

**GAO**

Report to the Ranking Minority  
Member, Committee on Governmental  
Affairs, U.S. Senate

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June 2001

# DEPARTMENT OF THE TREASURY

## Status of Achieving Key Outcomes and Addressing Major Management Challenges



**G A O**

Accountability \* Integrity \* Reliability

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# Contents

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<b>Letter</b>		1
<b>Appendix I</b>	<b>Observations on the Department of the Treasury's Efforts to Address Its Major Management Challenges</b>	27
<b>Appendix II</b>	<b>Comments from the Department of the Treasury</b>	40
<b>Appendix III</b>	<b>Staff Acknowledgments</b>	45
<hr/>		
<b>Tables</b>		
	Table 1: Major Management Challenges	27
<hr/>		
<b>Figures</b>		
	Figure 1: Treasury Performance on IRS-wide Key Indicators	8
	Figure 2: IRS Unpaid Taxes and Collection Trends	12

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## **Abbreviations**

ACE	Automated Commercial Environment
ATF	Alcohol, Tobacco, and Firearms
BSM	Business Systems Modernization
Customs	U.S. Customs Service
EEO	Equal Employment Opportunity
EITC	Earned Income Tax Credit
FFMIA	Federal Financial Management Improvement Act
FMS	Financial Management Service
FR	Financial Report
FRB	Federal Reserve Bank
GPRA	Government Performance and Results Act of 1993
IRS	Internal Revenue Service

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IVRS	Integrated Violence Reduction Strategy
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OMB	Office of Management and Budget
SEACATS	Seized Asset and Case Tracking System
TIGTA	Treasury Inspector General for Tax Administration



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United States General Accounting Office  
Washington, DC 20548

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June 15, 2001

The Honorable Fred Thompson  
Ranking Minority Member  
Committee on Governmental Affairs  
United States Senate

Dear Senator Thompson:

As you requested, we reviewed the Department of the Treasury's fiscal year 2000 performance report and fiscal year 2002 performance plan required by the Government Performance and Results Act of 1993 (GPRA) to assess the agency's progress in achieving selected key outcomes that you identified as important mission areas for the agency.<sup>1</sup> These are the same outcomes we addressed in our June 2000 review of the agency's fiscal year 1999 performance report and fiscal year 2001 performance plan to provide a baseline by which to measure the agency's performance from year-to-year.<sup>2</sup> These selected key outcomes are

- tax laws are administered effectively and fairly,
- less waste, fraud, and error relating to the Earned Income Tax Credit,
- improved delinquent tax and non-tax debt collection,
- reduced availability and/or use of illegal drugs, and
- criminals are denied access to firearms and firearms-related crime is reduced.

As agreed, using the selected key outcomes for the Department of the Treasury as a framework, we (1) assessed the progress Treasury has made in achieving these outcomes and the strategies the agency has in place to achieve them; and (2) compared the Treasury's fiscal year 2000 performance report and fiscal year 2002 performance plan with the

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<sup>1</sup>This report is one of a series of reports on the 24 Chief Financial Officers (CFO) Act agencies' fiscal year 2000 performance reports and fiscal year 2002 performance plans.

<sup>2</sup>See *Observations on the Department of the Treasury's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan* (GAO/GGD/AIMD-00-231R, June 30, 2000).

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agency's prior year performance report and plan for these outcomes.<sup>3</sup> Additionally, we agreed to analyze how Treasury addressed its major management challenges, including the governmentwide high-risk areas of human capital and information security, that we, Treasury's Inspector General and the Department's Treasury Inspector General for Tax Administration identified. Appendix I provides detailed information on how Treasury addressed these challenges. (App. II contains Treasury's comments on a draft of our report).

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## Results in Brief

In general, we could not adequately determine the progress made by the Department of the Treasury on the five outcomes by reviewing its fiscal year 2000 performance report because the report lacked at least some measures needed to directly assess each of the outcomes. However, other information that we reviewed and the results of our past work suggest that Treasury may be at risk of not achieving these outcomes. In assessing Treasury's strategies, we identified shortcomings in its plans for each of the outcomes we reviewed.

Planned outcome: Tax laws are administered effectively and fairly. Based on the information in Treasury's 2000 performance report, we could not assess its progress in effectively and fairly administering the tax laws because the report lacked information on strategic measures directly related to this outcome. However, our work and the Internal Revenue Service's (IRS) performance on other measures below the strategic level indicated that IRS improved its performance on one key indicator—percent of telephone calls answered—while losing ground on others, including three measures of quality. In its fiscal year 2002 plan for IRS, Treasury lacked specific strategies to demonstrate how it would achieve its strategic goals and objectives and, thereby, be ensured of achieving this outcome.

Planned outcome: Less waste, fraud, and error relating to the Earned Income Tax Credit. We are unable to assess progress toward achieving less waste, fraud, and error relating to the Earned Income Tax Credit (EITC) because Treasury did not report on measures for any aspect of IRS'

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<sup>3</sup>Treasury issued one consolidated report on the fiscal year 2000 performance of its agencies. For its fiscal year 2002 performance plan, Treasury issued separate plans for each of its agencies. The outcomes that we reviewed involve the programs of four Treasury agencies—Internal Revenue Service, Financial Management Service, U.S. Customs Service, and the Bureau of Alcohol, Tobacco, and Firearms.

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administration of the program. While Treasury plans to continue its current strategy of educating taxpayers and tax preparers in determining eligibility for the credit, it did not indicate that it would institute measures to evaluate its success in achieving this outcome.

Planned outcome: Improved delinquent tax and non-tax debt collection.

Limitations in the performance measures reported by Treasury make it difficult to gauge the progress of IRS in collecting tax debt and the Financial Management Service (FMS) in collecting non-tax debt. However, other available information showed continuing declines in most of IRS' collections actions to collect delinquent tax debt and roughly stable collections by FMS of non-tax debts. Treasury's fiscal year 2002 plans for the two agencies provided little information on how their strategies for improvement will increase debt collections. Treasury's plan for increasing collections of tax debts focused on reducing the diversion to noncompliance duties of experienced collection staff. For collecting non-tax debts, Treasury's plan dealt with improving only one of its two collection programs.

Planned outcome: Reduced availability and/or use of illegal drugs.

Treasury's performance report presented an incomplete assessment of progress toward reducing illegal drug availability and use, in part because given the clandestine and diffused nature of illegal drug traffic, measures of the flow of illegal drugs are illusive. Treasury acknowledges that some of its measures used to track performance may not provide the best performance information and indicated that it is working toward improving performance measures. We agree that measuring law enforcement performance is difficult and recognize that obtaining definitive results is problematic even with rigorous measurement efforts. However, our prior work found that program evaluations might provide some indications of the comparative effectiveness of different interdiction programs. While Treasury's fiscal year 2002 performance plan for Customs provided specific strategies and programs designed to help Customs reduce the availability and use of illegal drugs, some of the measures for these efforts do not completely support the performance outcome being measured.

Planned outcome: Criminals are denied access to firearms and firearms-related crime is reduced.

We are unable to determine Treasury's progress because the measures reported did not directly support the assessment of this outcome. As with illegal drug flow, the clandestine nature of the underlying activities makes performance measurement in this area problematic. As noted above, we recognize that measuring law

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enforcement performance is difficult and even with rigorous measurement efforts, definitive results are illusive. Similarly, our prior work suggests that program evaluations might be another way to identify program benefits and success. While Treasury's fiscal year 2002 plan for the Bureau of Alcohol, Tobacco, and Firearms (ATF) provided specific strategies and programs designed to help it reduce access to firearms by criminals and related crimes, the plan did not indicate that new measures would be developed to evaluate its success.

We identified systemic limitations common to both the fiscal year 1999 Treasury performance report and the fiscal year 2000 report and two improvements Treasury made to the fiscal year 2000 report. Chief among the limitations was that the performance goals and measures of Treasury's agencies were not always directly reflected in the broader departmental goals, limiting the reports' usefulness in determining whether these agencies are making progress in meeting their strategic goals in general and the outcomes we reviewed in particular. In addition, the reports provided minimal assurance that the performance information and data reported were credible. Decision-makers need more detailed explanations about such things as data validity and completeness to make informed judgments. This is particularly important in light of questions about the reliability and accuracy of some of IRS' performance data raised by our previous work. Treasury improved the fiscal year 2000 report by elevating its objective of Improve Customer Satisfaction to a strategic goal and adding a strategic goal of Improve Employee Satisfaction. We believe that these changes strengthened its presentation of program performance data in general and also increased consistency with agency strategic goals. We identified three systemic limitations in the fiscal year 2002 performance plans of the Treasury agencies that we reviewed. The performance goals and measures of the Treasury agencies still provide limited results-oriented information related to broader departmental goals. Also, the performance plans provide incomplete assessments of the data that will be used to measure future performance. In addition, except for improvements in Treasury's plan related to the outcome for illegal drugs, improvements were not made in plans related to the other four key outcomes.

Treasury's performance report discussed the progress made in resolving many of its major management challenges, but it did not specifically discuss the agency's progress in resolving challenges related to strategic human capital management.

Treasury generally agreed with the facts presented in this report. Treasury noted, however, that it faces conflicting pressures to keep its GPRA

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products streamlined and yet to include more detailed information; it characterized our position as one desiring considerably more detailed information. We believe that it is only after Treasury establishes the information needed for a GPRA orientation that presentation issues should be addressed. Treasury also provided additional perspective on a number of issues that we discuss in the report and technical clarifications that we incorporated as appropriate. Treasury's comments are in app. II.

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## Background

GPRA is intended to shift the focus of government decision making, management, and accountability from activities and processes to the results and outcomes achieved by federal programs. New and valuable information on the plans, goals, and strategies of federal agencies has been provided since federal agencies began implementing GPRA. Under GPRA, annual performance plans are to clearly inform the Congress and the public of (1) the annual performance goals for agencies' major programs and activities, (2) the measures that will be used to gauge performance, (3) the strategies and resources required to achieve the performance goals, and (4) the procedures that will be used to verify and validate performance information. These annual plans, issued soon after transmittal of the president's budget, provide a direct linkage between an agency's longer-term goals and mission and day-to-day activities.<sup>4</sup> Annual performance reports are to subsequently report on the degree to which performance goals were met. The issuance of the agencies' performance reports, due by March 31, represents a new and potentially more substantive phase in the implementation of GPRA—the opportunity to assess federal agencies' actual performance for the prior fiscal year and to consider what steps are needed to improve performance, and reduce costs in the future.<sup>5</sup>

Treasury is responsible for a broad scope of activities that touch the lives of all Americans, including collecting taxes, managing the government's finances, securing U.S. borders, controlling firearms-related crime, and managing seized assets.

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<sup>4</sup>The fiscal year 2002 performance plan is the fourth of these annual plans under GPRA.

<sup>5</sup>The fiscal year 2000 performance report is the second of these annual reports under GPRA.



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## Assessment of the Department of the Treasury's Progress and Strategies in Accomplishing Selected Key Outcomes

This section discusses our analysis of Treasury's performance in achieving its selected key outcomes and the strategies the agency has in place, particularly human capital<sup>6</sup> and information technology, for accomplishing these outcomes. In discussing these outcomes, we have also provided information drawn from our prior work on the extent to which the agency provided assurance that the performance information it is reporting is credible.

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### Tax Law Administration

On the basis of information in Treasury's 2000 performance report, we could not assess its progress in effectively and fairly administering the tax laws because the report lacked information on strategic measures directly related to this outcome. However, the results of our work and other reported information below the strategic level on the performance of Treasury's agency responsible for relevant programs—the Internal Revenue Service (IRS)—indicated that IRS improved its performance on one key indicator while losing ground on others.

As was the case last year, neither Treasury nor IRS had any measures that were specifically linked to the outcome of effective and fair administration of tax laws. IRS is modernizing all aspects of the agency's operations, such as its organizational structure, business processes, technology, and performance management. As part of its modernization, IRS developed three agencywide strategic goals, which we used to assess this outcome. The goals are

- top quality service to each taxpayer in every interaction,
- top quality service to all taxpayers through fair and uniform application of the law, and
- productivity through a quality work environment.

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<sup>6</sup>Key elements of modern human capital management include strategic human capital planning and organizational alignment; leadership continuity and succession planning; acquiring and developing staffs whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures.

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In fiscal year 2000, Treasury reported that the IRS made progress in conceptualizing and identifying the measures it needs for its goals.<sup>7</sup> Currently the IRS has only an employee satisfaction measure, which relates to the third goal.

While IRS-wide strategic measures to assess this outcome are not available, our work on measures dealing with collecting revenues, providing taxpayer service, and enforcing tax laws indicated mixed results. On the plus side, during fiscal year 2000, IRS issued refunds without significant problems and taxpayers had an easier time getting through to telephone assistants. On the down side, the quality of service for taxpayers who visited taxpayer assistance centers and trends in enforcement functions continue to be troubling.<sup>8</sup> For example, Treasury's fiscal year 2000 performance report listed five IRS-wide measures that Treasury designated as key performance indicators related to the outcome. The agency did not meet its target for four of the five indicators including all three measures of quality. Treasury's explanations for not meeting its targets included reasons such as the decline "...was caused by a failure to meet any one, several, or all of the standards measured in this category, thus resulting in a lower overall composite score."<sup>9</sup> Figure 1 shows IRS' performance over time on the five key indicators.

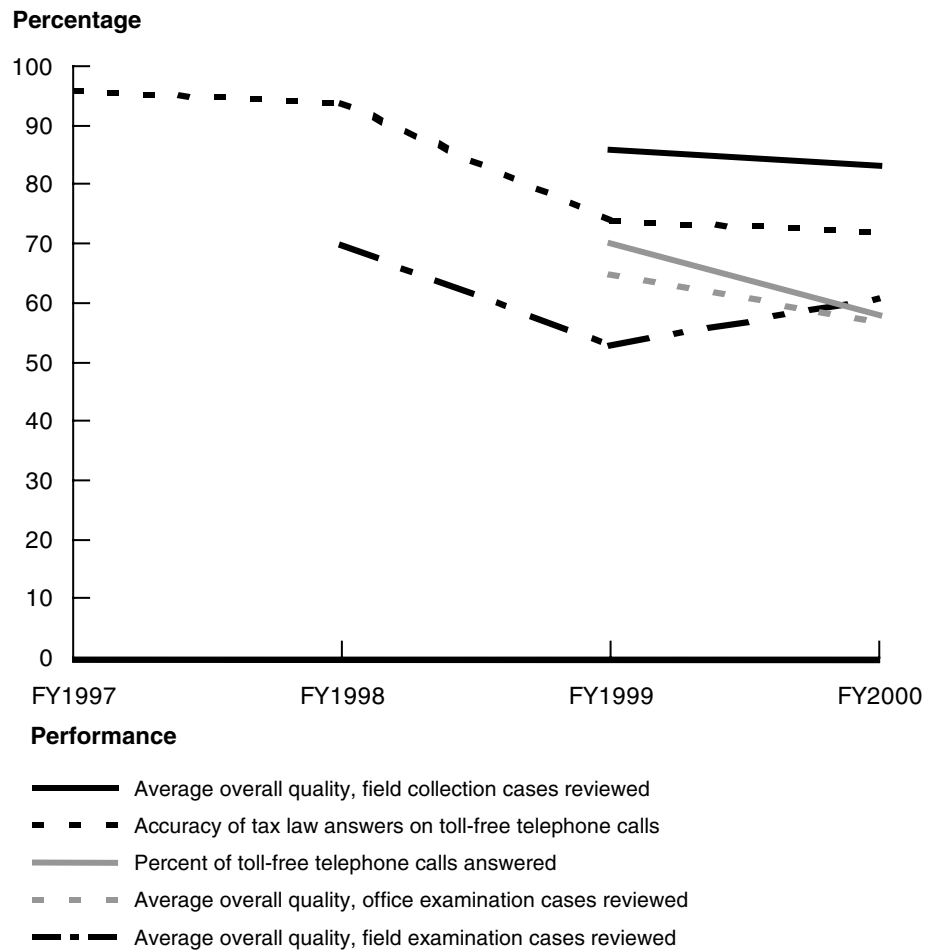
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<sup>7</sup>IRS is developing measures of: taxpayer burden and customer satisfaction for its goal of service to each taxpayer; voluntary filing, reporting, and payment compliance for its goal of service to all taxpayers; and a productivity/workload index for its productivity goal.

<sup>8</sup>See *IRS Modernization: Continued Improvement in Management Capability Needed to Support Long-Term Transformation* (GAO-01-700T, May 8, 2001).

<sup>9</sup>Department of the Treasury, *Program Performance Report Fiscal Year 2000*, p. 83.

**Figure 1: Treasury Performance on IRS-wide Key Indicators**



Source: Department of the Treasury, *Program Performance Report Fiscal Year 2000*.

In its fiscal year 2002 plan for IRS, Treasury lacked specific strategies to demonstrate how it would achieve its strategic goals and objectives and, thereby, be ensured of effectively and fairly administering the tax laws. Instead, IRS' plan included individual strategies for meeting each of the 73 measures in the plan. Of those measures, 18 are outcome-oriented and focused on quality, timeliness, customer satisfaction, or employee satisfaction.<sup>10</sup> While 5 of these measures will establish baseline data, the

<sup>10</sup>None of the outcome-oriented measures for quality, timeliness, or customer satisfaction focused on pre-filing services, one of the agency's major activities.

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strategies to implement the remaining 13 measures are, in general, continuations of those used in the previous year. For example, the strategy for improving field collection quality<sup>11</sup> in fiscal year 2001 included using data analysis to target areas for improvement, planning training around identified needs, and delivering a redesigned, web-based manual. For fiscal year 2002, the strategy to improve quality in that area included continued data analysis and training and added a strategy to develop a system for embedding responsibilities for quality at the organizational level closest to customers. Treasury did not explain why it was likely to be more successful in fiscal year 2002 by continuing similar strategies for the five measures where the targets were not met. In February 2001, we again recommended that IRS more clearly link its measures to its goals and objectives.<sup>12</sup> In response, the Commissioner of Internal Revenue stated that IRS would make such refinements as it gains more experience with modernization.

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## Earned Income Tax Credit Program

We are unable to assess progress toward achieving less waste, fraud, and error relating to the Earned Income Tax Credit (EITC) because Treasury did not report on measures for any aspect of IRS' administration of the program, and IRS also lacked performance measures for the program.<sup>13</sup> We first identified this program as a high-risk area in 1995 and, more recently, noted in our December 2000 report that the overall impact of the compliance initiative remained unclear despite its success in identifying hundreds of millions of dollars in erroneous EITC claims in fiscal year 2000.<sup>14</sup> Yet, no performance measures specific to EITC activities are

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<sup>11</sup>"Field collection" is made up of revenue officers who have personal contact with taxpayers for the purpose of collecting delinquent taxes. The quality of field collection work is measured by using the average of all collection cases sampled and reviewed during a given period for a collection organizational unit, using IRS' Collection Quality Measurement System.

<sup>12</sup>See *IRS Modernization: IRS Should Enhance Its Performance Management System* (GAO-01-234, Feb. 23, 2001). Other reports with recommendations related to measures include *Internal Revenue Service: IRS Initiatives to Resolve Disputes Over Tax Liabilities* (GGD-97-71, May 9, 1997) and *IRS Management: IRS Faces Challenges as it Restructures the Office of the Taxpayer Advocate* (GGD-99-124, July 15, 1999).

<sup>13</sup>The EITC is a refundable tax credit available to low-income, working taxpayers. The Congress created EITC to offset the impact of Social Security taxes and to encourage low-income workers to seek employment rather than welfare.

<sup>14</sup>See *Tax Administration: Assessment of IRS' 2000 Tax Filing Season* (GAO-01-158, Dec. 22, 2000).

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planned at the agency level. Although IRS already collects some data for an internal quarterly tracking report, Treasury does not plan to use that data to assess and report program performance.

Treasury plans to continue emphasizing increased customer service for and compliance activities affecting both taxpayers and preparers in its current strategy for reducing problems in the EITC program. However, Treasury's performance plan for IRS does not include measures for those areas or others related to this outcome. The 5-year strategy for EITC, instituted in 1998, includes expanding customer service and taxpayer education, reviewing preparers' compliance, and improving return selection methods for audits, among others. However, the strategy does not address training needs, performance management initiatives, or measurement of the strategy's effectiveness. Without performance measures and an evaluation strategy, Treasury will not be able to assess progress.

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## Delinquent Tax and Non-tax Debt Collection

Limitations in the performance measures reported by Treasury make it difficult to gauge the progress of IRS in collecting tax debt and the Financial Management Service (FMS) in collecting non-tax debt. However, other available information showed continuing declines in most of IRS' collection actions to collect delinquent tax debt and roughly stable collections by FMS of non-tax debts. Also, Treasury's plans for the two agencies provided little information on how their strategies for improvement will increase debt collections.

## Delinquent Tax Collection

On the basis of information in Treasury's 2000 performance report, we could not assess Treasury's progress in improving its collection of delinquent taxes because none of the performance measures were linked to this outcome. However, based on other information about collection programs at the IRS—the Treasury agency responsible for the relevant programs—we are troubled by the performance with respect to this outcome. Treasury's performance report measures output for this effort in terms of volume of collection cases closed and timeliness of certain types

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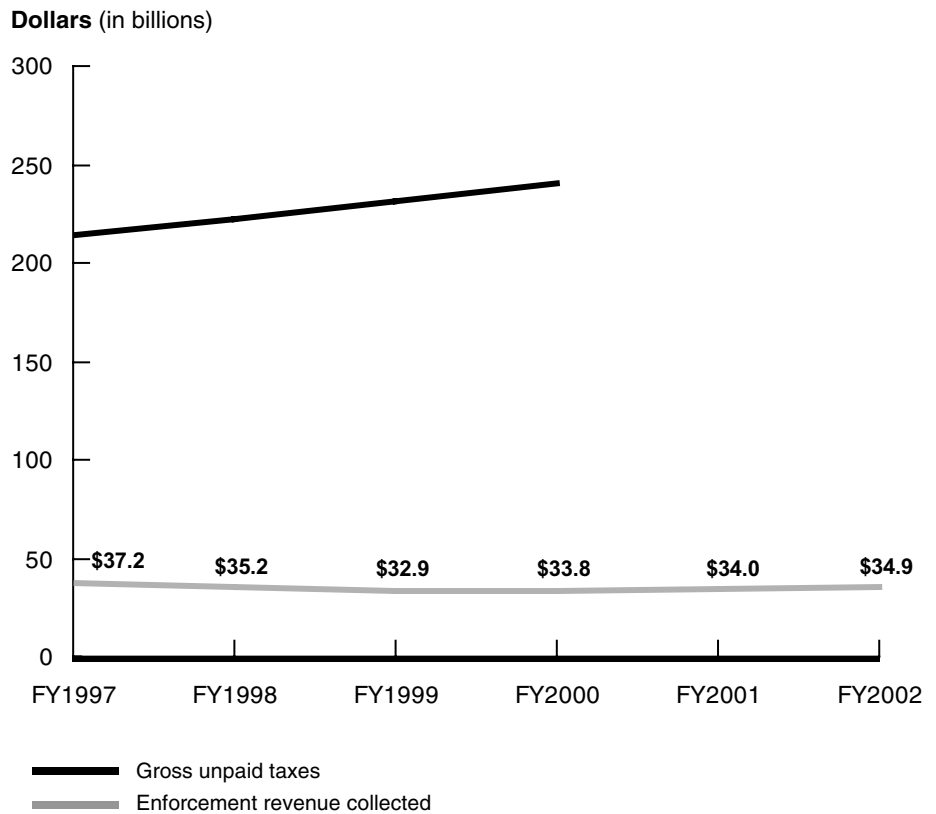
of collection actions.<sup>15</sup> Treasury did not report performance measures that would provide perspective on whether IRS is collecting the correct amount of taxes under proper collection procedures. For example, the performance report did not contain measures for amounts collected as a percentage of the total value of the collection cases that were closed, or at the IRS-wide level, a measure for enforcement revenue collected as a percent of unpaid taxes.<sup>16</sup> Such measures, over time, would give a clearer indication than case closure data as to whether Treasury is making any headway in improving delinquent tax collections. As figure 2 illustrates, enforcement revenue collected has not kept pace with the growth in the levels of unpaid taxes.

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<sup>15</sup>The four measures are (1) average percentage of field collection cases in process 16 months or longer in the past 12 months, (2) percentage of offers in compromise processed within 6 months, (3) delinquent taxpayer investigations closed, and (4) delinquent taxpayer accounts closed. In fiscal year 2000, IRS fell significantly short of meeting its prior year's performance levels and on three of its performance targets for these outputs. According to Treasury, shortfalls were primarily due to shifting collection staff to taxpayer service functions.

<sup>16</sup>Gross unpaid taxes represent outstanding amounts due from taxpayers for assessments of taxes, penalties, and interests. It increases with penalties and interest accruing on delinquent account balances and new tax assessments that have been identified and may be reduced when (1) payments are received from the taxpayers; (2) IRS abates taxes, penalties, and interests; or (3) an account reaches its statutory expiration dates due dates without collection, at which time the account automatically drops off from the population of unpaid taxes.

**Figure 2: IRS Unpaid Taxes and Collection Trends**



Source: Treasury's fiscal year 1999 performance report and fiscal year 2002 performance plan; *Financial Audit: Examination of IRS' Fiscal Year 1997 Custodial Financial Statements* (GAO/AIMD-98-77); *Financial Audit: IRS Fiscal Year 1998 Financial Statements* (GAO/AIMD-99-75, Mar. 1999); *Financial Audit: IRS Fiscal Year 1999 Financial Statements* (GAO/AIMD-00-76, Feb. 2000); and *Financial Audit: IRS Fiscal Year 2000 Financial Statements* (GAO-01-394, Mar. 2001).

Furthermore, our recent work showed declines in important collection actions including seizures, liens, and levies.<sup>17</sup> Although the Commissioner of Internal Revenue predicted last year that the downward trends for these actions would be reversed, by and large, they were not. In addition, the reliability and accuracy of these output measures in Treasury's performance report is questionable. Our audit of IRS' fiscal year 2000 financial statements found that IRS was unable to provide documentation

<sup>17</sup>See [GAO-01-700T](#).

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that it had performed validation and verification procedures on its key performance indicators.<sup>18</sup>

Treasury's strategy in its fiscal year 2002 IRS plan for increasing collections of tax debts focused on reducing the diversion to noncompliance duties of staff who are experienced in compliance efforts and enhancing the efficiency of the delinquent tax account management. This included (1) adopting a risk-based approach for identifying better yielding accounts for collection and examination and (2) making more effective use of technology and specialization for processing unpaid tax transactions through IRS systems. However, although these strategies potentially could improve tax debt collections, the performance plans did not contain performance measures for assessing its progress. In addition, we previously reported that IRS does not have adequate records on its unpaid assessments to properly manage its accounts receivable inventory.<sup>19</sup> Without such information, IRS may not be able to successfully implement these strategies and, therefore, not achieve the desired outcome.

## Non-tax Debt Collection

While Treasury reported that it had many significant accomplishments in improving non-tax delinquent debt collection in fiscal year 2000, the non-tax debt collections in fiscal year 2000 were about the same as in fiscal year 1999—about \$2.6 billion, primarily from tax refund offsets. The performance target for fiscal year 2000 was to collect \$2.08 billion. These collections came from primary collection programs administered by FMS—Treasury Offset Program and Cross-servicing.<sup>20</sup> Of the total collected, about \$41 million was collected through the cross-servicing program. Treasury also measured non-tax debt collection progress in terms of the amount of debt referred to FMS for collection. For example, as of September 30, 2000, agencies had referred 83 percent of delinquent debts over 180 days old reported as eligible for the Treasury Offset and

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<sup>18</sup> *Financial Audit: IRS' Fiscal Year 2000 Financial Statements* (GAO-01-394, March 1, 2001).

<sup>19</sup> See [GAO-01-394 and Internal Revenue Service: Recommendations to Improve Financial and Operational Management](#) (GAO-01-42, Nov. 17, 2000).

<sup>20</sup> The Treasury Offset Program offsets certain federal payments, such as tax refunds, vendor payments, and federal retirement payments, against federal non-tax debts, states' child support debts, and certain states' tax debts. Cross-servicing is the process by which federal agencies refer non-tax delinquent debts more than 180 days old to FMS for collection. To collect the debts agencies refer, FMS employs a variety of collection methods, including demand letters, follow-up telephone calls, administrative wage garnishment, and private collection agencies.



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Cross-servicing programs. Treasury's fiscal year 2000 target was to refer 75 percent of the amount eligible for referral.

While the performance measure for total collections is a good indicator of the overall progress being made in collecting non-tax debt, it does not adequately capture important distinctions between the offset and cross-servicing programs. We suggested in our June 2000 report that combining the performance achievements of the two programs can mask potential performance issues with cross-servicing.<sup>21</sup> By breaking out—in the performance report—the total collections amounts by the results of the offset program and the cross-servicing program would give decision-makers a better indication of the effectiveness of the two programs relative to the resources being applied to each program. Our prior report also suggested that breaking out total non-tax collections by amounts collected as a result of federal delinquent non-tax debt referrals and amounts collected for debts associated with state child support would give decision-makers more information on the types of debt that is being collected. As we previously reported, collections for child support represent a significant percentage of total collections and are forwarded to the states.<sup>22</sup> Reporting such collections separately from amounts related to the collection of federal delinquent non-tax debts would provide a more accurate indication of FMS' performance. In addition, the amount of delinquent non-tax debt that is referred to Treasury for collection as compared with the amount of delinquent non-tax debt that is eligible for referral is not fully indicative of FMS' performance. Specifically, since the measure is an indicator of the efforts of other agencies to participate in the program, it might be unduly influenced by factors outside FMS' full control. Therefore, it could be difficult to attribute changes in the measure to the effectiveness of FMS' debt collection efforts.

Treasury's fiscal year 2002 strategies in its FMS plan for increasing non-tax debt collections revolved around efforts to improve the efficiency of the cross-servicing program. For example, FMS plans to analyze the types of cross-servicing debts collected, review cross-servicing costs and fee structure, and develop a methodology to periodically evaluate the process of distributing debts to private collection agencies. FMS is also preparing audit guidance on procedures to monitor agency debt referrals. Regarding the offset program, FMS plans to expand the program by including federal

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<sup>21</sup>See [GAO/GGD/AIMD-00-231R](#).

<sup>22</sup>See [GAO/GGD/AIMD-00-231R](#).

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salary and other payment types. However, while FMS has strategies to increase non-tax debt collections, it did not discuss a timeframe for incorporating these payments into the program. FMS' target for total non-tax debt collections is \$2.3 billion for fiscal year 2001 and \$2.4 billion for fiscal year 2002. Both of these targets are less than the \$2.6 billion FMS collected in fiscal years 1999 and 2000. As such, it does not appear that FMS expects its planned actions for these programs to result in increased collections.

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## Availability and/or Use of Illegal Drugs

It was difficult to fully gauge Treasury's progress in reducing the availability and/or use of illegal drugs because some of its performance measures did not directly measure Treasury's progress toward achieving this outcome.<sup>23</sup> Treasury acknowledges that some of its measures used to track performance may not provide the best performance information and indicated that it is working toward improving performance measures. Given the measures that Treasury did use, it made some progress in reducing the availability and/or use of illegal drugs. For example, the U.S. Customs Service (Customs)—the Treasury agency primarily responsible for programs related to this outcome—exceeded its targets for three of its nine measures of illegal drugs seized.<sup>24</sup> For the targets that were not met, Treasury attributed this shortfall to external factors such as “an expanding cocaine market in Europe where prices and profit margins are higher than in the United States.”<sup>25</sup> However, Treasury's report did not identify actions to evaluate the effects of external factors on Treasury's seizure targets and programs although it acknowledged that it would work with various

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<sup>23</sup>Treasury's goals related to this outcome are to (1) dramatically reduce the amount of illegal drugs entering the United States; (2) ensure compliance and allow the expeditious movement of low-risk travelers by increasing travelers' awareness and by targeting, identifying, and examining high-risk travelers; (3) provide effective oversight of law enforcement bureaus.

<sup>24</sup>The 9 measures are (1) number of seizures—cocaine; (2) number of seizures—marijuana; (3) number of seizures—heroin; (4) average pound per seizure—cocaine; (5) average pounds per seizure—marijuana; (6) average pounds per seizure—heroin; (7) total number of pounds seized (in thousands)—cocaine; (8) total number of pounds seized (in thousands)—marijuana; (9) total number of pound seized (in thousands)—heroin. In addition, Treasury uses 9 measures of passenger transit activities and public awareness. Customs is responsible for all of these except public awareness, which is the responsibility of the Office of Foreign Asset Control (OFAC). Because OFAC has a limited role relative to this outcome, we excluded it from our analysis.

<sup>25</sup>Department of the Treasury, *Program Performance Report Fiscal Year 2000*, p. 160.

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federal, state, local, and international law enforcement agencies on this crosscutting outcome.

Measures of illegal drugs seized provided only a partial assessment of Customs' success in reducing the availability and/or use of illegal drugs. Without an underlying measure of the amount of drugs moving into the country in total, interpretations of measures of drugs seized is problematic. This overall measure, given the clandestine and diffused nature of illegal drug traffic, is illusive even with rigorous measurement efforts. In its performance report, Treasury noted that the Office of National Drug Control Policy is developing models that will better estimate the amount of cocaine, heroin, and marijuana being smuggled into the U.S. In the meantime, Customs plans to rely on its targeting efficiency measures to quantitatively assess the effectiveness of the criteria to target potential violators—a measure applied to both air passengers and vehicles. Until better measures of Customs' performance are developed, Treasury may want to explore the relative effectiveness of several Customs anti-smuggling programs. Customs relies on intelligence, surveillance, investigations, random inspections of incoming passengers and cargo, technology, and arrangements with exporters, importers, and carriers to increase the likelihood that it will detect drugs being smuggled into the U.S. For example, Customs could compare the difference in drug detection at different border crossings where one site had a new scanning technology and another site did not have the technology.<sup>26</sup>

As we noted in our September 2000 report, agencies could use program evaluation for several purposes such as exploring the benefits of programs, measuring program performance, and explaining performance results.<sup>27</sup> While program evaluations will also be hampered by the lack of underlying data about the flow of drugs, they might provide some indications of the comparative effectiveness of different interdiction programs. In addition, we noted in a March 2000 report that Treasury could improve processes related to its performance measures for target efficiency.<sup>28</sup> In response to our recommendations, Customs stated it would

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<sup>26</sup>This example is provided solely to illustrate a program evaluation approach and is not intended to be prescriptive.

<sup>27</sup>See *Program Evaluation: Studies Helped Agencies Measure or Explain Program Performance* (GAO/GGD-00-204, Sept. 29, 2000).

<sup>28</sup>See *U.S. Customs Service: Better Targeting of Airline Passengers for Personal Searches Could Produce Better Results* (GAO/GGD-00-38, Mar. 17, 2000).

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collect more complete and accurate data on persons subjected to personal searches as well as closely monitor data on personal searches. While Treasury's report notes that one of its actions to increase the targeting efficiency and effectiveness is to improve training, Treasury's performance report for these measures could have included a discussion on either progress to date for collecting this data or results of its data evaluations of passengers targeted for searches in relation to its efforts to seize drugs.

Treasury's fiscal year 2002 plan for Customs provided specific strategies and programs for fiscal year 2002 designed to help Customs reduce the availability and use of illegal drugs. For example, Customs plans to reduce the availability and/or use of illegal drugs by using air and sea interdiction units designed to protect our borders from the continually shifting narcotics and contraband smuggling threat. However, some measures for the strategies and programs that are designed to achieve this outcome provide an incomplete measure of performance. For example, the agency plans to measure the number of landings made by suspect aircraft that occur shortly before the aircraft crosses the border into the U.S., called short landings. The agency could refine its measure by using information about planes that are found after landing in the U.S. to have carried illegal drugs. In addition, Customs did not identify actions that are to be taken to mitigate the effects on its activities of external influences such as changes in drug smuggling routes in response to law enforcement pressures. The fiscal year 2002 performance plan does not discuss any human capital initiatives as strategies to support this outcome nor does it include information on technology initiatives for this outcome. The plan also described coordination efforts underway with another agency and annotated the performance goal to show where such crosscutting coordination occurred.

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## Firearms and Related Crime

As with drug flow discussed above, the clandestine nature of the underlying activities renders performance measurement in the area problematic. Thus, it is unclear whether Treasury made progress in achieving this outcome because none of the measures for this outcome directly targeted whether criminal access to firearms was reduced. For example, two measures tracked aspects of firearms-tracing activities related to crime guns<sup>20</sup>—the number of firearms trace requests submitted

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<sup>20</sup>A "crime gun" is a firearm recovered from crimes or from those prohibited from owning them.

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and the average trace response time. According to the Bureau of Alcohol, Tobacco, and Firearms (ATF)—the Treasury agency responsible for programs related to this outcome—the tracing process assists law enforcement agencies in identifying possessors of recovered crime guns, and it enables ATF to develop investigative leads to identify illegal suppliers of firearms. However, neither of these measures provided an assessment of the extent to which tracing activities by ATF helped deny criminals access to firearms or reduced crime. In addition, the measures do not address one issue stated in the performance goal—community exposure to firearms-related crime.<sup>30</sup> Although Treasury reported statistical data that indicated reductions in crimes committed with firearms, these data were not reported as performance measures. As discussed in an earlier section of this report, our September 2000 report noted that agencies could also use program evaluation to identify program benefits, among other uses.

Treasury’s fiscal year 2002 plan for ATF provided specific strategies and programs designed to help it reduce criminal access to firearms and related crime. For example, for the Integrated Violence Reduction Strategy (IVRS), the ATF strategy aims to remove violent firearms offenders from the community, deny criminals access to firearms, and prevent violence and firearms crimes through community outreach. However, this strategy is not currently addressed by the ATF performance measures, as none of these measures determine how successful the IVRS will be at denying criminals access to firearms and reducing related crimes. For example, one ATF performance measure tracks the number of firearm trace requests submitted during the fiscal year, a measure that does not provide sufficient information regarding IVRS’ success at helping deny access to firearms. In addition, the fiscal year 2002 performance plan strategies to achieve this outcome do not discuss human capital or information technology initiatives.

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<sup>30</sup>The five measures are (1) crime-related costs avoided (in billions), (2) number of future crimes avoided as a result of ATF programs, (3) number of firearms trace requests submitted, (4) average trace response time (in work days), and (5) number of persons trained/developed by ATF personnel.

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## Comparison of Treasury's Fiscal Year 2000 Performance Report and Fiscal Year 2002 Performance Plan With the Prior Year Report and Plan for Selected Key Outcomes

For the selected key outcomes, this section describes major improvements or remaining weaknesses in Treasury's (1) fiscal year 2000 performance report in comparison with its fiscal year 1999 report, and (2) fiscal year 2002 performance plan in comparison with its fiscal year 2001 plan. It also discusses the degree to which the agency's fiscal year 2000 report and fiscal year 2002 plan addresses concerns and recommendations by the Congress, GAO, the Inspectors General and others.

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## Comparison of Performance Reports for Fiscal Years 1999 and 2000

Treasury's fiscal year 2000 performance report contained the same weaknesses that we identified in its fiscal year 1999 report and one additional limitation. However, Treasury made a few improvements.

- The strategic goals and objectives of IRS, FMS, Customs, and ATF were not always directly reflected in the broader departmental goals, limiting the reports' usefulness in determining whether these agencies are making progress in meeting their strategic goals in general and these outcomes in particular.
- When measures were dropped from use, Treasury usually did not explain the reason for the changes.
- When agencies did not meet their targets, Treasury provided only brief explanations for the shortfalls. In general, for fiscal year 2000, a full understanding of the reasons for the shortfalls in performance was either not provided or was speculative. For example, in explaining why IRS did not meet its target for overall quality of field examination cases, Treasury stated the obvious—that it was unable to meet new quality standards.<sup>31</sup>
- The reports generally did not discuss crosscutting issues or the impact of external factors on Treasury's abilities to meet its targets. For example,

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<sup>31</sup>Treasury offered an additional explanation for the shortfall—that the department addressed concerns regarding sampling methodology to ensure valid samples of cases reviewed, thus giving a truer indication of performance than in the past.

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Customs did not identify actions to mitigate the effects on its activities of external influences, such as changes in drug smuggling routes in response to law enforcement pressures.

- The reports provided minimal assurance that the performance information and data reported was credible by inserting an overall data accuracy statement at the beginning of the report. Data accuracy is one of several important elements to consider when examining the quality of agency performance data.<sup>32</sup> However, decision-makers may need more detailed explanations about such things as data validity, completeness, consistency, timeliness, and/or access. As we noted earlier in this report, our audit of IRS' fiscal year 2000 financial statements raised questions about the reliability and accuracy of some of IRS' performance indicator data.
- Unlike the fiscal year 1999 report, the fiscal year 2000 report did not fully discuss the findings of any program evaluations performed. Instead, the report provides brief summaries of four evaluations as examples.
- Treasury made two changes that strengthened its presentation of program performance data in general and also increased consistency with agency strategic goals. First, Treasury elevated its objective of Improve Customer Satisfaction to a strategic goal. Second, it added a strategic goal of Improve Employee Satisfaction.

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## Comparison of Performance Plans for Fiscal Years 2001 and 2002

Treasury's fiscal year 2002 performance plans for its agencies contained the same weaknesses that we identified in its fiscal year 2001 report. First, the performance goals and measures of Treasury's agencies will still not provide much results-oriented information related to broader departmental goals. Second, the performance plan sections on IRS and FMS provided minimal information on each measure's data source, accuracy, and limitations, among other things. The sections on Customs and ATF presented more data-related information than was presented in the IRS section. However, while Customs and ATF discussed the source and accuracy of the data, they did not present complete assessments. For example, the Treasury performance plan did not discuss data collection and storage, data validation and verification, or data limitations. Under the Reports Consolidation Act of 2000 (P.L. 106-531) agencies are to assess the completeness and reliability of the performance data included in their reports. The assessments are to describe any material inadequacies in the completeness and reliability of the performance data, and the actions the

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<sup>32</sup>See *Managing for Results: Assessing the Quality of Program Performance Data* (GAO/GGD-00-140R, May 25, 2000).

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agency can take and plans to take to resolve such inadequacies. Third, the sections generally did not describe program evaluations currently underway and how they would be used to assess agency performance.

Only the outcome on reducing the availability and use of illegal drugs was affected by changes in Treasury's performance plans for its agencies. These measures attempt to better link performance with this outcome but they may not provide complete information. For example, one of these measures tracks the number of suspect aircraft that land short of the U.S. border, an indicator that Customs' interdiction effort is successful. While the number of short landings is an indicator of successful reduction in the availability of illegal drugs, Customs should also consider measuring the number of suspect aircraft that actually make it past the border to deliver their illegal drug cargo.

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## The Department of the Treasury's Efforts to Address its Major Management Challenges Identified by GAO

GAO has identified two governmentwide high-risk areas: human capital and information security. Regarding human capital, we found that Treasury's performance plan had one measure related to human capital which was to measure the extent to which Treasury has implemented a new human resources system. With respect to information security, we found that Treasury's performance plan had one related goal and measure that captured the percent of all Treasury information technology systems that are certified and accredited to operate. In addition, Treasury addressed this management challenge at the individual agency level, as discussed in app. I.

In addition, GAO has identified five major management challenges facing the Department of the Treasury. We found that Treasury's performance report discussed the agency's progress in resolving its challenges. Of the agency's seven major management challenges, identified by GAO, its performance plan had (1) goals and measures that were directly related to one of the challenges, (2) had goals and measures that were indirectly applicable to five of the challenges (3) had no goals and measures related to one of the challenges, but discussed strategies to address it.

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## Scope and Methodology

As agreed, our evaluation was generally based on the requirements of GPRA, the Reports Consolidation Act of 2000, guidance to agencies from the Office of Management and Budget (OMB) for developing performance plans and reports (OMB Circular A-11, Part 2), previous reports and evaluations by us and others, our knowledge of Treasury's operations and programs, GAO identification of best practices concerning performance



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planning and reporting, and our observations on Treasury's other GPRA-related efforts. We also discussed our review with agency officials in IRS, FMS, Customs, ATF, and the Treasury's Office of Inspector General. The agency outcomes that were used as the basis for our review were identified by the Ranking Minority Member of the Senate Governmental Affairs Committee as important mission areas for the agency and do not reflect the outcomes for all of Treasury's programs or activities. We also used information from our January 2001 report on major management challenges and program risks for Treasury,<sup>33</sup> and similar reports by Treasury's Inspector General<sup>34</sup> and the Treasury Inspector General for Tax Administration<sup>35</sup> to identify challenges related to the outcomes we reviewed. We did not independently verify the information contained in the performance report and plan, although we did draw from other GAO work in assessing the validity, reliability, and timeliness of Treasury's performance data. We conducted our review from April 2001 through June 2001 in accordance with generally accepted government auditing standards.

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## Agency Comments and Our Response

We discussed this report with Treasury officials on June 5, 2001, and received written comments on it. The full text of Treasury's written comments is in appendix II. Treasury noted that it appreciated our reviews and insight on how it can make its GPRA products more useful. Treasury divided its comments into two categories, general and specific. Regarding the general comments, Treasury expressed agreement that it needs to use program evaluation to determine the impact of its programs on outcomes. It also expects to improve the link between agency measures and Treasury goals and objectives by using information from a review of its measures that it plans to conduct as part of the fiscal year 2003 budget. While we are not recommending specific measures to Treasury at this time, we are available to work with Treasury on performance measurement issues. In addition, Treasury plans to take steps to ensure data

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<sup>33</sup>See *Major Management Challenges and Program Risks: Department of the Treasury* (GAO-01-254, Jan. 2000).

<sup>34</sup>See Office of the Inspector General for Treasury, *Management and Performance Challenges Facing the Department of the Treasury*. Dec. 2000.

<sup>35</sup>See Treasury Inspector General for Tax Administration, *Major Management Challenges Facing the Internal Revenue Service, Fiscal Year 2001*. Dec. 1, 2000.

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validity for each of its performance measures by reviewing its control processes. We agree that such a step is useful. As part of that review, Treasury may also want to identify and implement changes to ensure that its performance measurement data are relevant, timely, and accurate. Treasury also noted that it continues to face conflicting pressures to keep its GPRA products streamlined and yet to include more detailed information; Treasury characterized our position as one desiring considerably more detail in their GPRA products. We agree that it is difficult to strike a balance in order to provide information that is useful and easily understood yet is sufficiently inclusive. However, we believe that it is only after Treasury establishes the information basic to a GPRA orientation such as its (1) planned outcomes, (2) actions to accomplish the outcomes, and (3) measures that are meaningful and reliable indicators of progress that presentation issues should be addressed. Producing documents that are responsive to GPRA requirements is an additional consideration.

Treasury made a number of specific comments that provide additional perspective on issues that we discuss in the report. We note below those instances where Treasury disagreed with a point we made and where we incorporated technical clarifications as appropriate.

Administration of Tax Law. Treasury agreed that it needs to further develop measures for this outcome. We recognize that development of such measures is difficult.

EITC. Treasury agreed that it lacks performance measures for the EITC program and describes other measures that it uses in managing the program. However, as we note in the report, without performance measures and an evaluation strategy, Treasury will not be able to assess progress in achieving less waste, fraud, and error in the program.

Delinquent Tax Collection. Treasury commented that IRS' reorganization, new mission, and strategic goals caused IRS to find methods of measuring success without considering dollars collected. Treasury went on to note that for various reasons, IRS' traditional debt collection activities have declined and that

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with additional staffing it has been authorized, IRS believes it will realize significant improvement in critical debt collection areas by the end of fiscal year 2002. While IRS' current performance measures provide some perspective on its collections success, we believe, as explained in our report, that some measures that consider whether IRS is collecting the correct amount of taxes under proper collection procedures would provide a more balanced performance perspective.

Non-tax Debt Collection. Treasury disagreed with our assessment that one of its measures—involving a comparison of delinquent non-tax debts referred and eligible for referral—for this outcome is not a good gauge of success. While we agree that FMS has spent considerable resources working with other agencies so that the agencies will refer their debt, it is also true that the measure is unduly influenced by factors outside FMS' full control. We modified the wording in our report to better reflect our concern about that measure.

Customs Drug Interdiction Program. Treasury disagreed with our statement that some of its performance measures were not linked directly to its goals. In response, we revised our wording to better articulate our assessment of the progress Treasury has made in achieving its outcomes.

Personal Search Data. Treasury provided additional perspective on its efforts in response to our previous recommendation related to its performance measures for target efficiency.

Short Landings. Treasury disagreed with our assessment that some of its drug interdiction performance measures do not support the outcome of reduced drug availability. It also took issue with our use of an example regarding the performance measure on the number of suspect aircraft that land shortly before crossing the border into the U.S. The intent of the example was to illustrate the need for better outcome measures, a need that Treasury acknowledged in its comments. We clarified our wording in the report.

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Automated Commercial Environment (ACE). We deleted reference to the development of the ACE initiative, as suggested by Treasury.

Data Accuracy, Incomplete Assessment. At Treasury's request, we revised the report to include an example of components of an assessment of data issues.

FMS' Computer Security. Treasury provided information in its comments about the performance measures it established for its Information Technology Security Program in the Self-Assessment Framework. While that action is commendable, it does not substitute for performance measures in Treasury's performance report or plan. We clarified this point in our report.

FMS Non-compliance with the Federal Financial Management Improvement Act (FFMIA). Treasury acknowledged that its financial management systems did not comply with FFMIA and that it is addressing deficiencies through a remediation plan and corrective actions. While those actions are commendable, they do not substitute for performance measures in Treasury's performance report or plan.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to appropriate congressional committees; the Honorable Paul H. O'Neill; and the Honorable Mitchell E. Daniels, Jr., Director, Office of Management and Budget. Copies will also be made available at [www.gao.gov](http://www.gao.gov).

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If you or your staff have any questions, please call me at (202) 512-9110. Key contributors to this report were Ralph T. Block, Kerry Gail Dunn, and Elwood D. White. Additional staff acknowledgments are listed in app. III.

Sincerely yours,

A handwritten signature in black ink that reads "Paul L. Jones". The signature is written in a cursive style with a long, sweeping underline.

Paul L. Jones, Director  
Tax Administration and Justice

# Appendix I: Observations on the Department of the Treasury's Efforts to Address Its Major Management Challenges

The following table identifies the major management challenges confronting the Department of the Treasury, which includes the government-wide high-risk areas of human capital and information security. The first column of the table lists the management challenges that we and/or the Department of the Treasury's Office of Inspector General (OIG) or Treasury Inspector General for Tax Administration (TIGTA) have identified. Treasury has two offices of Inspector General—TIGTA, which covers the Internal Revenue Service and the OIG, which covers all other Treasury bureaus. The second column discusses what progress, as discussed in its fiscal year 2000 performance report, Treasury made in resolving its challenges. The third column discusses the extent to which Treasury's fiscal year 2002 performance plan includes performance goals and measures to address the challenges that we and the two Treasury IGs identified. We found that Treasury's performance report discussed the agency's progress in resolving many of its challenges, but it did not discuss the agency's progress in resolving the following challenge: Strategic Human Capital Management. Of the agency's 16 major management challenges, its performance plan had goals and measures that were directly related to five of the challenges, goals and measures that were indirectly applicable to five of the challenges and no goals and measures related to six of the challenges, but discussed strategies to address them.

**Table 1: Major Management Challenges**

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<b>GAO-designated governmentwide high risk</b>		
<p><b>Strategic Human Capital Management.</b> GAO has identified shortcomings involving key elements of strategic human capital management, including strategic human capital planning and organizational alignment; leadership continuity and succession planning; acquiring and developing staffs whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures.</p>	<p>According to its fiscal year 2000 performance report, Treasury has taken actions to enhance its ability to recruit and is developing human capital management strategies to foster performance management and talent recruitment, development, and retention. These efforts include:</p> <ul style="list-style-type: none"> <li>• Rolling out a new human resources system to provide better support to Treasury missions. Treasury's phased-in roll out was delayed causing it to fall short of its FY 2000 target.</li> <li>• Undertaking activities to target</li> </ul>	<p>Treasury's fiscal year 2002 performance plan has a goal to the roll out of the new human resources system that is being designed to meet the bureaus business requirements. Another goal, which Treasury added for fiscal year 2001 and hopes to fully meet in fiscal year 2002, is to increase the percent of major Treasury occupations for which workforce-planning processes have been completed along with workforce strategies developed as needed.</p> <p>The performance plan has three measures related to the goal of improving the efficiency of EEO process in resolving complaints. For example Treasury measures the percent of EEO complaints resolved at the informal</p>

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Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
	<p>employee recruitment; including contracting with advertising agencies to develop recruitment and advertising campaigns, marketing employment opportunities on the Internet, and tailoring recruitment initiatives to target quality employees to fill immediate and long-term needs.</p> <ul style="list-style-type: none"> <li>• Instituting an Executive Leadership Program to fine tune leadership competencies that executives need for managing their operations and employees to optimum performance.</li> <li>• Examining different approaches to mitigate compensation and benefit disparities that exist between government and those of the private sector.</li> <li>• Gearing Equal Employment Opportunity (EEO) efforts towards attracting, retaining and developing a diverse workforce. Additionally, Treasury acted to increase the efficiency of the discrimination complaint process to provide increased opportunities to resolve workplace disputes.</li> <li>• Establishing a goal of improving employee satisfaction and conducting employee satisfaction surveys at IRS and TIGTA. Several other bureaus have initiated efforts to collect employee satisfaction data.</li> </ul>	<p>stage.</p> <p>At the bureau level the performance plan cited measures of employee satisfaction at IRS, TIGTA and the Federal Law Enforcement Training Center, which set its baseline in fiscal year 2001. Additionally, Treasury is expanding the number of bureaus measuring employee satisfaction.</p> <p>IRS in 2001 began its first hiring initiative in several years. Compensation and incentive policies will be developed to recruit for specialized employees. In 2002 IRS will continue to implement programs to align compensation with performance and provide opportunities to acquire skills. IRS is hiring staff to expand compliance and customer service.</p>
	<p>We reported that Treasury's strategic human capital management lacks measures. For example, IRS needs to implement a balanced approach to its performance management system to better assess progress toward achieving strategic goals and improving operations. The Customs Service needs to foster reliable data to determine staffing needs.</p>	

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Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<p><b>Information Security.</b> Our January 2001 high-risk update noted that the agencies' and governmentwide efforts to strengthen information security have gained momentum and expanded. Nevertheless, recent audits continue to show federal computer systems are riddled with weaknesses that make them highly vulnerable to computer-based attacks and place a broad range of critical operations and assets at risk of fraud, misuse, and disruption.</p> <p>(Also identified by the Treasury IG for Tax Administration and Treasury OIG.)</p>	<p>Treasury reported in its fiscal year 2000 performance report that it strengthened electronic data processing controls, most notably at the IRS, revised the Treasury Security Manual regarding information systems security compliance, and began implementation of a two year plan to improve the effectiveness of the Department's security programs. However, Treasury reported that there were no performance measures related to these activities during fiscal year 2000.</p> <p>Treasury also reported that its bureaus, including IRS, identified information technology assets relevant to critical infrastructure protection, have a computer security incident response capability, receive security alerts and advisories, and apply patches and other fixes as appropriate.</p> <p>Based on our evaluation of computer controls over IRS information systems as part of our audits of IRS' fiscal year 2000 financial statements and IRS' electronic filing systems, we continue to report IRS computer security as a material weakness and separately reported serious access control weaknesses that could have allowed unauthorized individuals, both internal and external to IRS, to view and modify taxpayer data on IRS' e-file systems.</p> <p>Treasury's performance report identifies steps — including new leadership, additional contractor support, and increased resources — Customs has taken to improve information security. Specifically, Customs plans to have a commercial disaster recovery contract in place by the end of fiscal year 2001. Additionally, the performance report states that Customs has implemented new firewalls to secure Internet</p>	<p>Treasury's fiscal year 2002 performance plan identifies a new performance measure which provides that 65 percent of all Treasury information technology systems will be certified and accredited to operate in fiscal year 2002. In addition, Treasury addresses this management challenge at the individual bureau levels.</p> <p>IRS — Although IRS' fiscal year 2002 performance plan did not identify specific goals or performance measures related to this major management challenge, it identified numerous actions planned or underway that it believes will continue to reduce its security risks. These actions include reviewing the security operations of each service center, identifying and implementing solutions to mitigate security weaknesses, and removing the material weakness status for all 10 centers by October 2001. IRS also reported that by September 2001, a security framework will be established to improve and better measure its security capabilities. In addition, IRS reported that security certifications of sensitive systems will be completed by September 2002.</p> <p>Customs — The performance plan does not include performance goals and measures that specifically address information security. However, the plan describes Customs' plans to acquire commercial disaster recovery services. Additionally, the plan states that Customs has (1) provided new leadership to its security organization, (2) increased the security organization's budget, (3) contracted for additional security support, and (4) addressed various audit recommendations including installing additional firewall protection and strengthening system password requirements.</p> <p>FMS — The performance plan discusses FMS' actions planned or underway to address its computer security issues. However, FMS has not established specific performance measures in its plan for addressing computer security control issues.</p>



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Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
	<p>connections.</p> <p>Treasury reported in the fiscal year 2000 performance report that during fiscal year 2000 FMS issued entity-wide security policies and procedures and is currently implementing them.</p>	<p>FMS could establish performance measures related to (1) establishing an effective entitywide security management program, (2) implementing corrective actions to resolve each of the individual weaknesses identified in the report, and (3) working with the Federal Reserve Banks (FRB) to implement corrective actions to resolve computer control vulnerabilities related to FMS systems supported by the FRBs.</p>
<b>GAO-designated major management challenge</b>		
<b>Internal Revenue Service Modernization:</b>		
<ul style="list-style-type: none"> <li><i>Revamping Business Practices to Meet Taxpayers Needs.</i> Within the new operating divisions, IRS must take a fresh look at how to enforce the tax laws and meet taxpayer needs in new and better ways. This will be a challenge in overcoming cultural barriers and in coordinating the requisite human capital, data, and information system support across IRS.</li> </ul>	<p>The fiscal year 2000 performance report briefly discussed several key transition activities IRS completed related to revamping its business practices. These included selecting division commissioners for its new divisions and key top and mid level managers within each division. The report noted that IRS continued improvement processes related to the Modernization Management oversight structure, Taxpayer Advocate Service, and IRS' Stakeholder Relationship Management.</p>	<p>Treasury's fiscal year 2002 performance plan did not cite goals with related measures for meeting this management challenge. The performance plan recognized that IRS operations are facing various issues and challenges in transitioning to the new organizational structure. The plan listed several actions and changes to IRS' current business practices that is to allow it to better meet taxpayer needs. These actions include redesigning the Taxpayer Advocate Management Information System so that it interfaces with other IRS systems and integrating several other automated systems into a single platform.</p>
<ul style="list-style-type: none"> <li><i>Implementing a Balanced Approach to IRS' Performance Management System to Better Assess Progress.</i> IRS is faced with the challenge of aligning its individual performance evaluation systems with its balanced measurement system to clearly link the work of individual managers and employees to the mission and goals of the agency.</li> </ul>	<p>The fiscal year 2000 performance report pointed out that IRS developed a new strategic planning and budget process that links strategy, planning, budgeting, and research to support senior management in establishing and communicating IRS' strategic direction. The plan indicated that IRS developed balanced measures at the strategic level; developed operational level balanced measures for all operating and functional divisions; and provided balanced measurement training to all managers and staff.</p>	<p>The fiscal year 2002 performance plan indicated that balanced measures will be developed at the strategic and operational management levels and reporting mechanism will be implemented by September 2001. The measures may include voluntary compliance, burden, overall productivity, and overall customer satisfaction. The plan also indicates that data reporting for the strategic measures will be fully implemented in September 2002.</p>
<p>(Also identified by Treasury IG for Tax Administration.)</p>		

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Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<ul style="list-style-type: none"> <li><i>Addressing Financial Management Weaknesses to Develop Reliable Cost-Based Performance Information.</i> IRS does not have reliable cost accounting data to enable it to (1) develop cost-based performance information, (2) determine cost/benefits of its tax collection and enforcement programs, and (3) judge whether it is appropriately allocating its resources among competing management priorities.</li> </ul> <p>(Also identified by Treasury OIG and Treasury IG for Tax Administration.)</p>	<p>Treasury's fiscal year 2000 performance report indicated that IRS acquired an integrated financial management system (IFS) that will support cost accounting. However, in its December 31, 2000, Federal Financial Management Improvement Act (FFMIA) remediation plan, IRS indicated that it intends to acquire and install IFS, but that this is not due until October 2004. Pending implementation of IFS, IRS stated that it studied the desirability of implementing an interim cost accounting system. However, IRS did not indicate the outcome of this study or what, if any, subsequent action was taken.</p>	<p>According to the fiscal year 2002 performance plan, IRS is developing IFS to address its financial management weaknesses, including its lack of reliable cost information. IFS is scheduled to be completed by April 2005. The plan did not clarify if this is a revised completion date nor did it provide reasons for the delay from the original completion date reported in the fiscal year 2000 program performance report. There are no performance goals or measures to gauge IRS' progress in implementing IFS nor the effectiveness of any interim corrective actions.</p>
<ul style="list-style-type: none"> <li><i>Institutionalizing Effective Systems Modernization Management Controls.</i> Since 1995, IRS has made progress in dealing with management and technical weaknesses in its information technology systems. However, weaknesses in investment management, system life-cycle management, enterprise architecture management, and software acquisition management remain challenges</li> </ul>	<p>Treasury's fiscal year 2000 performance report discusses this management challenge and IRS' efforts to implement selected management controls and capabilities. For example, it reports that IRS hired experienced technical and managerial executives to run the modernization program. In addition, IRS adopted and started to define its system life-cycle methodology that incorporates software acquisition and investment management processes. The report does not, however, include discussion of other important management control improvement efforts underway at IRS such as the definition of enterprise architecture. If properly implemented, these efforts taken as a whole, would provide IRS the capacity to effectively manage the Business Systems Modernization (BSM) program.</p>	<p>Treasury's fiscal year 2002 performance plan includes BSM as a major activity being managed and overseen by the agency. However, the plan does not include specific BSM performance goals and measures. Rather, the plan states that BSM resources contribute to meeting goals and measures reported by IRS business activities such as Filing and Account Services and Compliance Services. However, the plan did not specify how BSM was contributing to their performance goals and measures.</p>
<ul style="list-style-type: none"> <li><i>IRS Faces Challenges in Collecting Unpaid Taxes.</i> Weaknesses in IRS' information systems and inadequate financial and operational information continue to hamper IRS' ability to collect billions of dollars in unpaid taxes.</li> </ul>	<p>(This challenge is discussed under outcomes in the report.)</p>	<p>(This challenge is discussed under outcomes in the report.)</p>

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Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<ul style="list-style-type: none"> <li><i>Noncompliance with Earned Income Tax Credit.</i> Noncompliance with EITC exposes the federal government to billions of dollars of risk. However, IRS does not yet have sufficient data to demonstrate that it has effective controls over EITC compliance.</li> </ul>	<p>(This challenge is discussed under outcomes in the report.)</p>	<p>(This challenge is discussed under outcomes in the report.)</p>
<p><b>Need to Improve Customs Service's Regulation of Commercial Trade while Protecting Against Entry of Illegal Goods at U.S. borders.</b> Although Customs has made progress in implementing initiatives to improve security at U.S. borders, the following challenges remain, (1) completing an assessment of new trade compliance initiatives, (2) balancing travelers' rights with customs' responsibility to interdict contraband, (3) using reliable data to determine staffing needs, and (4) acquiring a new import processing system.</p>	<p>Treasury's fiscal year 2000 performance report noted that to help protect against the entry of illegal goods at U.S. borders, Customs began implementing the National Drug Control Strategy. Some of Custom's efforts to implement this strategy include using scanning technology for vehicles, containers or passengers at high risk ports, sharing smuggling intelligence with other agencies, and participating in multi-agency interdiction operations. Customs is also cooperating with the National Drug Control Policy in developing consistent, accurate statistics on drug interdiction.</p> <p>The performance report also noted that:</p> <ul style="list-style-type: none"> <li>Customs is reviewing the agency's trade compliance strategy in an effort to evaluate its impact on compliance. The evaluation is currently underway but not yet completed.</li> <li>Customs has increased its targeted effectiveness of personal search activity by increasing management oversight, emphasizing the collection and use of data, and improving training and standard procedures.</li> <li>Customs is working to ensure a stable-funding stream for the Automated Commercial Environment (ACE). However, the report does not describe progress toward acquiring ACE.</li> </ul>	<p>Treasury's fiscal year 2002 performance plan focuses on Customs' efforts to reduce entry of illegal drugs at U.S. Border as well as provides statistics regarding the number of seizures for various types of illegal drugs and information about the implementation of the Five-year Non-Intrusive Inspection technology plan. Treasury's plan for Customs does not discuss how its performance goals and measures will help it address this management challenge. In addition, any initiatives for improving the new trade compliance initiative, targeted searches, and staffing model are not discussed.</p> <p>Also, the performance plan does not include performance goals and measures that specifically address acquisition of ACE. However, the plan describes ACE's importance to providing Customs personnel with the information and tools needed to better support trade activities and protect U.S. citizens.</p> <p>(The challenge of reducing illegal drug use is further discussed under outcomes in the report.)</p>

**Appendix I: Observations on the Department of the Treasury's Efforts to Address Its Major Management Challenges**

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<b>Financial Management:</b>	<p>In its fiscal year 2000 performance report, Treasury stated that bureaus that were not in substantial compliance with FFMIA have prepared remediation plans in accordance with the Act. Treasury also issued guidance to the bureaus on defining the roles and responsibilities in complying with FFMIA and has met with OMB to review FFMIA issues, including obtaining waivers for the Customs Service and IRS from the requirement to correct the noncompliance within 3 years of determination.</p>	<p>Treasury's fiscal year 2002 performance plan addresses this management challenge at the individual bureau levels.</p>
<ul style="list-style-type: none"> <li><i>Challenges Affecting Certain Bureaus Operations.</i> For fiscal year 2000, Treasury reported that seven of its bureaus' financial management systems were not in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). Also, Customs faces weaknesses in its internal control over data in its automated systems and problems developing and implementing new automated systems, and IRS continues to experience ongoing deficiencies in its financial management and operational systems and processes.</li> </ul>	<p>Treasury stated that between fiscal year 1999 and fiscal year 2000, the number of material weaknesses in the Department was reduced by as much as 46 percent. Treasury also stated that the bureaus continue to make progress in improving their financial management systems. Treasury stated that ATF implemented a Joint Financial Management Improvement Program core financial system in October 1999 and Customs has selected an Enterprise Resource Planning system to replace both its core financial system as well as its legacy administrative systems.</p>	<p>FMS – The performance plan discusses FMS' actions planned or underway to address its noncompliance with the federal financial management systems requirements of FFMIA. However, the actions planned or underway do not fully address the computer security issues that contributed to its noncompliance. FMS has not established specific measures for addressing FFMIA noncompliance.</p>
<p>(Also identified by Treasury OIG.)</p>	<p>We reported that FMS continues to face computer security issues that contributed to its noncompliance. We have made recommendations to FMS on how to address this issue.</p>	<p>Customs – The performance plan discusses actions that are planned or underway to address compliance with FFMIA including (1) Customs modernization efforts to address issues communicated in its remediation plan, (2) pursuing a solution to the longstanding issue surrounding the lack of disaster recovery capability, and (3) a broad process improvement effort to respond to prior audit recommendations. However, the plan does not include measurable performance goals and measures to address these challenges.</p>
	<p>(The recommendations are enumerated above in the Information Security challenge.)</p>	<p>IRS – According to the performance plan, IRS is developing IFS to address its financial management weaknesses, including its lack of reliable cost information. (This system is discussed above under IRS modernization challenges.)</p>
	<p>Treasury stated that Customs is in the process of creating a fully integrated core financial system. However, according to Treasury, actual implementation will be dependent on</p>	

**Appendix I: Observations on the Department of the Treasury's Efforts to Address Its Major Management Challenges**

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<p>the Automated Commercial Environment, which is to help aid the movement of goods into the U.S. and facilitate the collection of revenues.</p> <p>Treasury's performance report identified steps IRS took during fiscal year 2000 to improve the reliability of its reported property and equipment balances. However, progress in addressing related internal control and operational deficiencies were not discussed.</p> <ul style="list-style-type: none"> <li>• <i>Preparing Financial Statements for the Government Continues to be a Challenge for FMS.</i> As the preparer of the Financial Report of the U. S. Government (FR), FMS continues to face challenges in working with federal agencies, including the inability to (1) properly account for billions of dollars of basic transactions, especially those between government entities; (2) ensure that information in the Financial Report is consistent with agencies' financial statements; and (3) effectively reconcile the results of operations reported in the U.S. government's financial statements with budget results.</li> </ul> <p>(Also identified by the Treasury OIG.)</p>	<p>the Automated Commercial Environment, which is to help aid the movement of goods into the U.S. and facilitate the collection of revenues.</p> <p>Treasury's performance report identified steps IRS took during fiscal year 2000 to improve the reliability of its reported property and equipment balances. However, progress in addressing related internal control and operational deficiencies were not discussed.</p> <p>According to Treasury's performance report, the following initiatives took place during fiscal year 2000 to address improvements needed in preparing reliable U.S. financial statements:</p> <ul style="list-style-type: none"> <li>• The Government-wide Accounting Project is re-examining FMS' existing processes for collecting budget execution data government-wide and reporting of the government's budget surplus/deficit. This long-term project, which according to Treasury is expected to make fundamental changes and will produce more timely, accurate, and reliable financial reports, while at the same time, reduce the reporting and reconciliation burdens on agencies.</li> <li>• FMS continued to work with federal agencies to help them adopt uniform accounting and reporting standards and systems.</li> </ul> <p>To facilitate preparation of the Financial Report, FMS is working with the Chief Financial Officers' Council and OMB to develop systems and additional guidelines that will enable agencies to identify and reconcile intragovernmental transactions.</p>	<p>Treasury's fiscal year 2002 performance plan discussed several actions underway to resolve weaknesses in the Financial Report. To facilitate the preparation of the Financial Report, FMS stated that it is continuing to work with the Chief Financial Officers' Council to help agencies identify and reconcile any accounting differences on interagency transactions. FMS is also working with OMB to develop additional processes, procedures, and guidelines that will enable agencies to identify their trading partners and eliminate differences for certain other classes of intragovernmental transactions. FMS stated that it also continues to work with agencies to help them adopt uniform accounting and reporting standards and systems. However, FMS does not include specific performance goals or measures to gauge its progress in implementing the stated actions underway.</p>

**Appendix I: Observations on the Department of the Treasury's Efforts to Address Its Major Management Challenges**

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
<p>As we suggested in our prior year report, FMS could better measure its progress if it designed measures for areas central to the management challenge. Also, FMS' planned performance would be clearer if measures were designed that related to the issues on which it has taken the lead – specifically, Intragovernmental transactions, consistency and propriety of FR financial data, and fund balance with Treasury reconciliations.</p> <ul style="list-style-type: none"> <li>• <i>Challenges Remain in Implementing the Debt Collection Improvement Act of 1996.</i> Challenges remain for FMS to fully implement its Treasury Offset Program to include all payment types. Challenges also remain for full implementation of Treasury's cross-servicing program. For example action is needed to ensure fair debt distribution and to promote competition among private collection agencies.</li> <li>• <i>Debt Management Challenges in a Period of Budget Surpluses.</i> The transition from annual budget deficits to surpluses has consequences for both the profile of federal debt held by the public and Treasury's strategies for achieving its debt management objectives.</li> </ul>	<p>(This challenge is discussed under outcomes in the report.)</p> <p>The fiscal year 2000 performance report did not discuss progress in resolving this new management challenge.</p>	<p>(This challenge is discussed under outcomes in the report.)</p> <p>The fiscal year 2002 performance plan did not contain any goals with related measures that address this management challenge.</p>
<p><b>Need to Improve ATF's Performance Measures to Better Determine the Progress in Denying Criminals' Access to Firearms.</b> Despite significant technological advances that have given ATF more investigative information to carry out its mission, limitations in its performance measures make it difficult to determine its progress.</p>	<p>(This challenge is discussed under outcomes in the report.)</p>	<p>(This challenge is discussed under outcomes in the report.)</p>
<p><b>Need to Improve the Management of Treasury's Asset Forfeiture Program.</b> Treasury's Asset Forfeiture Program faces inadequate information systems and financial management weaknesses, including problems with accountability over seized assets.</p>	<p>According to the fiscal year 2000 performance report, Customs is finalizing user requirements and exploring funding options to complete resolution of all recommendations to improve its Seized Asset and Case Tracking System (SEACATS). If funding is available, resolution will be</p>	<p>Treasury's fiscal year 2002 performance plan did not include performance goals or measures related to this major management challenge. The performance plan only states that Customs is finalizing user requirements and exploring funding options to complete resolution of all recommendations made to improve SEACATS and that if funding is</p>

**Appendix I: Observations on the Department of the Treasury's Efforts to Address Its Major Management Challenges**

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan
	<p>complete by fiscal year 2002. The report does not mention any progress made towards the consolidation of the Treasury and Justice Asset Forfeiture Programs.</p> <p>We reported that Treasury's asset forfeiture program needs to address weaknesses in the department's accountability for and reporting of seized and forfeited property.</p>	<p>available, resolution will be completed by fiscal year 2002.</p>
<b>TIGTA-designated major management challenges</b>		
<p><b>Processing Returns and Implementing Tax Law Changes During the Tax Filing Season.</b> The Treasury IG for Tax Administration reported that implementation of computer programming changes, reduction of tax form complexity and taxpayer burden, and other related issues remain a challenge for the IRS.</p>	<p>Treasury's fiscal year 2000 performance report discussed several actions IRS took for the 2000 filing season to more effectively process returns such as including return labels in tax packages to identify either remit or non-remit returns, expanding and promoting the use of the internet for timely taxpayer information to supplement available forms and publications, and redesigning and simplifying publications and tax form and instructions for the Earned Income Tax Credit. IRS actions to implement tax law changes included ensuring that programming, training, and tax forms and publications were completed for new legislative provisions and conducting reviews of new legislation statutory termination dates to determine whether actions needed to be taken on the provisions.</p>	<p>Treasury's fiscal year 2002 performance plan does not include specific goals with related measures for this major management challenge. However, the plan discussed several actions IRS has taken or plans to take to enhance the 2001 filing season and future filing seasons. These actions included (1) developing contingency plans for new process and new legislation, (2) aligning the notice process within the appropriate managing organization, (3) undertaking a feasibility study and cost/benefit analysis of calling taxpayers for missing tax return data, (4) checking dependent birth dates on returns claiming the child care credit, and (5) undertaking transition activities related to service center reorganization.</p>
<p><b>Providing Quality Customer Service Operations.</b> The Treasury IG for Tax Administration reported that despite heavy investment in technology, telephone service has not improved significantly and that there was a dramatic increase in tax return preparation assistance. As a result, the challenge to provide quality customer service will continue.</p>	<p>The fiscal year 2000 performance report discussed several actions IRS took to address customer service needs. These actions include reassigning the Innocent Spouse program to the Wage and Investment Division, providing 7 day a week/ 24 hour telephone service during the 2000 filing season, expanding Spanish language services, providing voice enabling service for refund callers, completing a skills assessment and developing training plans for toll-free/adjustments employees, and developing a new balance measure to determine the contact quality (impact of error onto the customer).</p>	<p>The fiscal year 2002 performance plan showed an increase in the toll-free-level of service (number of calls answered to number of calls attempted) for fiscal year 2000 compared to fiscal year 1999. However, the toll-free tax law and account quality scores decreased. The performance plan discussed several of IRS' planned or on-going actions to enhance customer service. These actions included enhancing the intelligent call routing system to route calls to employees with specific expertise, offering evening and weekend field assistance and multi-lingual translation services, increasing the availability and accessibility of electronic products and services, and offering products and services tailored to specific taxpayer</p>

**Appendix I: Observations on the Department of the Treasury's Efforts to Address Its Major Management Challenges**

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan needs through outreach programs.
<p><b>Taxpayer Protection and Rights.</b> The Treasury IG for Tax Administration reported that compliance with taxpayer rights requirements of the IRS Restructuring and Reform Act of 1998 remains a challenge.</p>	<p>The fiscal year 2000 performance report noted that IRS established the new Taxpayer Advocated Service; hired and provided training to TAS staff, implemented balanced measures of organizational performance, and began building collaborative relationships with other new IRS components. Among the changes IRS reported implementing were systemic changes to prevent refund offsets from occurring while innocent spouse claims are considered and to prevent processing levy requests when due process rights have been given, included a third-party notification stuffer in levy notices, and issued due process notices on delinquent accounts when enforcement action was imminent.</p>	<p>Treasury's fiscal year 2002 performance plan does not include specific goals with related measures for this major management challenge. However, the plan noted that in fiscal year 2001, RRA 98 provisions will be reviewed and plans will be developed to resolve all outstanding issues. Also, a new Taxpayer Advocate program was established to identify sources of taxpayer problems and work with IRS operating divisions to address the problems. The plan noted that IRS will continue to act to reduce willful violations of taxpayer rights by reinstating the quality standard dealing with disclosure of taxpayer data and requiring frontline managers to evaluate staff compliance with the standard. Among other actions IRS also modified and implemented training programs to reinforce the reforms outlined in the 1998 Act.</p>
<p><b>Impact of the Global Economy on Tax Administration.</b> The Treasury IG for Tax Administration reported that internal control and systemic weaknesses in IRS' administration of international programs remain a challenge.</p>	<p>The fiscal year 2000 performance report does not address specific actions taken to improve international compliance. The report discusses meetings IRS held with various international bodies, which were attended by senior tax officials from various countries.</p>	<p>Treasury's fiscal year 2002 performance plan does not include specific goals with related measures for this major management challenge. However, the plan discussed various actions that were planned or underway to deal with the globalization challenge. Several of the actions dealt with conducting meetings and building partnerships with tax officials from other countries and federal agencies such as the Federal Trade commission and the Securities and Exchange Commission. The plan also noted IRS would be developing an index to identify variables that can be used to identify potential noncompliance.</p>
<p><b>Customer Service and Tax Compliance Initiatives.</b> The Treasury IG for Tax Administration reported that to properly balance customer support with compliance, IRS is faced with the challenge of adequately staffing the customer service function while at the same time, properly managing compliance resources and processes.</p>	<p>The fiscal year 2000 performance report does not address this challenge.</p>	<p>Treasury's fiscal year 2002 performance plan did not have goals with related measures that directly related to this management challenge. The plan reported that enforcement revenue collected in fiscal year 2000 increased by about \$1 billion over fiscal year 1999. The plan noted that hiring efforts directed at accomplishing pre-filing assistance goals were scheduled to begin in fiscal year 2001 and that as these resources gradually replace the post- filing resources used for filing season support, the number of direct hours available for compliance activities should expand. The plan listed several actions IRS plans to take to allow</p>



**Appendix I: Observations on the Department of the Treasury's Efforts to Address Its Major Management Challenges**

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report	Applicable goals and measures in the fiscal year 2002 performance plan compliance activities to expand.
<b>OIG-designated management challenge</b>		
<p><b>Treasury's Information Technology (IT) Investment Management.</b> Treasury's OIG determined that improvements are needed in capital planning, investment controls, project management, systems development, and performance measurement of IT investments.</p>	<p>Treasury's fiscal year 2000 performance plan established the "percentage of new IT capital investments that are within costs, on schedule, and meeting performance targets" as the department's measure for IT investment management. Treasury's fiscal year 2000 target for this measure was 100 percent. However, the fiscal year 2000 performance report states that Treasury bureaus did not provide the cost, schedule, and performance data necessary to determine their progress.</p>	<p>The fiscal year 2002 performance plan reiterates the following measure, earlier specified in the fiscal year 2000 performance plan: "percentage of new IT capital investments that are within costs, on schedule, and meeting performance targets." The goal for this measure is 100 percent.</p>
<p><b>Money Laundering/Bank Secrecy.</b> Treasury's OIG reported that Treasury needs to continue to combat money laundering worldwide through enhanced law enforcement, improved banking supervision and international cooperation.</p>	<p>The fiscal year 2000 performance report noted that Treasury awarded a contract in August 2000 to develop a methodology for estimating the magnitude of money laundering. This project is expected to take 18 months to complete.</p> <p>The performance report discussed several actions Treasury took in fiscal year 2000 to address this management challenge. Among these were the publication of by the Financial Action Task Force of a list of 15 jurisdictions with serious deficiencies in their anti-money laundering regimes and advisories to U.S. banks urging additional scrutiny of transactions involving these countries. The report listed other actions, such as working on rules for suspicious activity reporting for non-depository financial institutions and issuing guidance to banks on certain high-risk accounts.</p>	<p>In Treasury's fiscal year 2002 performance plan the Financial Crimes Enforcement Network listed four goals related to (1) providing investigative case support, (2) identifying financial crime trends and patterns, (3) administering the Bank Secrecy Act, and (4) fostering international cooperation. Measures generally gauged customer satisfaction or degree of participation.</p> <p>Customs lists a goal of strengthening domestic and international efforts to disrupt the flow of illegal money derived from global criminal activity.</p>
<p><b>Revenue Protection by ATF and Customs.</b> The Treasury OIG recommended stronger internal controls and system improvements to increase revenue collected.</p>	<p>The fiscal year 2000 performance report noted that during 2000, ATF implemented controls relating to reviewing evidence and conducting verifications of shipments of tax-free exports of distilled spirits. ATF implemented an inspection-targeting program to track field tax assessments for firearms and ammunition. ATF is</p>	<p>The fiscal year 2002 performance plan did not have goals with related measures for the management challenge. The ATF listed several actions underway to address the management challenge, including studies on the tax gap, developing ways to file taxes electronically, systems integration, alcohol and tobacco inspection targeting program, and new examination workplans and internal</p>

**Appendix I: Observations on the Department of the Treasury's Efforts to Address Its Major Management Challenges**

<b>Major management challenge</b>	<b>Progress in resolving major management challenge as discussed in the fiscal year 2000 performance report</b>	<b>Applicable goals and measures in the fiscal year 2002 performance plan</b>
	<p>making computer enhancements that will track field assessments. System enhancements are targeted for completion in October 2002.</p> <p>Customs is undertaking an agency-wide self-inspection program to increase management oversight of internal controls.</p>	<p>control instruments. Customs did not discuss actions related to this challenge in the performance plan.</p>
<p><b>Safety and Soundness of the Banking Industry.</b> Treasury's OIG reported that in fulfilling its regulator role, the Office of the Comptroller of the Currency (OCC) needs to monitor developments in the National Banking System, analyze trends, and assess systemic risks to identify events that could affect the soundness of the system.</p>	<p>The fiscal year 2000 performance report noted that during 2000, OCC produced annual underwriting survey analysis that identified asset quality deterioration, piloted the "early warning system" for bank failure potential, and made early warning reports for liquidity, interest rate risk and credit available to examiners via the web to facilitate more rapid response.</p>	<p>In Treasury's fiscal year 2002 performance plan OCC had one measurable performance goal that related to its strategic goal of "a safe and sound national banking system." The planned performance goal for 2000 was to "achieve effective compliance with Federal Deposit Insurance Corporation Improvement Act examination schedule" by conducting 100 percent of bank examinations as scheduled. The actual was 98 percent, which was an improvement over 1999 when it was 92 percent.</p>

Source: Department of the Treasury Fiscal Year 2000 Performance Report and Fiscal Year 2002 Performance Plans.

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# Appendix II: Comments from the Department of the Treasury

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

JUN 11 2001

Mr. Paul L. Jones  
Director, Tax and Justice Issues  
U.S. General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Jones:

Thank you for the opportunity to review your draft report on our FY 2000 performance report and FY 2002 performance plan. Our comments are attached.

Treasury appreciates the ongoing General Accounting Office reviews of our Performance Plans and Performance Reports, and your recommendations and insights on how we can make our Results Act products more useful.

Please contact me at 622-2228 if you have any questions or need additional information.

Sincerely,

A handwritten signature in cursive script, appearing to read "John M. Murphy".

John M. Murphy  
Director, Office of Strategic  
Planning and Evaluation

**Treasury Comments  
On GAO Draft Report: GAO-01-712**

**General Comments:**

- Level of Detail: A recurring issue that we continue to grapple with relates to the level of information that should be reflected in our documents, both in terms of numbers and types of measures and the explanation of our strategies. GAO has traditionally expressed a desire to have the performance plan and report reflect a considerable amount of detailed information on strategies, and suggest that more measures are needed in several areas. Others have criticized our documents for being too voluminous to be useful and easily understood, encouraging a more streamlined presentation of high-level measures, strategies and results. There is probably no way to completely satisfy all those interested in our plans and reports, but we will continue to seek ways to balance the needs of our various stakeholders in this regard.
- Improved Measures: While we appreciate general suggestions for where measures could be improve, it is always more helpful when GAO recommends specific measures, especially for difficult-to-measure areas like human resource management and the fairness of our tax administration processes.
- Program Evaluations: Treasury agrees that program evaluations will be needed to determine the true impact of its programs on the outcomes we are trying to achieve, such as the reduction of illegal drug usage and violent crime. But, although we currently lack such impact information in many areas, Treasury has attempted to include in its report key trends that indicate whether progress is occurring at the outcome level, wherever such information is available.
- Linkage between Bureau Measures and Treasury Goals/Objectives: Treasury agrees that the linkage between bureau measures and Treasury goals and objectives could be strengthened. Secretary O'Neill has directed a thorough review of the current set of measures as part of the FY 2003 budget process. We intend to use that review to improve this linkage.
- Data Validity: To improve the Secretary's ability to assess the completeness and accuracy of its performance information, Treasury will be reviewing and documenting, for each performance measure, the control processes used by the bureaus to ensure data validity.

**Specific Comments:**

- Re: Fair and effective administration of tax law (pages 5-8): Treasury believes that IRS continues to make progress in the development and implementation of a set of strategic measures that we can use to assess our progress in meeting our strategic goals. With respect to development of IRS Measures that are specifically linked to the outcome of fair and effective administration of the tax laws, IRS has identified measures for increasing overall compliance (payment, filing, and reporting compliance). IRS will begin reporting on its

Now on pages 6-9.

Now on pages 9-10.

Strategic Measures in FY 2002. However, they continue to struggle to identify measures of fairness that cover our diverse population of taxpayers. Throughout FY 2001 and continuing into FY 2002, IRS will work to better understand the concept of fairness within each of their major programs and divisions to identify overall measures of fairness. GAO's input and advice in this regard would be welcome.

- Re: Earned Income Tax Credit (pages 8-9): IRS does not have performance measures specific to EITC activities. IRS plans to continue its current balanced, strategic approach to administering the EITC program by: 1) using research to gain a better understanding of EITC taxpayers and return preparers; 2) applying research results to effectively deliver EITC eligibility information through outreach, education, and assistance programs for taxpayers and return preparers; and 3) applying the research results to plan compliance enforcement activity to protect revenue.

EITC measures are in the primary programs such as examination, math error, etc. In addition, IRS has conducted numerous research projects such as profiling EITC math errors; a limited study of EITC and Schedule C filers; an evaluation of the Federal Case Registry data received from the Department of Health and Human Services; and measurements of revenues protected in years following an IRS contact. In September 2000, IRS issued a report entitled "Compliance Estimates for EITC Claimed on 1997 Returns." A similar research study on 1999 returns is underway.

Now on pages 10-13.

- Re: Delinquent tax debt collection (pages 9-12): The reorganization of the IRS and the new mission and strategic goals caused them to find methods of quantitatively measuring our success without considering dollars collected. IRS has implemented major programs such as innocent spouse protection, due process in collection and offers in compromise without an increase in our field collection and examination staffs. This coupled with their goal of a new customer-focused organization and the need to increase our staff in the taxpayer assistance centers has resulted in declining performance in traditional debt collection activities. IRS believes that with the additional staffing from the STABLE initiative, they have set the stage for year-by-year improvements in performance beginning with significant improvement in critical debt collection areas by the end of FY 2002.

Now on pages 13-15.

- Re: Delinquent non-tax debt collection (pages 12-14): Treasury disagrees with the finding that agency referrals of delinquent debt to FMS is not an important performance measure. FMS has spent considerable resources, time, and effort working with program agencies to refer their debt, and the program's effectiveness is contingent on agencies properly referring their delinquent debt to FMS for collection.

Further, although the performance report did not break out FMS's debt collection results by program, such breakouts (e.g., cross-servicing collections, administrative offset collections, tax refund offset collections, and collections for child support) are tracked through regular weekly and monthly performance reports and made available to GAO.

Finally, to use these comments as an opportunity to provide a fuller explanation of strategies and progress in non-tax debt collection, FMS implemented several programs in FY 2000. In

January 2000, FMS implemented the offset of state tax debt. In July 2000, FMS implemented the Tax Levy Program for Office of Personnel Management retirement payments and for vendor payments with the Internal Revenue Service. In March 2001, FMS implemented the Benefit Payment Offset (BPO) Program with the Social Security Administration. Within the next few months, FMS expects to begin the phased implementation of the centralized Federal Salary Offset program. In addition, the Administrative Wage Garnishment (AWG) Program will be phased in over the next year, as another tool under the Cross-Servicing Program. In the fall, FMS will expand the Benefit Payment Offset program to include Tax Levy.

The following table shows collection performance over the past three years:

**Delinquent Debt Collection by Program  
and Fiscal Year 1998-2000**  
(in millions of dollars)

Program	FY 1998	FY 1999	FY 2000
Administrative Offset	\$3.7	\$5.9	\$17.3
Cross-Servicing	\$9.8	\$23.5	\$41.1
TRO* Child Support	\$864	\$1,343	\$1,389
TRO Federal Non-Tax	\$1,165	\$1,259	\$1,167
TRO State Tax	0	0	\$23
<b>TRO Total</b>	<b>\$2,029</b>	<b>\$2,602</b>	<b>\$2,579</b>
Tax Levy	N/A	N/A	\$0.098

\* TRO: Tax Refund Offset.

- Re: Customs drug interdiction program (pages 14-16): The report contains the general statements "some of the measures for these efforts do not completely support the performance outcome being measured" and "some of its performance measures were not linked directly to its goals". Customs does not agree with these statements as they currently read. The measures contained in the Treasury report support the efforts to reduce the availability and flow of drugs into the United States. If the intent of these statements is to say that better outcome measures are recommended, we agree. Developing better outcome measures is an ongoing effort for Customs, as well as most Federal law enforcement agencies. Because of the relative unknowns of narcotics trafficking, this task is particularly challenging. Customs will continue to pursue and evaluate new methodologies toward this end.

Now on pages 15-17.

Now on page 17.

- Re: Personal search data (page 16). Customs has been collecting more complete and accurate information on persons subject to personal searches. For example, race, gender, and citizenship, once optional, is now mandatory. Other new mandatory data fields have been added as well. These include the port where the flight arrived and where the traveler initiated the trip. In addition, Customs is closely monitoring data on personal searches and has established a Passenger Data Analysis Team to ensure data accuracy. Enhanced training and improved guidance have also taken place.

Now on page 17.

- Re: Short landings (page 16). Customs disagrees with GAO's conclusion that some drug interdiction measures do not support the performance outcome of reduced drug availability. The example cited, "short landings" is a measure of deterrence. Simply stated, if the conveyance (aircraft) does not cross the border, drug availability is reduced and we have deterred the smuggling event. If the intent of the finding is that better outcome measures are recommended, we agree and are working to develop such measures.

Now on pages 20-21.

- Re: ACE reference (page 16): The reference to the ACE system appears out of place for inclusion in the "Availability and/or Use of Illegal Drugs" section. ACE supports Customs' commercial activities.
- Re: Data accuracy, incomplete assessment (page 20): It is unclear what is meant by "did not present a complete assessment." Examples would be helpful.

Now on page 29-30.

- Re: FMS' computer security (page 26): The draft report states, "FMS has not established specific performance measures for addressing computer security control issues." FMS has established specific performance measures for its Information Technology (IT) Security Program in the Self-Assessment Framework that was completed by FMS in April, 2001 and provided to GAO in early May, 2001. The Framework is a statement of assertions, performance criteria and associated metrics used as part of FMS' IT Security improvement program. The assertions are grouped into fifteen elements that correspond to fifteen policy areas that are the basis of the Federal Information Technology Security Assessment Framework issued by NIST on November 28, 2000. The fifteen elements are used to assess the effectiveness of FMS' entity-wide IT Security Management Program and its initiatives.

Now on page 31.

- Re: FMS non-compliance with FFMA (page 28): Although FMS' financial management systems that support the government-wide accounting program did not comply with FFMA for FY 2000, FMS' bureau-level financial management systems did. FMS is addressing the government-wide system deficiencies through a remediation plan and through corrective actions resulting from the EDP audit and the computer controls audit. FMS also established a schedule to complete A-130 reviews.

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# Appendix III: Staff Acknowledgments

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In addition to those named in the report, Mark T. Bird, Charles R. Fox, Meafelia P. Gusukuma, Gary N. Mountjoy, Paula M. Rascona, Gregory C. Wilshusen, and Ellen T. Wolfe made contributions to this report.





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