability.
- Establishes a risk-based monitoring process.
- Identifies issues that need to be escalated to and resolved by the Tax Administration Council.
- Provides common database tools and procedures.
- Establishes uniform formats and database applications so information can be effectively monitored and shared and organizational capacity conserved.

Measures and Organizational Performance Division

The Measures and Organizational Performance Division oversees the development of strategic measures of performance for each taxpayer segment and for the IRS as a whole, manages the ongoing efforts to refine standards and guidance on the development and use of performance measures, manages the new Business Performance Review System (BPRS), provides business improvement assistance, and manage both the customer and employee satisfaction survey process.

The Director of Measures and Organizational Performance Division reports directly to the Chief, Office of Tax Administration Coordination (OTAC), and is responsible for planning, managing, directing and executing the full range of activities related to program accomplishment.

The Measures and Organizational Performance Division also:

- Establishes and maintains organizational measures, develops a policy framework for performance measures and standards, and coordinates Servicewide strategic measures.
- Assesses new and revised measures for consistency with Balanced Measures Regulation and Policy.
- Coordinates compilation of data for mid-year and end-of-year reports.
- Maintains records of any changes to the methodology of collecting data.
- Interacts with external stakeholders (i.e. Capitol Hill, GAO, TIGTA) regarding performance measures.
- Manages the Business Performance Review Process.
- Coordinates reviews for the Commissioner.
- Integrates review results into the Strategic Planning and Budgeting Process.
- Analyzes operating division results against program plan expectations.
- Develops and maintains a liaison relationship with external entities, both government and private sector, on business improvement.
- Provides business improvement consultation to operating divisions.
- Develops and maintains standards and guidance for Servicewide business improvement initiatives.
- Establishes policy, standards and guidance for the 1204 Certification Process.
- Administers the requirements for the 1204 Certification Process.
- Coordinates with Oversight and support groups.
- Plans and executes the 1204 Certification Process.
- Coordinates the administration of the IRS Customer Satisfaction Surveys used to measure customer segments' satisfaction.
- Prepares OMB clearance requests for IRS customer surveys and focus groups.

- Manages the Servicewide strategic customer satisfaction measures.
- Provides customer survey and focus group guidance and consulting services.
- Provides guidance and technical assistance to the Operating and Functional Divisions on measuring customer satisfaction. The management and performance of the work includes survey administration, assisting in the design of customer surveys, and facilitating the Office of Management and Budget survey approval process and providing inputs to the SP&B process.
- Designs and develops the census survey and sample surveys.
- Administers surveys and conducts training.
- Surveys research, results tabulation and analysis, and report distribution.
- Integrates employee satisfaction data with customer satisfaction and business results data.
- Serves as the IRS representative to the Office of National Partnering for Reinventing (NPR) Government for the Government-wide Employee Satisfaction Survey data.
- Establishes a process to annually produce employee-generated data (via a census survey) focused specifically on Employee Satisfaction for managers, NTEU stewards and employees.
- Establishes an employee survey process on work processes for use by IRS senior executives and NTEU Leadership.

Research, Analysis and Statistics of Income

Research, Analysis and Statistics of Income is a merger and realignment of several organizations: National Office of Research, Office of Performance Evaluation and Risk Analysis (OPERA), the Office of Revenue Analysis (from the CFO organization), and Statistics of Income (SOI).

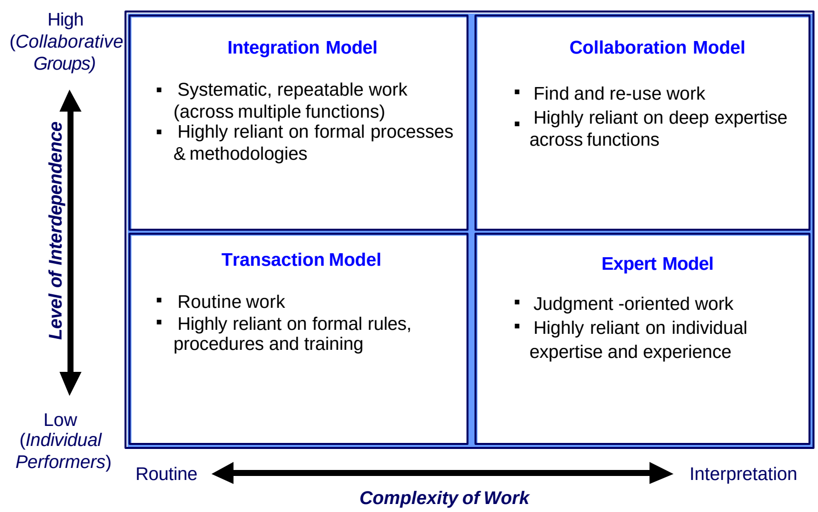
Office of Research

The Office of Research is responsible for conducting research and analysis for key internal and external stakeholders and customers. It supports and enables IRS enterprise-wide research and analysis by building and maintaining data, systems, and human resource infrastructures for conducting research and analysis and by providing consulting, methodological, and quality assurance assistance to the research community. The Office of Research develops and maintains the framework and methodologies for IRS Knowledge Management and leads implementation efforts enterprise-wide.

National Headquarters research has been selected as the incubator organization for an IRS-wide knowledge management system. An effort to define IRS knowledge management needs, design an appropriate system, and establish a framework is about to begin within the present Office of Research. This effort, though housed in Research, Analysis and SOI, will include other interested IRS organizations on an Advisory Board. Key steps in the effort are to:

- Review and analyze best practices.
- Inventory and catalogue IRS knowledge assets (see Figure 13-5).
- Develop and demonstrate an IRS knowledge management program model.
- Develop an implementation plan.

Figure 13-5: Model for "mapping" IRS Knowledge Assessments



Several on-going initiatives are also present in the Office of Research:

- *Research and Analysis Community Leadership.* This activity collaborates on the establishment of R&A standards and strategic agenda, collaborates on measures for R&A community, coordinates R&A conferences and CPE activities, coordinates KM for R&A community, and coordinates CRM enterprise-wide.

- *Strategic Research and Analysis.* This activity has several key functions:
  - Implements an enterprise-wide program analysis and strategic assessments (which assess program effectiveness), and develops standards and methodologies.
  - Provides enterprise-wide consulting services to improve operational processes, implement econometric modeling and resource allocation, and develop projections and forecasts.
  - Develops and applies strategic methodologies for measuring and monitoring taxpayer compliance and burden, estimating and projecting tax gap and enforcement

revenue, identifying, measuring, and reducing tax administration and tax code complexity, and monitoring Congressionally mandated compliance initiatives.

This activity also builds and supports corporate risk management capability by assessing risks in ongoing programs and proposed major investments, implements risk management processes, models, and methodologies (ELC, IDM, Business Case Guide), and assesses effectiveness of risk mitigation strategies.

- *Shared Data Infrastructure.* This function provides data structures that facilitate single-use and ongoing research and analysis products for the entire community. Key activities include data and systems requirements analysis, Business Systems Planning Group coordination, and evaluation of new methodologies and products for use by the research and analysis community.

Office of Revenue Analysis

The *Office of Revenue Analysis* has several key functions:

- Tracks enforcement revenue for all enforcement activities.
- Integrates enforcement data and master file data into the Enforcement Revenue Information System (ERIS), and analyzes ERIS data and provides reports and analyses to IRS management.
- Coordinates the Service's enforcement revenue estimation activities.
- Works with the functional areas to improve their estimating models and methodologies.
- Analyzes and validates revenue projections.
- Develops Congressional Report on IRS Revenue and Compliance Initiatives.

Office of Program Analysis

The Office of Program Analysis provides the senior leadership team with accurate and timely analysis of ongoing and proposed IRS programs and investments to support quality, data driven strategic thinking and decision making across the organization. The Office of Program Analysis supports the senior leadership team's efforts to develop interactive Service-wide strategies to achieve the Service's mission, vision, goals, and values, and has several key functions:

- Strategy development to address enterprise wide issues impacting key external stakeholders;
- Program evaluation involving analysis of existing and proposed programs to assess their investment potential;
- Risk analysis including assessing risks to the accomplishment of strategic objectives as well as opportunities for mitigation and managing risk (risk analyses are underway in support of IRS major investment capabilities while enterprise wide risk management is under development); and

- Manage and facilitate customer satisfaction surveys for the major service functions.

Statistics of Income

Statistics of Income (SOI) will continue to perform its present roles and serve its key customer, the Department of the Treasury's Office of Tax Analysis (OTA). SOI's mission is to compile and publish statistical data based on tax returns, including individual, corporate, partnership, exempt organization, estate, as well as returns related to foreign activities, mandated by the Internal Revenue Code. SOI data is used for evaluating tax law changes, estimating revenue collections, and estimating GDP and other basic research. SOI's key products and services include the following:

- preparing statistical data mandated by section 6108 of the Internal Revenue Code for publication in quarterly and annual reports;
- conducting statistical studies from tax returns for the development of Federal tax policy as determined by the Office of Tax Analysis and the Joint Committee on Taxation;
- preparing special statistical studies on a reimbursable basis for customers such as the Bureau of Economic Analysis and the Census Bureau;
- responding to requests for statistical data from the private sector for research activities; and
- overseeing Federal-State data exchanges and inter-agency liaison committees; and making available more than 800 SOI data sets on the IRS internet website.

Complaint Processing & Analysis Group

The mission of the Complaint Processing and Analysis Group is to enhance the responsiveness to employee and taxpayer complaints, and improves the integrity of IRS operations by:

- Identifying, managing, tracking and analyzing complaints received by or referred to the Commissioner;
- Monitoring and coordinating with other IRS complaint systems;
- Operating the Central Adjudication Unit;
- Providing employee relations support for Executive/GS-15, Criminal Investigation and Unauthorized access cases
- Disseminating information on complaint disposition throughout the service; and
- Conducting problem solving inquiries as needed to develop facts pertaining to complaints.

This organization serves as the clearinghouse for any employee complaint, concern or issue, regardless of the source of referral. After an initial analysis and categorization is completed, the complaint/issue is then assigned or referred to the appropriate IRS management or other organization (Treasury Inspector General for

Tax Administration or the National Director EEO and Diversity) for inquiry and investigation. The complaint or issue is then tracked and monitored to ensure that it has been properly dealt with, including a review of the final disposition. The Complaint Processing & Analysis Group also conducts reviews and problem solving inquires as needed to develop facts pertaining to particular complaints that may be unusual, complex or require special attention for some other reason.