2000-SE-002888

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

March 13, 2000

MEMORANDUM TO LAWRENCE H. SUMMERS
WILLIAM DALEY
JOHN PODESTA
GENE SPERLING
CHARLENE BARSHEFSKY
MICKEY IBARRA
DAVID BEIER

FROM: STUART E. EIZENSTAT

SUBJECT: ADVISORY COMMISSION ON ELECTRONIC COMMERCE

I wanted to bring you all up-to-date on a significant development within the Advisory Commission on Electronic Commerce (ACEC). After talking with John and Gene midday Friday regarding whether I should call ACEC commissioners, I spoke with Utah Governor Michael Leavitt. The Governor and I spoke about a draft compromise proposal fashioned by Richard Parsons (Time Warner) and David Pottruck (Charles Schwab), after extensive and very sensitive negotiations with Governor Leavitt and Mayor Kirk of Dallas. We had been sent a close-hold draft of the proposal Friday mid-morning and on quick review it looks very promising. I suggest we have a meeting very soon to discuss how the Administration commissioners would vote on the proposal, as well as other proposals before the Commission. The final ACEC meeting is March 20-21, in Dallas.

During my call with Governor Leavitt, the Governor stated that the draft consensus proposal has the support of at least four State and local ACEC commissioners (himself, Mayor Kirk, Governor Locke and Gene Lebrun). Governor Leavitt asked that I make calls to ACEC business commissioners, particularly Mike Armstrong (AT&T) and John Sidgmore (MCI Worldcom), to encourage them in the effort to reach a consensus based on the proposal. The Governor stated that he believed a phone call to David Pottruck would also be useful. Governor Leavitt did not think it necessary that we commit the Administration to supporting the proposal for the calls to be effective. I told Governor Leavitt that I would speak to Richard Parsons first, to make certain that we did not pre-empt his efforts to present the plan to other commissioners. I also wanted to communicate with all of you prior to making the calls.

I was able to speak to Mr. Parsons briefly Friday evening. We agreed that he would call me after speaking to the other business commissioners regarding their reactions to the proposal and regarding whether Mr. Parsons thought phone calls to them from the Administration would be helpful. We have heard that Governor Gilmore of Virginia may have discovered that a compromise plan is in the offing and may be calling commissioners himself to try to prevent the forming of a consensus around it. It is possible Governor Gilmore may enlist Senator Lott, Chairman Bliley and the press in any such effort. We have also heard that George Vradenburg of AOL, who is staffing ACEC Commissioner Robert Pittman, may as well be making calls, to push the aggressively anti-State proposal he and other business representatives have submitted to the Commission. I believe calls from myself or other Administration officials to the business commissioners may be an effective counter to efforts to prevent consensus.

Below is a very brief description of the proposal. We of course will be prepared to discuss it in more detail at the meeting I suggest we have very soon.

Under the proposal:

- The current moratorium under the Internet Tax Freedom Act on State and local taxation of Internet access and on State and local multiple or discriminatory taxation of electronic commerce would be made permanent;
- State and local governments would be encouraged to work with the telecommunications industry to simplify State and local telecommunications taxes, and Treasury would report to Congress annually on the progress of such simplification;
- State and local governments would be encouraged to redress discriminatory taxation of the telecommunications industry;
- Congress would enact legislation authorizing an interstate sales tax compact establishing a simplified tax system: A State adopting the simplified system would be authorized to impose use tax collection obligations on remote sellers, other than on sellers of digital goods and services and digital data and information;
- Any digital goods and services and any digital data and information services not currently taxable under the Internet Tax Freedom Act would be protected from tax until December 31, 2003, during which time the States would attempt to develop an acceptable tax regime that would not violate individual privacy or create a compliance burden;
- State and local governments would agree to a uniform process to provide openness and accountability to their citizens so that those citizens could determine whether the collection of use taxes on remote sales created a net increase in their tax burden;
- Congress would take no action regarding nexus other than detailed above;
- Congress would request additional research on certain issues, such as the Digital Divide and the effect of electronic commerce on government revenues; and
- The 3% Federal Excise Tax on Communications would be repealed or phased out.

Although not perfect, the proposal incorporates major concessions from both the business community and the States and localities, and is generally consistent with good tax policy. It represents a good and serious start to solving a problem the President identified in his remarks during the recent NGA meetings as critical to States and localities, especially with respect to maintaining and improving public education and other essential services.

However, the proposal regarding the Federal excise tax may be problematic for us. The language of the current proposal provides:

- The 3% federal excise tax on communications services should be repealed, or phased out expeditiously, consistent with the overall federal requirement to maintain a balanced federal budget, and meet targeted reductions in the national debt.

Should the compromise proposal as a whole go forward, we would hope that the Administration would not be forced to vote against it on the basis of this issue alone. We can try to have the FET proposal pulled out and put forward separately, but I am not optimistic that the business commissioners would be willing to see the package fragmented. If we cannot support the FET proposal as drafted, I am of the view that we need to consider compromise language. We propose the following:

- The 3% federal excise tax on communications services should be phased out, if phase out can be accomplished without threatening the important priorities of maintaining fiscal discipline, paying down the national debt, extending the solvency of Medicare and Social Security, and maintaining core government functions, such as healthcare and education.

As discussed above, I also propose that after consulting with Richard Parsons, I or other Administration officials make the phone calls to ACEC business commissioners that Governor Leavitt has suggested.

cc: Jonathan Talisman
Joseph Guttentag
Robert Novick
Andrew Pincus

NCC to LS (ready)

NCC cc to SS
TS

3/13/00

Please Log In

VS

3/13/00

Neal - This was faxed out to everyone including the cc:'s. This is for Secretary Summers. Thanks. Marsha

2000-SE-002784

THE DEPUTY SECRETARY OF THE TREASURY

WASHINGTON

March 14, 2000

MEMORANDUM TO LAWRENCE H. SUMMERS
WILLIAM DALEY
JACK LEW
JOHN PODESTA
GENE SPERLING
CHARLENE BARSHEFSKY
MICKEY IBARRA
DAVID BEIER

FROM: STUART E. EIZENSTAT

SUBJECT: E-COMMERCE COMMISSION CONSENSUS AND THE FEDERAL EXCISE TAX ON COMMUNICATIONS

The business community and the state and local tax officials have each moved substantially toward reaching the kind of principled consensus around state taxation of e-commerce transactions which we should be able to support. We have reviewed the latest proposal thoroughly and are of the view that it is both a significant advance and generally consistent with good tax policy. (We are prepared to discuss with you further any of the details such as the treatment of digitized goods.)

However, the component of the proposal regarding the Federal excise tax on communications (FET) may be a problem for us. Previously, we had supplied the following Administration-cleared language for consideration by those parties (Governor Leavitt, Mayor Kirk, Richard Parsons and David Pottruck) working on the compromise:

- The Commission notes that repeal of the Federal Excise Tax on Communications has merit. The Commission recognizes, however, that repeal of the excise tax should only be undertaken in a context in which it would not threaten the important priorities of maintaining fiscal discipline, paying down the national debt, extending the solvency of Medicare and Social Security, and maintaining core government functions such as healthcare and education.

The current draft ACEC consensus proposal provides instead:

- The 3% federal excise tax on communications services should be repealed, or phased out expeditiously, consistent with the overall federal requirement to maintain a balanced federal budget, and meet targeted reductions in the national debt.

maintaining fiscal discipline, paying down the national debt, extending the solvency of Medicare and Social Security, and maintaining core government functions such as healthcare and education."

The current draft ACEC consensus proposal provides instead:

- "The 3% federal excise tax on communications services should be repealed, or phased out expeditiously, consistent with the overall federal requirement to maintain a balanced federal budget, and meet targeted reductions in the national debt."

Should the current consensus proposal go forward, we would hope that the Administration would not be forced to vote against it on the basis of the FET issue alone. The States and localities would be particularly upset if the Administration did not support the proposal, as it is a significant advance from previous proposals. We can try to have the FET language pulled out of the consensus proposal and put forward separately, but I am not optimistic that the business commissioners, particularly Mike Armstrong of AT&T, would be willing to support a package that did not include an FET recommendation. In addition, disassembling the package in any way might lead to its wreckage, as most everyone who is considering supporting it likely has one or more parts they would like to see taken out. If we cannot support the FET proposal as drafted, I am of the view that we need to consider compromise language. I propose the following:

- "The Commission notes that repeal of the Federal Excise Tax on Communications has merit. The Commission recommends that phase out of the tax be considered, if phase out can be accomplished without threatening the important priorities of maintaining fiscal discipline, paying down the national debt, extending the solvency of Medicare and Social Security, and maintaining core government functions, such as healthcare and education."

That language may not satisfy some of the business commissioners, as there is strong feeling that the Commission should recommend that the FET be repealed or phased out. A recommendation that repeal "be considered" might not go far enough.

If we are unsuccessful in negotiating fully satisfactory replacement language, another alternative is to vote for an entire package which includes the language as currently contained in the proposal, but qualified either by a footnote to the proposed language or by an oral statement upon voting, that explains and qualifies the Administration position. We would want to let Michael Armstrong (AT&T) and perhaps other business commissioners know in advance so they would not argue bad faith.

Attachment

cc: Jonathan Talisman
Joseph Guttentag
Robert Novick
Andrew Pincus

E-Commerce Tax Nexus

The business commissioners (primarily at the instigation of through their staff) included in their general proposal to the ACEC a nexus proposal that applies to sales tax and to business activity taxes (*e.g.*, state corporate income and franchise taxes). The proposal is cast as an attempt to "clarify" that certain activities should not create nexus. The effect of the proposal, however, is not to clarify nexus, but substantially limit current state taxing authority.

If the business commissioners were truly interested in clarification, they would propose a nexus standard that is easily verifiable, such as predicating nexus based on sales volume within a given taxing jurisdiction. In our view, the proposal is an attempt to provide certainty regarding certain aggressive business structures, such as the use of "e-subsidiaries", to avoid sales tax collection obligations. In fact, we have heard that Mr.Pottruck himself is uneasy with inclusion of certain factors contained in the proposal, because they go too far.

The business proposal contains both controversial (and significant) nexus factors and non-significant (and inconsequential) nexus factors. Even with respect to the less significant factors, however, there will be some State opposition, on State sovereignty grounds.

Following is the laundry list of activities that would not create nexus under the business proposal and our brief analysis of each "clarification":

(a) a seller's use of an Internet service provider that has physical presence in a state;
Analysis: Not a significant nexus factor, and already addressed within the Internet Tax Freedom Act's prohibition on discriminatory taxes.

(b) the placement of a seller's digital data on a server located in that particular state;
Analysis: Not a significant nexus factor, and already addressed within the Internet Tax Freedom Act's prohibition on discriminatory taxes.

(c) a seller's use of telecommunications services provided by a telecommunications provider that has physical presence in that state;
Analysis: Not a significant nexus factor.

(d) a seller's ownership of intangible property that is used or is present in that state,
Analysis: This is a significant nexus factor. The South Carolina Supreme Court ruled in favor of the state in a corporate income tax case (*i.e.*, the *Geoffrey* case). This proposal seeks to legislatively overturn that case.

(e) the presence of a seller's customers in a state;
Analysis: Not a significant factor for sales tax nexus, although the States would probably like the word "mere" inserted before presence.

(f) a seller's affiliation with another taxpayer that has physical presence in that state;
Analysis: This is a significant factor, and represents the furthest reach by the business commissioners. States have had some success establishing nexus based on the presence of an affiliated company performing activities on its behalf.

(g) the performance of repair or warranty services with respect to property sold by a seller that does not otherwise have physical presence in that state;
Analysis: This is a significant factor, and we have heard it was put into the proposal to placate Gateway (Ted Waitt). States have a sound position that these repair activities can create nexus.

(h) a contractual relationship between a seller and another party located withinthat state that permits goods or products purchased through the seller's website or catalogue to be returned to the other party's physical location within that state; and
Analysis: This is a significant nexus factor. States view thiselement as an attempt to legislate a large tax loophole by facilitating the development of "Internet subsidiaries" that would allow for collaboration with a main street affiliate.

(i) the advertisement of a seller's business location, telephone number andwebsite address.
Analysis: Not a significant nexus factor. States have not succeeded in predicating nexus based on in-state advertising.

Conclusion: Clearly, some of the nexus factors included in the business proposal do not represent a significant retreat of State taxing power. It may be possible to broker a consensus by including some of these factors in the proposal, although we will need to see how resistant the States are to any federal preemption.

TALKING POINTS

- As you know, any discussions involving nexus are particularly sensitive, and raise important and delicate issues such as state sovereignty and federalism that have implications beyond taxes.
- Therefore nexus clarification proposals that may appear non-controversial or even insignificant may be resisted by some State representatives.
- Furthermore, in our view, any discussion regarding nexus clarification should be limited to sales and use taxes. This Commission has focused its efforts on sales tax issues. We have not heard sufficient testimony or had sufficient discussions regarding the income tax issues to justify a recommendation.
- We have reviewed the list of nexus proposals included in the Business Caucus plan. Some of the proposals seem reasonable while others seem to severely limit current state taxing authority, which seem inconsistent with their characterization as "clarifications". For example, providing that a seller's use of an in-state Internet service provider (ISP) does not give the seller nexus, seems both consistent with current law and the Commission's mandate. On the other hand, providing that the performance of warranty services in a state never provides nexus, is an unreasonable restriction of nexus that is inconsistent with current law.
- Why don't we try to identify the reasonable e-commerce-related activities that should not be relevant for determining nexus? Once we have that list, we can discuss whether and how to provide protection to business engaging in those activities. We can then incorporate that into a consensus proposal. In my view, it would make sense to have those protections become a part of the Parsons draft compromise.

IRS MODERNIZATION

95-144973

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

APR 10 1995

ACTION

MEMORANDUM FOR DEPUTY SECRETARY NEWMAN

FROM: George Muñoz
Assistant Secretary (Management) & CFO

SUBJECT: Treasury/IRS Modernization Management Partnership

ACTION FORCING EVENT:

When the General Accounting Office (GAO) and the Congressional Appropriations Committees expressed concerns over the management of Internal Revenue Service (IRS) Modernization, budgetary pressures led Congress to reduce the Administration's FY 1995 budget request for IRS Modernization by $367 million (37%). Unless these management concerns are resolved quickly, budget requests of $1.03 billion for FY 1996, and $6.7 billion through FY 2000, could be similarly threatened.

RECOMMENDATION:

In concert with our own efforts to improve financial management, project management, and technical oversight, Departmental Management must assume an active role in policy and management decisions affecting IRS modernization. Recommend that you approve the proposed charter (Tab A) and staffing (Tab B) for a Treasury/IRS Modernization Management Partnership (MMP).

JM Agree _____Disagree _____Let's Discuss

Also attached are the Interagency Agreements to be signed by Mrs. Richardson and me (Tab C).

BACKGROUND ANALYSIS:

Since its inception in 1987, the IRS modernization effort has evolved from a relatively simple automation upgrade to a complete business process re-engineering. The evolution of organizational structures, priorities, and system development strategies has led oversight bodies such as GAO to conclude that IRS may need to improve its technical and management skills. Appropriations Committee Reports likewise have called for IRS to improve program management, technical expertise, and performance measurement.

ATTACHMENTS: Tab A: MMP Charter
Tab B: MMP Staffing
TAB C: Interagency Agreements

EXECUTIVE SECRETARIAT

CHARTER

Treasury/IRS Modernization Management Partnership

Purpose:

The Treasury/Internal Revenue Service (IRS) Modernization Management Partnership (MMP) is established to foster Treasury Department participation in and support for strategic policy and management decisions affecting modernization of the IRS.

The partnership is being formed specifically to address management concerns identified by oversight bodies such as the General Accounting Office (GAO), and to ensure that core business processes of the IRS are realigned to efficiently meet the needs of U.S. taxpayers in the 21st century. To accomplish this, the MMP will:

- Participate in and approve strategic decisions affecting policies for and management of IRS Modernization;
- Foster effective program management by overseeing priorities, resource allocations, staffing levels and implementation schedules;
- Monitor the progress of IRS Modernization toward specific program milestones and strategic decision points, initiating corrective actions when necessary;
- Ensure that oversight recommendations are responded to in an appropriate manner and that follow-up actions are documented; and
- Ensure that the IRS Modernization planning process includes performance measures and oversee the achievement of management goals.

Context:

IRS Modernization is introducing a new concept of operations to IRS. It is intended to overcome the challenge of exploding workload caused by statutory changes and demographic shifts, permit innovative solutions to a new generation of compliance problems, and exploit continuing advances in information technology. But much of the progress to date is not yet visible to the taxpayer. This circumstance may have led to GAO's recent assertion that "after 8 years and an investment of almost $2 billion, progress ... has been minimal."

Over the next 10 years, spending on IRS Modernization is projected to exceed $12.6 billion. If successful the project will yield an estimated $32 billion in additional revenue over the same period, while vastly improving service to the taxpayer. Principal risks to successful completion include:

- The need for an additional $12.6 billion not yet appropriated by Congress, and
- Organizational and labor-management issues associated with transition to a new concept of operations.

Responsibilities:

The MMP shall serve as the primary review body for strategic decisions affecting policies for and management of IRS modernization, and as principal point-of-contact for presenting IRS modernization initiatives to Departmental Management and communicating Departmental decisions to IRS. Guidance will be provided to IRS on activities and issues that are critical to the success of IRS modernization, entail significant resource expenditures, or may engender significant Congressional interest. In exercising its responsibilities, the MMP will serve as a vehicle for integrating long-term strategic concerns with day-to-day management decisions, and for building upon existing Departmental review processes without duplicating their functions. To accomplish this, it will:

- Encourage implementation of improved management processes, including adoption of GAO's "Best Practices" for strategic information management;
- Coordinate the efforts of blue-ribbon panels and outside experts retained to review plans for and progress of IRS modernization;
- Coordinate and expedite Departmental review of planning, budget (plans and expenditures), procurement, information systems, human resource and management issues related to IRS Modernization, including the development and oversight of all performance goals, measures, and results and integrate these into a coherent Treasury Department position.
- Facilitate Treasury Department support of IRS Modernization efforts with external oversight bodies, including the Office of Management and Budget (OMB), the General Services Administration (GSA), the General Accounting Office (GAO), and the Congress.

Executive Steering Group:

The MMP shall be directed by an Executive Steering Group, co-chaired by the Assistant Secretary (Management)/CFO and the Commissioner of the IRS. Membership of the group shall include the:

- Deputy Assistant Secretary (Departmental Finance and Management)
- Deputy Assistant Secretary (Information Systems)
- Deputy Chief Financial Officer
- IRS Deputy Commissioner
- IRS Modernization Executive
- IRS Chief Information Officer
- IRS Chief Financial Officer

The Executive Steering Group also includes the following advisory members:

- Assistant Secretary (Tax Policy)
- Assistant Secretary (Legislative Affairs)
- General Counsel
- Inspector General
- Director of Security
- IRS Chief Management and Administration
- IRS Chief Inspector

Subcommittees of the Executive Steering Group may be established by the Co-chairs to undertake specific projects or address particular concerns of the Steering Group. Subcommittee members may include full-time and advisory members of the Executive Steering Group, and other members designated by the Co-chairs.

The Executive Steering Group shall convene at intervals determined by the Co-Chairs. In addition, bimonthly meetings may be held with the Deputy Secretary to review progress on issues related to IRS Modernization.

Staff Support:

The Deputy Assistant Secretary for Departmental Finance and Management (DAS/DFM) will provide support to the Executive Steering Group. Staff support for the Executive Steering Group will consist of an Executive Director, a senior analyst, and a secretary. The Executive Director will serve as a senior staff advisor to the Executive Steering Group Co-Chairs. For purposes of administrative and managerial control, the staff will report to the Director of the Office of Organizational Improvement under DAS/DFM.

Funding:

The Executive Director shall prepare an annual budget for the MMP for approval by the Co-chairs. The budget will include costs of staff salaries and benefits, travel expenses for the Executive Steering Group and MMP staff, consulting fees for outside technical experts, and other expenses of the MMP. Funding for the MMP will be provided by the IRS to Departmental Offices on a reimbursable basis, subject to availability of funds, through an Interagency Agency Agreement to be executed each fiscal year.

Amendments to the Charter:

The charter may be amended as necessary by consent of the Executive Steering Group, with the approval of the Deputy Secretary.

I hereby approve this charter.

____

Frank Newman (date)
Deputy Secretary

TREASURY/IRS MODERNIZATION MANAGEMENT PARTNERSHIP
Staffing and Costs -- FY 1996

LARIES AND BENEFITS

TITLE	GRADE	ANNUAL SALARY	DAILY SALARY	DAYS ON BOARD	BASE SALARY	3.3% PAY RAISE	20% BENEFITS	TOTAL ESTIMATE
ixecutive	GS15/05	$81,221	$312	260	$81,221	$2,010	$16,646	$99,877
ienior Analyst	GS14/05	69,047	266	260	69,047	1,709	14,151	84,907
iecretary*	GS07/05	27,698	107	260	13,849	343	2,838	17,030
'OTAL					$164,117		$33,635	$201,814

)TAL COSTS:

rsonnel Costs	$201,814
)nsultant**	108,000
avel	30,000
ipplies	1,000
)tal Agreement Costs	340,814
lministrative Overhead @11%	31,330
GREEMENT TOTAL	$372,144

Employee devotes 50% time to MMP.
Contractor will work 2 days a week for 26 weeks and 1 day a week for 26 weeks. Daily rate is $1,000. Consultant travel expenses are included in the estimate.

TREASURY/IRS MODERNIZATION MANAGEMENT PARTNERSHIP
Staffing and Funding -- FY 1995 (April 1 - September 30)

LARIES AND BENEFITS

TITLE	GRADE	ANNUAL SALARY	DAILY SALARY	DAYS ON BOARD	TOTAL SALARY	20% BENEFITS	TOTAL ESTIMATE
xecutive	GS15/05	$81,221	$312	130	$40,560	$8,112	$48,672
enior Analyst	GS14/05	69,047	266	130	34,580	6,916	41,496
ecretary*	GS07/05	27,698	107	130	6,955	1,391	8,346
OTAL					$82,095	$16,419	$98,514

)TAL COSTS:

rsonnel Costs	$98,514
)nsultant**	70,000
avel	30,000
pplies	1,000
nasonic Fax Machine UF-755	2,200
:. installation and one year warranty	
PC 486DX266 and 1 Printer HP4	12,400
)t inc. installation and support	
)tal Agreement Costs	214,114
lministrative Overhead @11%	21,573
3REEMENT TOTAL	$235,687

Employee devotes 50% time to MMP.

Contractor will work 5 days a week for initial 6 weeks, 2 days a week for following 6 weeks, and 1 day a week for remaining weeks in the FY. Daily rate is ,000. Consultant travel expenses are included in the estimate.

DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
INTERAGENCY AGREEMENT #95-R-194

OFFICE RECEIVING SERVICES: INTERNAL REVENUE SERVICE

BILLING ADDRESS: 1111 Constitution Avenue, N.W.
Washington, D.C. 20224

PURPOSE: The Internal Revenue Service (IRS) agrees to reimburse the Department of the Treasury, Departmental Office, for the services provided by the Departmental Offices to the Treasury/IRS Modernization Management Partnership (MMP), as described in more detail in the attached charter, in an amount not to exceed $235,687 for the period April 20, 1995 through September 30, 1995. Estimated breakdown of costs are as follows:

Personnel Costs	$98,514
Consultant	70,000
Travel	30,000
Supplies	1,000
Panasonic Fax Machine UF-755 Inc. installation and one year warranty	2,200
3 PC 486DX266 and 1 Printer HP4 Not inc. installation and support	12,400
Sub-total	214,114
Administrative Overhead @11%	21,573
AGREEMENT TOTAL	$235,687

AUTHORITY: This agreement is entered into under the authority of Section 601 of the Economy Act of June 30, 1932, as amended, 31 U.S.C., 1535 and 1536, and the authorizing legislation of the agencies involved.

PAYMENT: Payment will be quarterly, at the end of each quarter.

APPROVALS: DEPARTMENTAL OFFICES

_______________________________ _________
George Muñoz Date
Assistant Secretary (Management) and CFO

_______________________ Financial Manager

APPROVALS: INTERNAL REVENUE SERVICE

______________________________ ____________

Margaret Milner Richardson — Date

Commissioner, Internal Revenue Service

______________________________ Financial Manager

____

Agency Locator Code (ALC) or Accounting Classification

DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES
INTERAGENCY AGREEMENT #96-R-194

OFFICE RECEIVING SERVICES: INTERNAL REVENUE SERVICE

BILLING ADDRESS: 1111 Constitution Avenue, N.W.
Washington, D.C. 20224

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Personnel Costs	$201,814
Consultant	108,000
Travel	30,000
Supplies	1,000
Sub-total	340,814
Administrative Overhead @11%	31,330
AGREEMENT TOTAL	$372,144

AUTHORITY: This agreement is entered into under the authority of Section 601 of the Economy Act of June 30, 1932, as amended, 31 U.S.C., 1535 and 1536, and the authorizing legislation of the agencies involved.

PAYMENT: Payment will be quarterly, at the end of each quarter.

APPROVALS: DEPARTMENTAL OFFICES

George Muñoz
Assistant Secretary (Management) and CFO

Date

Financial Manager

APPROVALS: INTERNAL REVENUE SERVICE

____ ____________

Margaret Milner Richardson — Date

Commissioner, Internal Revenue Service

_________________________ Financial Manager

____

Agency Locator Code (ALC) or Accounting Classification

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

NOTE TO THE SECRETARY

Tax Systems Modernization (TSM) requires direct involvement at the Departmental level. Accordingly, I have met with Peggy Richardson and George Muñoz, and together, we have agreed on the charter, membership, and funding for a new Modernization Management Partnership (MMP) to provide departmental support for TSM, as outlined in the attached memorandum. This is an internal agreement with outside consulting support and full-time staffing.

The MMP should satisfy our oversight committees and GAO, as well as our own requirements for proper guidance of TSM.

I'll meet with this group on a monthly basis and keep you informed of our progress.

Frank N. Newman

Attachment

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D. C. 20220

April 13, 1995

NOTE TO THE SECRETARY

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The MMP should satisfy our oversight committees and GAO, as well as our own requirements for proper guidance of TSM.

I'll meet with this group on a monthly basis and keep you informed of our progress.

Frank

Frank N. Newman

Attachment

TREASURY CLEARANCE SHEET

NO. ______
Date ______

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: Judy Ochs
THROUGH: W. Scott Gould
SUBJECT: Treasury/IRS Modernization Management Partnership

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
☐ Inspector General

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Under Secretary for Int'l Affairs
☐ International Affairs

☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Other ______

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Theresa McCarthy	JMC	4/6/95	Office of Organizational Improvement	622-2290
phg revised to include interagency agreements which have been reviewed/approved by Financial Mgmt Division, Board OGC.				
REVIEWERS				
Judith S. Ochs	JSO	4/6/95	Acting Director, Office of Organizational Improvement	622-2290
W. Scott Gould	[illegible]	4/10/95	Deputy Assistant Secretary (Departmental Finance and Management)	622-2400
George Muñoz	[illegible]	4/10/95	Assistant Secretary (Management)	622-0410
Edward Knight	[illegible] for	4/12/95	General Counsel	622-0027

SPECIAL INSTRUCTIONS:

A note from the Deputy Secretary to the Secretary has been included in this package.

☐ Review Officer Date: ☐ Executive Secretary Date

95-151918
151714

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

October 27, 1995

MEMORANDUM FOR DEPUTY SECRETARY SUMMERS

FROM: George Muñoz
Assistant Secretary for Management & CFO

SUBJECT: **IRS Modernization - Issues and Recommendations**

This memo provides you with concrete recommendations that you can implement to ensure a successful modernization effort at IRS. It should be clear from our discussions and your analysis of the situation to date that without fundamental changes in the IRS's approach to its Tax Systems Modernization, there is a significant probability that the IRS may not be able to implement TSM and will not realize its full potential value.

memo may be subpoenaed

The memo contains the following sections:

- Background on the modernization effort
- Dealing with risks and exposures
- The Department's initial response
- Management recommendations for changing course at IRS

I. BACKGROUND

Funding. IRS has spent about $3 billion on TSM from FY 1990-1995; with another $5 billion proposed over FY 1996-2000. The Appropriations Committees have cut the last two years' budget requests of $1 billion by 40% and 30%. Also, the Senate proposed withholding all FY 1996 TSM funds until the IRS took steps to correct TSM weaknesses. The Senate and House agreed in Conference that $100 million will be "fenced" until the Treasury submits certain reports on IRS progress. Citing unpredictable funding as a barrier to TSM success, the IRS has been pushing hard for alternative means of funding TSM outside of the budget caps, possibly through a non-discretionary trust fund.

On-going Criticisms. Two 1995 GAO reports were highly critical, cautioning that TSM would not succeed if IRS did not improve its business management and also its information systems development capabilities and management. GAO mentioned five critical areas:

- ineffective strategic management of investments;
- inadequate systems architecture, testing and integration;
- a weak software development process;
- a business strategy that will not maximize electronic filing and that may impair the IRS's future ability to process paper returns; and
- fragmented authority and lack of accountability.

GAO still has four open TSM audits and will continue to report on IRS progress in meeting its recommendations.

Several critiques cited the IRS's inadequate in-house expertise for properly developing and implementing TSM. The FY 1996 appropriations bill requires the IRS to provide a plan for expanding the use of external consultants for developing and integrating TSM.

More Oversight Proposed. Roger Johnson, head of the General Services Administration, which approves large-scale information technology investments, was prepared to recommend a "time-out" for TSM and is proposing establishment of a TSM Technical Advisory Board. Senators Shelby and Kerrey have amended the appropriations bill to create a bipartisan National Commission on Restructuring the IRS that would review not just TSM, but all IRS operations--with a view to making the IRS a quasi-governmental agency.

Other Issues. A number of senior executives and middle managers have recently retired or gone to the private sector--leaving the IRS with something of a brain drain and vacant key positions. The Chief Information Officer is one such position, which is proving difficult to fill since the private sector can offer a much higher salary to someone with the requisite skills for this critical job. The Chief Financial Officer position just became vacant.

History is Important. It should be recognized that the TSM project had several false starts, dating back to 1989. Initially, it was designed as improved automation. Then it was redesigned as a reengineering effort. For example, back in 1989, GAO pointed out the issues with the initial TSM effort in its report "ADP Modernization: IRS' Automated Examination System--Troubled Past, Uncertain Future." The Clinton Administration inherited a TSM project already in trouble and under heavy criticism. Since 1993, great improvements and efforts have been done to gain back some credibility.

II. Dealing with Risks and Exposures

These TSM problems create significant risks for the IRS, the Department and the Administration. If the GAO, in its continuing audits and reports, concludes that IRS has failed to take clear, credible and quick action, Congress could well pull the plug on TSM funding. The risk of not doing TSM, in at least some major form, is that the existing systems will eventually become unmaintainable and fail to perform their basic functions. Beside these management risks, there is the market risk that the public will not fully embrace electronic filing, which would alter TSM's costs and benefits. In a separate risk category, tax reform may negate both operational and revenue-enhancing benefits.

The Department can play a major role in dealing with each of these risks. The Department must work directionally with the IRS to establish focus, priorities, contingency plans, and interim deliverables with recognizable business benefits. We must also help the IRS meet the intent of GAO's recommendations and other best practices so that direction can be implemented.

Threat to TSM. A related and consequential risk is that a continuing stream of critical GAO reports will prod Congress to withhold or eliminate TSM funding. The result will be a write-off of some of the investment. We will also have wasted years of effort without solving the core problems that drove TSM. We must therefore ensure that the IRS responds to GAO criticisms and recommendations. We also need to help IRS develop a cogent story about what TSM is, why it's important, what the business case is and what's been accomplished to date. Stakeholders need to be able to see the differences in the TSM work system processes--how a return or taxpayer question is handled now versus how it will be handled under TSM.

Old Systems Failing. Cancellation of TSM activities (whether voluntary or mandated) carries its own set of risks. Many core IRS systems are written in obsolete computer language, known to ever fewer programmers. If the IRS does not't update or phase out these old systems, there will be no one to maintain them, and the IRS will be vulnerable to filing season failure with potentially serious consequences. We need to ensure that in setting TSM priorities, IRS accounts for the risk of not undertaking a project.

Not Meeting Electronic Filing Goals. Although IRS has publicly stated its goal of having 80 million electronic filers by 2002, electronic filing dropped 19 percent from 1994 to 1995, with many issues surfacing to the public. There is not a clear strategy ~~for~~ getting to 80 million filers, which underlies much of TSM~~'s economic~~ justification. Without this level of penetration, the IRS will have to increase its investment in paper processing technology, add staff, and sacrifice capturing additional information needed to produce the anticipated compliance benefits.

Responding to GAO's criticism and direct pressure from NPR and OMB, IRS is now undertaking a crash program to expand electronic filing this year to people who prepare their own returns with tax preparation software. This program, called Global On-Line Electronic Filing (GO-ELF), may or may not be ready for use in calendar year 1996. We want to ensure that IRS applies solid precepts of consumer marketing and has adequate contingency plans.

How did we get into this mess.

Effect of Tax Reform on TSM. Certain varieties of tax reform can dramatically change tax administration and reduce the value of TSM capabilities. Although we may have limited ability or inclination to affect the direction of tax reform, we should at least help IRS identify investments that will be useful in the widest variety of scenarios.

III. Department's Response: Modernization Management Partnership

In 1994 Congress expressed concern that Treasury's oversight and influence on TSM have been insufficient. The Department's oversight structure was primarily focused on activities arising from statutory requirements. This left gaps in Treasury's impact on IRS, for example, in strategic information management, electronic filing strategy, and systems architectures.

In response, the Department formed the Modernization Management Partnership (MMP) to foster Departmental participation in and support for strategic policy and management decisions affecting IRS modernization. The MMP is a partnership of key Departmental and IRS officials, supported by an executive with a small staff and consultant support. It is our primary vehicle

Dissemination GO-ELF 1996 filing season could be limited for asserting a Departmental management perspective on business vision, economic justification, prioritization, management, funding and functionality of projects. It drives rational and objective decision making and accountability for results. As a catalyst for change, the MMP addresses selective issues, asks key questions and works with the IRS to develop good answers.

The MMP is intended to complement--not replace or duplicate--statutory oversight authority already in place, such as the Office of Information Resource Management and the Office of Budget. Taking a non-traditional approach in its focus and mode of operation, the MMP is beginning to exercise its role in several ways. The team is providing counsel and advice to help IRS improve its economic analysis and create a decision support system. By actively supporting the IRS's rescoping initiative, the MMP is encouraging the IRS to create short-term deliverables of tangible value in FY 1996 and develop FY 1996 "future-proof" options that will make sense in a wide range of future funding scenarios. The MMP is also helping the IRS explore ways to offer more attractive compensation for the Chief Information Officer.

Over the next year, the MMP and the Department as a whole should push the IRS to: move rapidly to advance the systems architecture and incorporate reengineering; openly evaluate outsourcing of TSM design and development; develop a credible strategy to build electronic filing volume based on solid precepts of consumer marketing; and create tangible demonstrations of substantive accomplishment driven by GAO recommendations (at the same time supporting the IRS if GAO's deadlines for some deliverables become counterproductive). When and if the National Commission on Restructuring the IRS is formed, we should use it as a change lever.

IV. Management Recommendations for Changing the Course of Modernization at IRS

The overall theme for Departmental management is to intervene more than it historically has and to do so in a more productive way. We must avoid the traps of intervening in unimportant areas or intervening to the extent of creating a barrier and/or an excuse. Our challenge is to pick the interventions carefully and to execute them well without diluting the critical executive function of the Commissioner or "politicizing" the IRS. These interventions are about good business practice and appropriate exercise of the Secretary's oversight responsibilities..

Criteria for recognizing an appropriate intervention are:

a. Lack of attention to the basic business case (e.g., comprehensible architecture documents, rational and useful economic analysis tools, identification of meaningful short-term deliverables, clear decision-making criteria, communication of success stories, tangible examples of how TSM will impact what taxpayers and employees will see).
b. Decisions with broad impact.
c. Key appointments.
d. Maintenance of good working relations with Congress, OMB, GAO.
e. Limited views are being taken by the IRS.

Specific actions we recommend at this point are:

- **Demand the basics.** Require appropriate documents and deliverables; offer help from MMP staff in ensuring their orientation, content and level of detail <u>before</u> submission. Initial targets include:

  - **Comprehensible architecture documents.** Develop an architecture for TSM which can be used to communicate clearly and readily what TSM is and what it will do.

  - **Rational and useful economic analysis.** Get beyond the existing inflexible accounting-oriented "economic" model and build a true economic model which supports decisions about resource allocation, risk analysis, and contingency planning. Rigorously apply a standard investment process to select, control and evaluate all IS projects through an Investment Review Board.

  - **Business cases.** Submit a one page summary of the business case for each TSM project including cost/benefit analysis and ROI where applicable. Any project for which there is no business case is stopped until one is developed and approved.

  - **Short-term deliveries.** Show stakeholders that the IRS has what it takes to implement key components of TSM. Choose a critical project with high impact, assess its level of difficulty, and ensure that the IRS at the start has the capability to handle the assignment at its given level of complexity. Then assemble an elite team -- IRS' best and brightest and a select group of contractors -- and turn them loose on the project.

  - **Communication of success stories.** Find everything that is good about TSM progress to date, obtain rigorous documentation for every claim and package it to be able to answer the question: "What has the IRS accomplished with TSM to date?"

  - **Create tangible examples**, including descriptions, mockups, and prototypes of how TSM will impact taxpayers and what employees will see.

- **Participate in key IRS decision review groups.** Actively participate in these groups, driving out issues, pushing for tough decisions where needed, and ensuring that priority goes to efforts with the greatest impact under the widest range of scenarios. Results to push for include:

  - Eliminating major downside risks and waste in the TSM portfolio of projects by pruning some projects and cutting others.

  - Acting on the recommendations of the rescoping effort at the $3.5 billion level and removing low-return projects from life-support.

- **Build a foundation for sustainable improvement of technology management.** First, enable the IRS to recruit not just an experienced CIO but also a modernization team with at least one individual with capabilities matching each of the GAO target improvement areas (e.g., software development, system architecture, security, reengineering). Then implement the following new practices and processes:

- Develop case studies of what IRS has done well and use them to train other IRS managers.

- Engage a best-of-breed partner (USAA; SSA) to develop service quality vision.

- **Selectively and carefully push "lateral thinking" ideas.** First among these ideas is to make the vision real. Create an integrated, working, independently verifiable prototype of the "future". Provide an on-screen experience of what it would be like to be a customer of the IRS with these new capabilities. Given the IRS current level of sophistication with rapid prototyping, it should be possible to complete a prototype in six - eight months. Completion of a working prototype would also provide the IRS ~~with: an integrated testing~~ facility; visibility for all stakeholders; identification of mistakes and weaknesses in the system before nation-wide roll-out.

The Deputy Secretary should utilize the MMP core team when formulating and asserting strong positions on critical issues with IRS, OMB, the Administration and Congress.

1. IRS [illegible]

2. Key [illegible]:
1) [illegible]
2) [illegible]

8. [illegible]

9. [illegible]

3. [illegible] 2(2)

4. [illegible]

5. [illegible]

6. [illegible]

7. [illegible] IRS [illegible]

TREASURY CLEARANCE SHEET

NO.__________
DATE:__________

MEMORANDUM FOR FRANK NEWMAN

☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER __________

FROM: George Muñoz, Assistant Secretary (Management/CFO)
THROUGH:
SUBJECT: IRS Modernization - Issues and Recommendations

REVIEW OFFICES (Check when office clears)

- ☐ Under Secretary for Finance
  - ☐ Domestic Finance
  - ☐ Economic Policy
- ☐ Fiscal
  - ☐ FMS
  - ☐ Public Debt
- ☐ Under Secretary for International Affairs
  - ☐ International Affairs
- ☐ Enforcement
  - ☐ ATF
  - ☐ Customs
  - ☐ FLETC
  - ☐ Secret Service
- ☐ General Counsel
- ☐ Inspector General
- ☐ IRS
- ☐ Legislative Affairs
- ☐ Management
- ☐ OCC
- ☐ Policy Management
  - ☐ Scheduling
- ☐ Public Affairs/Liaison
- ☐ Tax Policy
- ☐ Treasurer
  - ☐ E & P
  - ☐ Mint
  - ☐ Savings Bonds
- ☐ Other ________

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
George Muñoz	/s/ memo	10/27/9	Assistant Secretary (Management)	622-0410
REVIEWERS				

SPECIAL INSTRUCTIONS

cc: Secretary Rubin

☐ Review Officer Date ☐ Executive Secretary Date

152827

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

November 27, 1995

COMMISSIONER

MEMORANDUM FOR THE DEPUTY SECRETARY

FROM: Margaret Milner Richardson
Commissioner of Internal Revenue

SUBJECT: National Commission on Restructuring the IRS

The FY 1996 IRS appropriation included a provision creating a National Commission on Restructuring the IRS ("Commission"). I thought that it would be helpful to summarize for you the purpose and activities of the Commission and to propose some criteria for prospective Commission members.

Purpose and Activities

The Commission is charged with examining the organization of the IRS and recommending actions to expedite the implementation of TSM and with improving service to taxpayers.

The Commission is charged with reviewing: (1) the IRS's present practices with focus on the structure of its organization, paper and returns processing activities, infrastructure and the collection process; (2) how to improve the IRS's modernization efforts and expedite the move to a paperless system; (3) changes to the IRS's culture that would make it more efficient and customer-oriented; (4) whether the IRS could be replaced with a quasi-governmental agency; and (5) whether the IRS could perform other federal government functions.

Commission members are to be appointed not more than 60 days after the enactment of the appropriations bill – January 18, 1995. If seven or more members of the Commission have been appointed by that date, they can meet and select a chairman who will have the authority to begin the operations of the Commission, including hiring of staff. $1 million from IRS FY 1996 Information Systems budget was appropriated for the Commission's expenses. The Commission is authorized to hold hearings, receive evidence, and subpoena witnesses and documents.

The Commission has the authority to operate for one year from the date of its first meeting. A final report to Congress will be due at that time.

MEMORANDUM FOR THE DEPUTY SECRETARY

Members

The Commission will have thirteen members; seven from the private sector, two from the executive branch, two Senators, and two Representatives. In addition, the Commissioner of Internal Revenue is an *ex officio* member. The chairman will be selected by the members.

The members are to be chosen as follows:

* Five appointed by the President - two from the executive branch, two from "private life," and one "from an organization that represents a substantial number of Internal Revenue Service employees," i.e., the National Treasury Employees Union;

* Two appointed by the Senate Majority Leader - one a Senator and one from private life;

* Two appointed by the Senate Minority Leader - one a Senator and one from private life;

* Two appointed by the Speaker of the House - one a House Member and one from private life;

* Two appointed by the House Minority Leader - one a House Member and one from private life.

The seven private sector members will be compensated at level IV of the executive pay level for each day of service.

Suggested Membership Criteria

To assure the integrity of the Commission's process and its report, care should be taken to avoid real or perceived conflicts of interest on the part of Commission members. Legal counsel is checking to determine which, if any, conflicts of interest and financial disclosure rules would be applicable. (Presumably, prospective members would have to submit to a tax check and, possibly, some type of background investigation.)

Senator Kerrey, who provided the impetus for the Commission, has emphasized that it was not his intention for the Commission to review or report on tax policy issues or types of tax systems, because there are other forums to pursue those types of inquiries. Instead, he wants the focus to be on the best form of organization and whether the IRS should continue as a part of the Treasury Department or whether it should have some type of quasi-governmental status. (He cited Fannie Mae as a possible model.)

For the Commission to have the greatest impact, its members should reflect a broad range of skills and experience. Particularly important skills and experience would be:

* Knowledge about the organization and operations of the IRS and tax administration.

* Experience at the senior levels of government.

* Extensive management experience in large customer service-oriented organizations concerned with accounts management. For example, companies in the financial services business, such as credit card companies, commercial banks, brokerage firms or insurance companies.

* Experience in successfully reegineering a large business, particularly one that has taken advantage of technology in connection with its reengineering effort.

* Extensive experience with technology, particularly with "modernizing" information systems.

* Experience with a quasi-governmental agency who could provide an understanding of how they operate and the advantages and disadvantages of that type of structure.

Finding individuals who have had all of this experience is most unlikely, but with seven private sector members it should be possible to get a good cross-section of people who have had much of this experience. As for the two executive branch representatives, one excellent and very logical candidate would be John Koskinen from OMB. Another possible candidate might be someone from the Social Security Administration, who has been involved with its customer service efforts.

MEMORANDUM FOR THE DEPUTY SECRETARY

I would be happy to discuss how we should proceed with this process at your convenience.

M.M.R.

91 154761

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 24, 1996

MEMORANDUM FOR SECRETARY RUBIN

FROM: LS **Larry Summers**
Deputy Secretary

SUBJECT: **National Commission on Restructuring the IRS**

The FY 1996 IRS appropriation included a provision creating a National Commission on Restructuring the IRS. The Commission is charged with examining the organization of the IRS and recommending actions to expedite the implementation of TSM and with improving service to taxpayers. While this Commission was not our idea, if structured properly, the Commission could be helpful in assuring continued funding for IRS's modernization efforts, as well as, providing to us, useful technical advise and input from others outside the Department.

The Commission will have thirteen members : five appointed by the President - two from the executive branch, two from "private life", and one "from an organization that represents a substantial number of Internal Revenue Service employees". Towards that end I convened a working group comprised of Peggy Richardson, George Munoz, Leslie Samuels, Linda Robertson and Leslie Maddin to assist me in making recommendations to you on the Presidential appointments.

The three leading candidates for the "private life" appointments are:

- **Josh Weston** - Chairman and Chief Executive Officer, Automatic Data Processing, Inc.
- **Dr. Michael Hammer** - President, Hammer and Co., Inc. - is a recognized expert in reengineering and formerly a professor of Computer Science at M.I.T.
- **Cinda Hallman** - Vice President of Information Systems and Chief Information Officer, DuPont, Inc.

The leading candidate for one of the Executive Branch appointments is **John Koskinen**, Deputy Director for Management, OMB. For the second appointment, I recommend a Treasury official, preferably Ed Knight. Bob Tobias of the National Treasury Employees Union would, if you agree, complete our recommendations to the President.

Please let me know your thoughts on the Commission and these appointments.

EXECUTIVE SECRETARIAT

The Secretary of the Treasury

January 29, 1996

NOTE FOR LARRY SUMMERS

FROM: BOB RUBIN

How are we doing, more generally in trying to make this better. Is this being driven energetically.

Sounds good to me. Only question: Will any be unwilling to be diplomatic in public discussion of IRS problems and our actions, even where the member disagrees.

Why? He's overloaded as is. Why not Gotbaum, who may be fairly shrewd about bureaucratic reorganization.

Attachment

DRAFT

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

154763
To: Larry & 154401
Summers

From: Bob Rubin

Let's discuss

MEMORANDUM FOR SECRETARY RUBIN

FROM: DEPUTY SECRETARY SUMMERS

SUBJECT: OUR PLAN TO DRIVE IMPROVEMENTS IN THE IRS MODERNIZATION EFFORT

INTRODUCTION

This memo outlines a plan to improve the IRS modernization effort including:

- A **discussion of the nature and seriousness of the problem** in implementing modernization at the IRS.
- An overview of the **options considered** and rejected, including radical options.
- A **recommendation** for the Department's intervention and sustained leadership.
- A **process to support and sustain accountability** and results from the recommendation.
- A set of **immediate, substantive decisions** for the Deputy Secretary and Commissioner.

The intended result of our recommendations is to modernize the IRS so it can better serve the taxpayer and do so cost effectively. It is not possible to meet 1990's-style customer service expectations with 1960's technology and business processes.

NATURE OF THE PROBLEM

The budget has been cut. Approximately $2.5 billion has been spent on TSM since 1986. The appropriation for this fiscal year is $.7 billion rather than the $1.1 billion requested. The IRS is now planning around a budget for the next five years of $3.5 billion (in constant dollars), considerably less than the more than $5 billion they were previously expecting. Hence the total program budget has been scaled back from $8 billion to $6 billion through the year 2000.

The Secretary is accountable for fixing TSM. That Congress is looking to the Secretary to take action is clear from the 1996 appropriation language, which states we may not use $100 million of our $695 million appropriated for TSM until the Secretary "... provides a report to the Committees on Appropriations of the House and the Senate that (1) with explicit decision criteria, identifies, evaluates, and prioritizes all systems investments planned for fiscal year 1996, (2) provides a schedule for successfully mitigating deficiencies identified by the General Accounting Office in its April 1995 report to the Committees, (3) presents a milestone schedule for a development and implementation program, and (4) presents a plan to expand the utilization of external expertise for systems development and total program integration."

DRAFT

There will be a National Commission on Restructuring the IRS. The appropriation language also establishes a national commission to "... recommend actions to expedite implementation of TSM and improve service to taxpayers." The commission is scheduled to be appointed by January 19, 1996, with one year to conduct a wide-ranging review of IRS operations and TSM efforts. It will specifically consider "... whether the IRS could be replaced with a quasi-governmental agency with tangible incentives and internally managing its programs and activities for modernizing its activities."

Congressional hearings begin soon. GAO must report to Congress regarding IRS response to its criticisms of TSM not later than April 1, 1996. IRS and Treasury officials may be called to testify.

Four years ago, the IRS said things were fine. In 1991, Commissioner Goldberg testified:

> We have reached a major turning point in our modernization efforts. We have a clear sense of where we are headed -- we know how we want to run our business and what we will accomplish through Modernization. We have a comprehensive road map that is guiding us "from here to there," and providing benchmarks to assess our progress along the way. ...The challenge now is delivery -- if we can stay on the road, we are confident that we will indeed reach our destination.

Despite progress in some areas, it would be difficult indeed to be so confident today without a credible story of dramatic change in the approach to TSM.

Experts now say we are floundering. Many recent studies have concluded that TSM is in deep trouble and they also agree on the basic causes such as ineffective technical approaches and management processes, lack of technical expertise and technically astute management, and the IRS culture itself. Their conclusions about the future of TSM are highly pessimistic absent fundamental change. The bottom line: the vision is good; implementation is the problem.

Previous reforms have failed. Previous cycles of criticism resulted in several reform measures, which appear to have been largely unsuccessful. The Systems Architect's Office, for example, was to consist of about a dozen crack technologists who would translate the business vision into a grand plan the engineers would implement. It now consists of two architects who are very able but who have little real authority to influence outcomes. Similarly, a group of technical experts was hired but has been scattered and has had little impact.

The essence of the problem. The IRS is an operations, service and systems maintenance organization, not a systems development organization. They do not have the right leadership, skill base or philosophy for systems development. IRS and its stakeholders have become frustrated by the lack of delivery in return for almost $3 billion spent. If the situation does not improve soon, OMB or the Congress will probably intervene, perhaps drastically limiting our options to make the much-needed modernization happen.

OPTIONS CONSIDERED

We examined a broad spectrum of options in terms of feasibility, serving the taxpayer, and political viability. Some bold options were:

Call a time-out. Get TSM development back into the right precedence relationship with IRS reengineering and TSM architecture and system engineering. In the private sector, this would be the most likely choice. But the private sector has the ability to restart a project like this at a moment's notice -- an option we do not have in the public sector. Therefore, we did not find this advisable given the vagaries of the budgeting and appropriations process.

Build TSM state-by-state. Build the "21st Century IRS" up around new processes and systems starting with a single small state, e.g., Vermont, and gradually add states as the capabilities become more robust. The TSM vision could be made tangible and evaluated much faster. If we were not already ten years into TSM, this might be a viable approach despite possible problems with scalability.

Reconstitute the information technology component of IRS as a separate utility. The utility could be operated as a quasi-governmental entity or even privatized, with a block of initial long-term investment funding. While this is a bold and wrenching organizational change, it does not by itself solve the TSM problem, it merely relocates it.

Devolve tax collection to states and dramatically downsize the IRS. Break up the IRS monopoly on Federal tax collection by outsourcing large pieces to states, which would collect Federal taxes for a fee and remit them upward. There are serious substantive and political problems; for example, some states do not have an income tax.

We concluded that serious practical issues outweighed the advantages of these "lateral thinking" options. Zealous pursuit of any of them by Treasury could cost us credibility, thus blunting the impact of all of our recommendations. Nevertheless, we adapted ideas from several of them which are embodied in the following bold--but appropriately hedged--strategy.

RECOMMENDATION

Our strategy, in short, is to have the Department function as a more proactive "board of directors". Sustained leadership--not just one-shot actions--will be required to redirect the IRS's modernization effort. It will take time, political capital and discipline. Specifically, we propose to:

1. Take a highly involved role in acquiring and empowering a technically and managerially skilled CIO and a supporting team of technologists.

Development of large-scale and complex integrated systems based on up-to-date technologies requires a substantial number of technically-skilled people and technically astute managers. IRS has neither in anywhere near sufficient quantity. Even if most of TSM is contracted out, the IRS is ultimately responsible for the performance and maintenance of the systems as well as their cost-effective acquisition, so it must be able to provide expert direction and knowledgeable oversight. While contractors provide value, they are not accountable for final results, and their incentives are necessarily more aligned with those of the firm than with those of the government or the taxpayer.

Technical and management issues are highly linked in the development of information systems. Failure to understand these linkages is very costly. Only a technically competent CIO can make the tradeoffs necessary to balance the perspectives of software developers, data specialists and hardware experts with the overall needs of the organization. Otherwise, the debates continue while serious money is spent. For example, some of the interfacing systems for the Document Processing System (DPS) are not ready, and DPS itself has been heavily overspecified. The result: a potential $300+ million write-off. A technically qualified CIO would have insisted on the architecture, design, and integration approaches which would have prevented this.

?

Despite efforts over the past six months, the IRS has failed to recruit a CIO. We will end the debate about a non-technical CIO, personally recruit top candidates from industry and government, and vet the final selection. Our involvement will cut red tape, but not take away the IRS's ultimate responsibility to make its selection. It is vital, however, that compensation not be a barrier to recruitment of a topnotch CIO. The type of talent (technical plus managerial) and experience (building large transaction-processing systems) the IRS needs is much more prevalent in the private sector than in government, and these people, when they are good, are paid very well. It is not realistic to expect such a person to accept a 50+% pay cut to take on as difficult and perilous an assignment as turning the TSM ship. Also, the government has a long history of paying market salaries for specialized expertise, e.g., in the National Laboratories, the RTC, and Fannie Mae. ?

This effort should also energize the search for a technical team of ten to twenty senior-level experts through appropriate OPM or IPA (Intergovernmental Personnel Act) mechanisms or personal service contracts. Technical expertise is not, however, sufficient in itself. It has to be supported by institutionalized technical practices and management processes as well as knowledgeable champions at the top to provide the necessary credibility.

6. Ensure the implementation and institutionalization of the management process and infrastructure reforms required for successful information systems management, as recommended by the NRC and GAO.

New processes are required for new outcomes. For example, the IRS is just learning to apply rigorous standards to IS investment decision-making--years after beginning TSM. We will require the IRS to build the basic capacity to make good management and technical decisions in areas such as: security, privacy, reengineering, architecture, software development, investment review, economic analysis and human resources.

DRAFT

We will also require the IRS to submit a one-page business analysis for each TSM project, including cost/benefit analysis and ROI where applicable, and direct a rigorous post-implementation evaluation of every significant TSM project from which the IRS has claimed a benefit in the past four years. We will make these requirements part of the MMP tracking and accountability responsibilities.

3. Aggressively increase the use of outside contractors to enhance the overall technical skill level being applied to the problem of modernization and to increase the likelihood of successful implementation.

While the IRS has begun to develop a plan to increase use of contractors, our direction will: 1) establish the goal of obtaining a prime contractor relationship at a date certain, and 2) use existing contract mechanisms to increase the involvement of present contractors in such vital areas as system integration through a revised management partnership agreement. This keeps TSM moving forward under significantly improved technical management. Of course, the CIO and technical team must be in place to make this recommendation work. In addition, the IRS should consider outsourcing key components of the paper input function, i.e., paying for data, not a system.

4. Rescope modernization efforts to accomplish the original vision and meet emerging budget constraints.

As IRS has taken on the task of living within new and lower budgets, it has begun to rescope TSM. The result has been a reallocation of resources from long-term systems infrastructure to projects with a shorter-term orientation. This jeopardizes the original TSM vision of dramatically improved taxpayer service.

We will direct the IRS to make their business case on the interim results of their rescope effort, reviewing aspects of the long term vision which have been delayed or eliminated. We will define a better balance between short and long term investment and make it a part of the Investment Review Board selection criteria.

7

5. Support the creation and use of a <u>dedicated</u> facility for integrated prototyping and testing of hardware (including networks), software and data within and across systems.

The technical approach to TSM is not meeting the needs of such a large and complex program. In a comprehensive modernization program, integration of the components is the biggest challenge. The IRS still uses a "stove-pipe" approach to development which too often leads to late discovery of ill-fitting components. The result: delays and rework. The IRS has not yet progressed sufficiently in creating the kind of integration facility and incremental approach more advanced organizations use to avoid these problems.

We will direct the Commissioner to establish and staff a fully operational integrated prototyping and test facility and to develop something concrete. Specifically, we agree with the NRC that

DRAFT

the IRS should push forward on the Integrated Case Processing (ICP) initiative as the front-line system supporting improved taxpayer service.

Moreover, a number of additional actions have been identified to support and sustain these five recommendations by Main Treasury. Most important is a process for sustained Departmental involvement.

PROCESS TO SUPPORT THE STRATEGY

Finally, we propose an ongoing process to support and sustain accountability and results from the recommended strategy, i.e., anchor the response to this strategy in a strong set of reporting requirements and relationships. The Deputy will hold an off-site program review "retreat" with the Commissioner and key IRS and Departmental leadership to set a strategy and will follow up with monthly meetings with the Commissioner. We will hold the IRS accountable in several ways. ?

> First, strengthen the position of the Modernization Management Partnership[1] (MMP) by fully backing its efforts, and using the MMP as advisors on IRS issues. Have the MMP serve as the Department's "Board of Directors" and involve the Deputy Secretary in the process when decisions cannot be agreed on through the regular MMP process. In its recent report, the NRC mentioned the MMP in saying, "The IRS must engage in a more constructive partnership with its oversight organizations and work with them to make progress."

[illegible] Murray/ [illegible]

> Second, leverage existing oversight roles. The Deputy Secretary should support and mobilize existing Departmental offices (IG, OIRM, Budget, OOI) in performing program reviews, and technical and management analyses.

> Third, form a standing Technical Advisory Group as suggested by the NRC report. This group of paid, independent technical experts would report to the IRS *and* the Department through the MMP.

When the Department and IRS have decided on a proposed course of action, the Secretary and/or Deputy should meet with senior-level external stakeholders: Rivlin, Litan (OMB), Bowsher (GAO), Livingston (Appropriations), to discuss the proposed plan and elicit buy-in on proposed solutions.

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DRAFT

IMMEDIATE SUBSTANTIVE DECISIONS

There are substantive decisions that require immediate attention even as we lock-in the strategy to intervene in the modernization effort at the IRS. The Department will play a strong leadership role to get the IRS to make appropriate timely decisions on these issues. They are:

Appointment of a new CIO and a Deputy CIO. Our position regarding technical qualifications for the CIO must be made clear. We would also want to vet a permanent Deputy CIO appointment, but more important, we do not want anyone appointed who is not nominated by the new CIO, except in an interim acting role.

Direction for Contracting. The IRS needs to move aggressively to get the wheels in motion for procurement of a prime contractor. They are now working to expand contractors' roles within the framework of existing contracts, but this should be considered just the first step in obtaining a prime contractor.

CyberFile (GO-ELF) Go/No-Go. As the last practical time draws near to mail personalized access codes to selected taxpayers and to publicize the program, there are still open issues regarding the implementation schedule and security. Whatever the merits of this initiative or its components, we must pull the plug if the risk of non- or under-performance is unacceptable, and that is, unfortunately, appearing more and more to be the reality.

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National Commission to Restructure the IRS. The Department should take the lead, with the White House, in setting up this Commission. Leverage the work of the Commission to obtain desired outcomes.

CONCLUSION

After having reviewed the issues and stakes, we cannot fail to act to improve service to taxpayers and do so cost effectively. Our appropriators have made it known that they will call for a hearing where they expect answers from the Secretary -- not the Commissioner -- on how the problems discussed above are being addressed. The recommendations I have made are the kind of response that most critics of the TSM effort would applaud.

The Deputy Secretary of the Treasury

January 30, 1996

TO: BOB RUBIN

FROM: LARRY SUMMERS LS

INFORMATION

Bob,

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Attachment

Bernetta/Cookie
Do NOT
give a copy
of this to
Mgmt
Thanks
N

Room 3326 622-1080

EXECUTIVE SECRETARIAT

The Secretary of the Treasury

February 6, 1996

NOTE FOR LARRY SUMMERS

FROM: BOB RUBIN

Let's discuss.

Attachment

96-154401

TREASURY CLEARANCE SHEET

NO. 96-154401

Date

ANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: George Munoz

THROUGH: Deputy Secretary Summers

SUBJECT: Our Plan to Drive Improvements in the IRS Modernization Effort.

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
- ☐ Domestic Finance
- ☐ Economic Policy
- ☐ Fiscal
  - ☐ FMS
  - ☐ Public Debt

☐ Under Secretary for International Affairs
- ☐ International Affairs

☐ Enforcement
- ☐ ATF
- ☐ Customs
- ☐ FLETC
- ☐ Secret Service

☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
- ☐ Scheduling

☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
- ☐ E & P
- ☐ Mint
- ☐ Savings Bonds

☐ Other

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
W. Scott Gould	WSG	1/19/96	DAS/Deptl. Fin. & Mgmt.	622-2400
Judith Ochs	JSO	1/19/96		622-2136
Paul Clermont	PC	1/19/96		622-0968
Robert Leland	RWL	1/19/96		622-0962
REVIEWERS				
George Munoz			Asst. Secy. for Mgmt. & CFO	622-0410
Ed Knight			General Counsel	622-0287

SPECIAL INSTRUCTIONS

Simultaneous copy to Ed Knight for clearance.

☐ Review Officer Date ☐ Executive Secretary Date

DEPARTMENT OF THE TREASURY
WASHINGTON

January 18, 1996

ACTION

NOTE TO: **LAWRENCE SUMMERS**
DEPUTY SECRETARY

FROM: George Muñoz GM
Assistant Secretary for Management & CFO

This version includes your comments from Scott from yesterday.

Attachment

EXECUTIVE SECRETARIAT

TREASURY CLEARANCE SHEET

NO. 96-159401

Date

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: George Munoz

THROUGH: Deputy Secretary Summers

SUBJECT: Our Plan to Drive Improvements in the IRS Modernization Effort.

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Robert Leland	RWL	1/19/96		622-0962
REVIEWERS				
George Munoz			Asst. Secy. for Mgmt. & CFO	622-0410
Ed Knight			General Counsel	622-0287

SPECIAL INSTRUCTIONS

Simultaneous copy to Ed Knight for clearance.

☐ Review Officer Date ☐ Executive Secretary Date

DRAFT

154763

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR SECRETARY RUBIN

FROM: DEPUTY SECRETARY SUMMERS

SUBJECT: OUR PLAN TO DRIVE IMPROVEMENTS IN THE IRS MODERNIZATION EFFORT

INTRODUCTION

This memo outlines a plan to improve the IRS modernization effort including:

- A **discussion of the nature and seriousness of the problem** in implementing modernization at the IRS.
- An overview of the **options considered** and rejected, including radical options.
- A **recommendation** for the Department's intervention and sustained leadership.
- A **process to support and sustain accountability** and results from the recommendation.
- A set of **immediate, substantive decisions** for the Deputy Secretary and Commissioner.

The intended result of our recommendations is to modernize the IRS so it can better serve the taxpayer and do so cost effectively. It is not possible to meet 1990's-style customer service expectations with 1960's technology and business processes.

NATURE OF THE PROBLEM

The budget has been cut. Approximately $2.5 billion has been spent on TSM since 1986. The appropriation for this fiscal year is $.7 billion rather than the $1.1 billion requested. The IRS is now planning around a budget for the next five years of $3.5 billion (in constant dollars), considerably less than the more than $5 billion they were previously expecting. Hence the total program budget has been scaled back from $8 billion to $6 billion through the year 2000.

The Secretary is accountable for fixing TSM. That Congress is looking to the Secretary to take action is clear from the 1996 appropriation language, which states we may not use $100 million of our $695 million appropriated for TSM until the Secretary "... provides a report to the Committees on Appropriations of the House and the Senate that (1) with explicit decision criteria, identifies, evaluates, and prioritizes all systems investments planned for fiscal year 1996, (2) provides a schedule for successfully mitigating deficiencies identified by the General Accounting Office in its April 1995 report to the Committees, (3) presents a milestone schedule for a development and implementation program, and (4) presents a plan to expand the utilization of external expertise for systems development and total program integration."

DRAFT

The Deputy Secretary of the Treasury

January 30, 1996

TO: BOB RUBIN

FROM: LARRY SUMMERS LS

Bob,

This is a second draft of my plan to address issues at the IRS. It will tell you more than you now know. It is still too process-oriented. It has not been shared with the IRS and obviously would raise some hackles there.

Attachment

(J3N)
NCC to RER
NCC cc to J3N
Smy
1/30/96
Please log
In

There will be a National Commission on Restructuring the IRS. The appropriation language also establishes a national commission to "... recommend actions to expedite implementation of TSM and improve service to taxpayers." The commission is scheduled to be appointed by January 19, 1996, with one year to conduct a wide-ranging review of IRS operations and TSM efforts. It will specifically consider "... whether the IRS could be replaced with a quasi-governmental agency with tangible incentives and internally managing its programs and activities for modernizing its activities."

Congressional hearings begin soon. GAO must report to Congress regarding IRS response to its criticisms of TSM not later than April 1, 1996. IRS and Treasury officials may be called to testify.

Four years ago, the IRS said things were fine. In 1991, Commissioner Goldberg testified:

> We have reached a major turning point in our modernization efforts. We have a clear sense of where we are headed -- we know how we want to run our business and what we will accomplish through Modernization. We have a comprehensive road map that is guiding us "from here to there," and providing benchmarks to assess our progress along the way. ...The challenge now is delivery -- if we can stay on the road, we are confident that we will indeed reach our destination.

Despite progress in some areas, it would be difficult indeed to be so confident today without a credible story of dramatic change in the approach to TSM.

Experts now say we are floundering. Many recent studies have concluded that TSM is in deep trouble and they also agree on the basic causes such as ineffective technical approaches and management processes, lack of technical expertise and technically astute management, and the IRS culture itself. Their conclusions about the future of TSM are highly pessimistic absent fundamental change. The bottom line: the vision is good; implementation is the problem.

Previous reforms have failed. Previous cycles of criticism resulted in several reform measures, which appear to have been largely unsuccessful. The Systems Architect's Office, for example, was to consist of about a dozen crack technologists who would translate the business vision into a grand plan the engineers would implement. It now consists of two architects who are very able but who have little real authority to influence outcomes. Similarly, a group of technical experts was hired but has been scattered and has had little impact.

The essence of the problem. The IRS is an operations, service and systems maintenance organization, not a systems development organization. They do not have the right leadership, skill base or philosophy for systems development. IRS and its stakeholders have become frustrated by the lack of delivery in return for almost $3 billion spent. If the situation does not improve soon, OMB or the Congress will probably intervene, perhaps drastically limiting our options to make the much-needed modernization happen.

OPTIONS CONSIDERED

We examined a broad spectrum of options in terms of feasibility, serving the taxpayer, and political viability. Some bold options were:

Call a time-out. Get TSM development back into the right precedence relationship with IRS reengineering and TSM architecture and system engineering. In the private sector, this would be the most likely choice. But the private sector has the ability to restart a project like this at a moment's notice -- an option we do not have in the public sector. Therefore, we did not find this advisable given the vagaries of the budgeting and appropriations process.

Build TSM state-by-state. Build the "21st Century IRS" up around new processes and systems starting with a single small state, e.g., Vermont, and gradually add states as the capabilities become more robust. The TSM vision could be made tangible and evaluated much faster. If we were not already ten years into TSM, this might be a viable approach despite possible problems with scalability.

Reconstitute the information technology component of IRS as a separate utility. The utility could be operated as a quasi-governmental entity or even privatized, with a block of initial long-term investment funding. While this is a bold and wrenching organizational change, it does not by itself solve the TSM problem, it merely relocates it.

Devolve tax collection to states and dramatically downsize the IRS. Break up the IRS monopoly on Federal tax collection by outsourcing large pieces to states, which would collect Federal taxes for a fee and remit them upward. There are serious substantive and political problems; for example, some states do not have an income tax.

We concluded that serious practical issues outweighed the advantages of these "lateral thinking" options. Zealous pursuit of any of them by Treasury could cost us credibility, thus blunting the impact of all of our recommendations. Nevertheless, we adapted ideas from several of them which are embodied in the following bold--but appropriately hedged--strategy.

RECOMMENDATION

Our strategy, in short, is to have the Department function as a more proactive "board of directors". Sustained leadership--not just one-shot actions--will be required to redirect the IRS's modernization effort. It will take time, political capital and discipline. Specifically, we propose to:

1. Take a highly involved role in acquiring and empowering a technically and managerially skilled CIO and a supporting team of technologists.

Development of large-scale and complex integrated systems based on up-to-date technologies requires a substantial number of technically-skilled people and technically astute managers. IRS has neither in anywhere near sufficient quantity. Even if most of TSM is contracted out, the IRS is ultimately responsible for the performance and maintenance of the systems as well as their cost-effective acquisition, so it must be able to provide expert direction and knowledgeable oversight. While contractors provide value, they are not accountable for final results, and their incentives are necessarily more aligned with those of the firm than with those of the government or the taxpayer.

Technical and management issues are highly linked in the development of information systems. Failure to understand these linkages is very costly. Only a technically competent CIO can make the tradeoffs necessary to balance the perspectives of software developers, data specialists and hardware experts with the overall needs of the organization. Otherwise, the debates continue while serious money is spent. For example, some of the interfacing systems for the Document Processing System (DPS) are not ready, and DPS itself has been heavily overspecified. The result: a potential $300+ million write-off. A technically qualified CIO would have insisted on the architecture, design, and integration approaches which would have prevented this.

Despite efforts over the past six months, the IRS has failed to recruit a CIO. We will end the debate about a non-technical CIO, personally recruit top candidates from industry and government, and vet the final selection. Our involvement will cut red tape, but not take away the IRS's ultimate responsibility to make its selection. It is vital, however, that compensation not be a barrier to recruitment of a topnotch CIO. The type of talent (technical plus managerial) and experience (building large transaction-processing systems) the IRS needs is much more prevalent in the private sector than in government, and these people, when they are good, are paid very well. It is not realistic to expect such a person to accept a 50+% pay cut to take on as difficult and perilous an assignment as turning the TSM ship. Also, the government has a long history of paying market salaries for specialized expertise, e.g., in the National Laboratories, the RTC, and Fannie Mae.

This effort should also energize the search for a technical team of ten to twenty senior-level experts through appropriate OPM or IPA (Intergovernmental Personnel Act) mechanisms or personal service contracts. Technical expertise is not, however, sufficient in itself. It has to be supported by institutionalized technical practices and management processes as well as knowledgeable champions at the top to provide the necessary credibility.

2. Ensure the implementation and institutionalization of the management process and infrastructure reforms required for successful information systems management, as recommended by the NRC and GAO.

New processes are required for new outcomes. For example, the IRS is just learning to apply rigorous standards to IS investment decision-making--years after beginning TSM. We will require the IRS to build the basic capacity to make good management and technical decisions in areas such as: security, privacy, reengineering, architecture, software development, investment review, economic analysis and human resources.

We will also require the IRS to submit a one-page business analysis for each TSM project, including cost/benefit analysis and ROI where applicable, and direct a rigorous post-implementation evaluation of every significant TSM project from which the IRS has claimed a benefit in the past four years. We will make these requirements part of the MMP tracking and accountability responsibilities.

3. Aggressively increase the use of outside contractors to enhance the overall technical skill level being applied to the problem of modernization and to increase the likelihood of successful implementation.

While the IRS has begun to develop a plan to increase use of contractors, our direction will: 1) establish the goal of obtaining a prime contractor relationship at a date certain, and 2) use existing contract mechanisms to increase the involvement of present contractors in such vital areas as system integration through a revised management partnership agreement. This keeps TSM moving forward under significantly improved technical management. Of course, the CIO and technical team must be in place to make this recommendation work. In addition, the IRS should consider outsourcing key components of the paper input function, i.e., paying for data, not a system.

4. Rescope modernization efforts to accomplish the original vision and meet emerging budget constraints.

As IRS has taken on the task of living within new and lower budgets, it has begun to rescope TSM. The result has been a reallocation of resources from long-term systems infrastructure to projects with a shorter-term orientation. This jeopardizes the original TSM vision of dramatically improved taxpayer service.

We will direct the IRS to make their business case on the interim results of their rescope effort, reviewing aspects of the long term vision which have been delayed or eliminated. We will define a better balance between short and long term investment and make it a part of the Investment Review Board selection criteria.

5. Support the creation and use of a <u>dedicated</u> facility for integrated prototyping and testing of hardware (including networks), software and data within and across systems.

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The Secretary of the Treasury

February 13, 1996

NOTE FOR LARRY SUMMERS

FROM: BOB RUBIN

Let's discuss.

Page 6

Does this work. Do the Munoz/Gould people know what they are doing?

Attachment

1996-SE-008204

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.
AUG 0 9 1996

ASSISTANT SECRETARY

INFORMATION

MEMORANDUM FOR MARGARET M. RICHARDSON
COMMISSIONER, INTERNAL REVENUE SERVICE

FROM: George Muñoz
Assistant Secretary (Management)
and Chief Financial Officer

SUBJECT: Internal Revenue Service Reduction-In-Force (RIF) Plan

The Department's staff has completed its review of the IRS RIF Plan, submitted in increments over the past two months. We believe it complies with generally accepted personnel practices and guidelines applicable to the conduct of a reduction-in-force.

The Department has no objections to your plan to negotiate and conduct a reduction-in-force, subject to: 1) the guiding principle that employees are to be taken care of, i.e., the IRS will look at all other available options, and if termination or displacement occurs, the IRS will assist employees in seeking placement; 2) open, helpful communication between all parties involved at all times; and 3) Management's continued oversight. The Office of Personnel Policy will continue to provide advice and assistance to IRS Human Resources staff.

I appreciate the time, attention and professionalism afforded by IRS management and technical staff throughout the process. This work and your continued cooperation should help to manage this difficult situation wisely.

Attachment

cc:: Deputy Secretary
Chief of Staff
Executive Secretary

EXECUTIVE SECRETARIAT

1997-SE-003382

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

GENERAL COUNSEL

March 31, 1997

MEMORANDUM FOR SECRETARY RUBIN
DEPUTY SECRETARY SUMMERS

FROM: EDWARD S. KNIGHT ESK

SUBJECT: IRS Strategy

1. We had a successful week rolling out our IRS management proposal. However, we have a long way to go before it is enacted. Moreover, this issue is very volatile and subject to influence by a number of events that are either outside our control or very difficult to affect (e.g., the success of the filing season, the overall relationship between the Executive and Legislative branches, and the possible development of unexpected new problems with TSM).

2. Therefore, we must focus on developing a strategy whose goals are, through aggressive tactics, the adoption of legislative elements of our plan by Congress and the successful implementation by the Administration of the non-legislative aspects of our plan. True success cannot be achieved unless the American people are willing to "give the IRS another chance." In other words, we must convince taxpayers that they should be open to the notion that the IRS is deserving of their respect.

3. The elements of such a strategy are as follows:

   a. Develop additional details of the **substance** of the plan.
   b. Develop support for the plan among **stakeholders (including the IRS)** through education and outreach.
   c. Reach out to average taxpayers through the **media** in key regions of the country (based in part on legislative representation).
   d. Develop support in key Committees in **Congress** and with the Leadership.

   I will review each element of such a strategy.

4. **Substance**

   a. The drafting of the Deputy Secretary's speech on March 17 was preceded by an intensive policy development process that included Main Treasury, the IRS, OMB and the Vice President's staff. Supporting documentation was generated that can be utilized in the process of refining our detailed substantive proposals. However, draft legislation, draft executive orders or directives, and new supporting documentation must be produced. In addition, a process should be established to evaluate intensely and quickly competing proposals, new ideas (both from within the Administration and without), and material generated by the IRS Restructuring Commission.

b. To achieve these goals, we have established the following six task forces which meet at least on a weekly basis (a list of the members of the task forces is attached at Tab A):

i. *Roll Out Task Force*: to give overall direction to the implementation of the strategy and to identify actions and decisions to be taken by the Deputy Secretary or the Secretary.

ii. *Restructuring Commission Task Force*: to ensure efficient coordination with the Commission and to articulate aggressively the Department's views before the Commission.

iii. *Budget, Flexibility, and Governance Task Forces*: (originally established to develop broad policy options in process leading up to March 17 speech) three different task forces to develop detailed policy proposals in each area consistent with the program announced on March 17 and to evaluate new proposals and ideas, including draft recommendations of the IRS Restructuring Commission.

iv. *Drafting Task Force:* to ensure key legal, policy and legislative documents are drafted in a consistent, carefully considered and well vetted manner; will work with all the other task forces.

Key projects:

- union negotiation strategy decision memo
- flexibilities decision memo
- governance decision memo
- budget and flexibilities legislation
- executive order or executive directive reconstituting the MMB
- Treasury Directive establishing "blue ribbon" commission

c. These task forces are actively working. The major issues they must confront in the near term are:

i. There are no "silver bullets" to solve the IRS' management problems. The program we have announced is responsible and achievable. Nevertheless, it lacks drama and sizzle.

ii. The heart of the program, from a legislative perspective (and Kerrey and Portman are determined to have legislation), is within the jurisdiction of OMB, namely management flexibilities and budget policies. OMB has generally expressed opposition to the proposition of IRS establishing innovative policies in the budget and flexibility areas that are not part of a broader Administration framework and fully vetted. The process OMB envisions at this time will surely reduce any boldness currently perceived in the Treasury proposal.

iii. The flexibility proposals will have to be developed in consultation with the union. How such a consultation will be structured is unclear (we will send you a separate memo on this topic). Moreover, it is expected that such a process will further diminish the boldness of our proposal.

iv. We are in the midst of a filing season. Its success or failure will create a lens through which our proposal will be viewed.

v. We have promised Congress an electronic filing strategy and technology architecture plan by the Spring of this year. The success or failure of these plans will also affect the lens though which our proposal will be viewed.

vi. From the viewpoint of the typical Member of Congress, there is little to be gained by being reasonable in evaluating our proposal and the IRS' problems. From this perspective, attacking our proposal as insufficient and the IRS as fundamentally flawed would seem to generate the most political support.

vii. There must be continued vigilance on the governance issue. Kerrey and Portman seem committed to an independent board to govern the IRS. As one reflection of this, Jeff Trinca (the staff director for the Commission) has stated that he believes that the Secretary and the Deputy Secretary are too busy to deal with the IRS and that the Secretary of the Treasury is the "Secretary of the Economy."

5. **Stakeholders**

a. We need to build a coalition for our proposal. The core elements of this coalition must be the IRS, the union and key elements of the business community.

b. We have focused in the past few weeks on shoring up the base of our support in these three areas. You will be meeting with employees at the IRS, officials of the union and key CEOs in the near term. In the coming months we will continue to focus on these three groups by scheduling events with them.

c. This coalition is not sufficient to ensure success; it must be broadened. One of the most effective ways of broadening our support will be through cross-cutting groups which will allow us to reach out to large numbers of taxpayers. That is one reason we chose the Tax Executive Institute as the appropriate venue for our initial roll out. We now need to take this further by identifying practitioner groups (e.g., the ABA, AICPA) and possibly interested business coalitions (e.g., the Electronic Industry Association) that might be receptive to our message.

d. While building our coalition, we must not allow an opposing coalition to form. Such a coalition could possibly take hold among consumer groups or ideological groups associated with the flat tax or other radical tax policy initiatives. To head this off we should approach groups like the Center for National Policy.

e. The support of the IRS is critical to our success; the IRS has a presence in scores of Congressional districts. The initial reaction from the Service has been positive. Nevertheless, a proposal to remove the IRS and "treat it like the Fed" could have some surface appeal to the Service. Consequently, we must schedule regular outreach events with IRS employees over the coming months.

f. The IRS Restructuring Commission is beginning to reach some tentative conclusions. It plans on releasing its report on June 30 (with the document sent to the printer on June 5). The Administration has some support on the Commission (see the attached list of the members of the Commission at Tab B with an asterisk indicating that the member has expressed support in the past). However, we need to continue to reach out to individual commissioners, including:

i. Ernest Dronenberg (member California State Board of Equalization; appointed by the Speaker; undecided on the independence issue);

ii. Fred Goldberg (former commissioner of the IRS; partner at Skadden, Arps; close to Kerrey; made positive statements to Business Week about our proposal (i.e.,"They [Treasury] have acknowledged that there are fundamental management issues, and they are moving in the right direction."); unclear where he is on the independence issue);

iii. Fred Kubick (retired CPA from Kansas; appointed by Senator Dole; unclear where he is on the independence issue);

iv. Mark McConaghy (Price, Waterhouse partner; appointed by Senator Dole; supports keeping the IRS in Treasury but still needs attention);

v. Rep. Bill Coyne (D-PA) (appointed by Congressman Gephardt; supports keeping the IRS in Treasury but still needs attention);

vi. George Newstrom (EDS executive; appointed by Congressman Gephardt; unclear where he is on independence, but appears to be leaning in favor of keeping the IRS in Treasury);

vii. Bob Tobias (NTEU president; appears to be leaning in favor of keeping the IRS in Treasury);

viii. David Keating (Executive Vice President of the National Taxpayers Union; appointed by Senator Dole; assumed to be leaning against the Administration); and

ix. Josh Weston (appointed by the President).

We need the support of six of the above list of nine commissioners (four appear to be leaning in our direction), as of today, to attract a majority of the Commission to support Treasury's views on governance. In a March 24 Congressional Quarterly article, Senator Grassley, one of the members of the Commission, stated, "Without a doubt, a heavy majority on the committee [sic] is going to recommend an independent board ... [w]e're going to want it to be very independent."

6. **Media**

a. The press covered our March 17 announcement in a straightforward manner. However, we must expect that, at least when the Restructuring Commission announces its position -- if not sooner -- we will have a more compelling story for the press: conflict between the Administration and key members of Congress. Therefore, we must aggressively use the period before the conflict erupts to educate the press. Such an effort might also serve to limit the likelihood of conflict with the Commission, if the Chairmen read the public sentiment as receptive to our ideas.

b. Specifically, we must schedule a series of public events between now and June that highlight our proposal (see anchor events below). Second, we need to approach some of the key editorial boards whose selection is based upon the membership of the Commission and key Congressional committees.

7. **Congress**

a. Congress is currently fractured on issues relating to the IRS and tax policy generally. How long this situation will persist is unclear. Our proposal has energized our supporters. Nevertheless, our support is very fragile; it is more a reflection of being the first out of the gate. We need to tie down our support.

b. We must understand that, with a Republican Congress, Congressman Portman's final position will have a big impact. Moreover, many in the majority leadership (Armey, Archer) want to "tear the tax code out by its roots" and abolish the IRS altogether. Legislation that improves the IRS is perceived as ratifying the current code. On the other hand, at the March 18, Ways and Means Oversight Subcommittee hearing, Chairman Archer stated that he supports an adequate budget for the IRS.[1/]

c. The Republicans have their own internal struggles, but this is one topic upon which

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1/ Chairman Archer stated, "Let me make one last point -- and this is very important -- as long as we have an income tax, we must have an IRS that has the resources and the tools to perform the mission it has been given by Congress. That means the IRS must receive adequate funding."

they could agree. They lost the fight over the Balanced Budget Amendment; Gingrich seems to have backed off on tax cuts; their budget strategy is stalled. If they support our version of IRS reform, a possible issue that could unify their opposition would be removed.

d. On April 10, the Senate Committee on Governmental Affairs has scheduled a hearing on the GAO's Report on IRS Management (High-Risk Series of Reports, February 1997). Senator Fred Thompson has invited Deputy Secretary Summers, George Munoz and Art Gross to testify. The Administration's five-point plan to restructure the IRS may be raised at this hearing.

e. On April 14, the House Subcommittee on Government, Management, Information and Technology has scheduled a hearing on the GAO's Report on IRS Management (High-Risk Series of Reports, February 1997). Rep. Stephen Horn has sent a letter inviting Secretary Rubin to testify. The Administration's five-point plan to restructure the IRS may be raised at this hearing.

f. On April 15 the House may debate a bill that makes it a crime for an IRS employee to browse through electronically stored tax return information; we support this bill. However, the House could modify the bill, and the debate could generate some nasty rhetoric.

g. Also on April 15, the House may debate tax limitation legislation in the form of an amendment to the Constitution that would require a 2/3 majority vote of both the House and Senate for any legislation to increase taxes.

h. On April 19, the Senate Appropriations Treasury, Postal and General Government Subcommittee has scheduled a hearing on FY'98 appropriations for the IRS. Deputy Secretary Summers will be testifying. The Administration's five-point plan to restructure the IRS will come up at this hearing.

i. Most Members of Congress, other than the appropriators, are unaware of the IRS issues, except for those matters brought to their attention by constituents. The Minority Staff Director of the Ways and Means Committee has told us that not one Democratic member asked her about the March 17 speech.

j. We need support in the following areas in order of importance: appropriators (their legislative packages will move sooner and are more likely to be enacted this year); Ways and Means and Finance (the Commission report will be immediately referred to these committees for action); Leadership (we could face a floor fight at any time).

k. The Secretary and Deputy Secretary need to meet with and/or talk to targeted Members of Congress over the next month. I have consulted with Legislative Affairs and we would recommend the following:

    i. The Secretary should visit the following Members of Congress:
    (1) Senator Robert Byrd
    (2) Senator Ted Stevens
    (3) Senator Tom Daschle

(4) Senator Robert Kerrey and Rep. Rob Portman (meeting held March 11; next meeting should be when the Administration's tax simplification package is ready to be discussed)
(5) Minority Leader Richard Gephardt (Secretary's office has already requested a meeting)

ii. The Secretary should call Senator Moniyhan after his meeting with Senator Kerrey and Rep. Portman.

iii. The Deputy Secretary should call or visit the following Democrats on the House and Senate Treasury Subcommittees of Appropriations as his schedule permits:
(1) Senator Herb Kohl (meeting scheduled for April 19)
(2) Senator Barbara Mikulski
(3) Rep. Steny Hoyer
(4) Rep. Carrie Meek
(5) Rep. David Price

iv. The Deputy Secretary should call or visit the following Republicans on the House and Senate Treasury Subcommittees of Appropriations as his schedule permits:
(1) Senator Ben Nighthorse-Campbell (meeting scheduled for April 19; has already had a meeting with the Secretary)
(2) Senator Richard Shelby
(3) Rep. Jim Kolbe (meeting held Feb. 27; call every time there is a significant event)
(5) Rep. Frank Wolfe
(6) Rep. Ernest Istook
(7) Rep. Michael Forbes (meeting held Feb. 26)

v. The Deputy Secretary should call the Ranking Member of the House Ways and Means Committee[2]/and the following Democrats on the House Ways and Means Oversight Subcommittee as his schedule permits:
(1) Rep. Charles Rangel
(2) Rep. Bill Coyne (Ranking Member of the Oversight Subcommittee and a Commissioner, meeting held March 6)
(3) Rep. Gerald Klezka
(4) Rep. John Tanner
(5) Rep. Karen Thurman
(6) The Deputy Secretary should visit Rep. Nancy Johnson,

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[2]/ On April 10, the Secretary is scheduled to meet with the Democratic Members of the House Ways and Means Committee to discuss the Administration's FY '98 budget. The Secretary could take this opportunity to discuss briefly the Administration's five point plan for restructuring the IRS.

Chairwoman of the Ways and Means Oversight Subcommittee.

vii. The Deputy Secretary should continue to call or visit members of the Senate Finance Committee, including in particular Senator Charles Grassley, who is a member of the Commission. (meeting held on April 18)

k. The Secretary and Deputy Secretary should mention the Administration's five-point plan to restructure the IRS whenever they meet with a Member of Congress.

8. **Anchor Events**

a. To pull the strategy together we need deadlines and goals. Events tend to impose this discipline and give focus to a strategy. In the coming months between now and June 30 when the IRS Restructuring Commission will produce its report, we should consider the following events (in addition to the planned IRS event, IRS Commissioners lunch and CEO meeting):

i. Roll out of the executive directive or order establishing the reconstituted MMB;
ii. Roll out of our simplification package;
iii. Naming of the "blue ribbon commission" to advise the Secretary;
iv. Roll out of our legislation incorporating our proposals for flexibilities and budget reform;
v. Roll out of our electronic filing strategy;
vi. Roll out of the new commissioner; and
vii. Announcement of a successful filing season.

b. There are undoubtedly other ideas. For instance, as stated above, we need to have a series of events with IRS employees. However, these seven events will ensure that we stay on track and will provide a focus to our substantive, stakeholder, media and Congressional strategies.

Attachment A: Members of the Treasury Task Forces on IRS Issues
Attachment B: List of the Members of the IRS Restructuring Commission

Attachment A

Members of the Treasury Task Forces on IRS Issues (Proposed)

Roll Out Task Force
Ed Knight -- co-chair
Sheryl Sandberg -- co-chair
Bob Bean
Bob Boorstein
Joyce Carrier
Paul Clermont
Alan Cohen
Sarah Fordney
Matt Gorman
Scott Gould
Ken Krupsky
Ben Nye
Emily Mao
Bill Murphy
Linda Robertson
Howard Schloss
Ken Schmalzbach
Michelle Smith
Jason Solomon

Budget Task Force
Alan Cohen - -- chair
Tom Andretta (IRS)
Carl Moravitz
Randy Sim
Kathleen Turco (OMB)

Flexibilities Task Force
Michael Froman - chair
Donna Beecher (OMB)
John Binion (IRS)
Paul Clermont
Mike Dolan (IRS)
Joyce Edwards (OMB)
Therese Faller

March 28, 1997

Rochelle Granat
Scott Gould
Dorris Hausser (OMB)
Ray Kogut (OMB)
Dave Mader (IRS)
Bob Miller
John Murphy
Frank Padalino
Greg Rothwell (IRS)
Sheryl Sandberg
Bob Welch
Greg Woods (NPR)

Governance Task Force
Ken Schmalzbach -- chair
Paul Clermont
Mike Dolan (IRS)
Ken Krupsky
Dave Mader (IRS)
Robert Miller
Bill Murphy
Mike Paup (IRS)

Restructuring Commission Task Force
Ed Knight -- chair
Bob Boorstein
Stu Brown (IRS)
Mike Froman
Matt Gorman
Rochelle Granat
Frank Keith (IRS)
Caroline Krass
Ken Krupsky
Emily Mao
Bill Murphy
Mike Paup (IRS)
Chris Rizek
Sheryl Sandberg

Howard Schloss
Ken Schmalzbach
Jason Solomon
Sue Sotiel (IRS)
Liz Wagner (IRS)

Drafting Committee
Ken Schmalzbach - chair
Paul Clermont
Eleni Constantine
Beverly Dale
Scott Gould
Rochelle Granat
Bob Humphries
Karen Keller
Ed Knight
Dave Mader (IRS)
Robert Miller
Carl Moravitz
Bill Murphy
Judy Shephard (IRS)
Randy Sim

Attachment B

National Commission to Restructure the IRS

1.) Senator Bob Kerrey (D-NE)
Co-Chairman

2.) Rep. J. Robert Portman (R-OH)
Co-Chairman

3.) Mr. Ernest J. Dronenberg, Jr.
Member, California State Board of Equalization
Appointed by Speaker Gingrich

4.) Senator Charles Grassley (R-IO)
Appointed by Senator Dole

5.) Mr. Fred Goldberg
Former IRS Commissioner
Skadden, Arps, Slate, Meagher and Flom
Appointed by Senator Daschle

6.) Mr. Gerry Harkins
General Manager, Southern Pan Services Co.
Appointed by Speaker Gingrich

*7.) Mr. Larry Irving, Jr.
Assistant Secretary for Communications and Information, Department of Commerce
Appointed by President Clinton

* 8.) Mr. Ed Knight
General Counsel, Department of Treasury
Appointed by President Clinton

9.) Mr. J. Fred Kubick
Baird, Kurtz and Dobson
Appointed by Senator Dole

10.) Mr. David Keating
Executive Vice President, National Taxpayers Union (NTPU)
Appointed by Senator Dole

Attachment B

11.) Rep. Bill Coyne (D-PA) - leaning
Appointed by Minority Leader Gephardt

12.) Mr. Mark McConaghy - leaning
National Director, National Tax Services, Price Waterhouse
Appointed by Senator Dole

13.) Mr. George Newstrom - leaning
Corporate Vice-President, EDS
Appointed by Minority Leader Gephardt

14.) Mr. Grover Norquist
President, Americans for Tax Reform
Appointed by Speaker Gingrich

15.) Mr. Robert Tobias - leaning
President, National Treasury Employees Union (NTEU)
Appointed by President Clinton

16.) Mr. Josh Weston
CEO, Automated Data Processing, Inc. (ADP)
Appointed by President Clinton

* 17.) Mr. James W. Wetzler
Deloitte & Touche
Appointed by President Clinton

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Edward S. Knight to Secretary Rubib; re: Potential Legislative Routes for IRS Reform Measures (5 pages)	05/06/97	P5

This marker identifies the original location of the withdrawn item listed above. For a complete list of items withdrawn from this folder, see the Withdrawal/Redaction Sheet at the front of the folder.

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P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advise between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

1997-SE-005200

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

May 14, 1997

The Honorable Ben Nighthorse Cambell
Chairman
Subcommittee on Treasury, Postal Service and General Government
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Pursuant to the requirements of the 1997 Treasury Department Appropriations Act (Public Law 104-208), I am transmitting copies of the IRS Modernization Blueprint. This Blueprint outlines a plan for updating the IRS computer systems in order to provide superior service to the taxpayer, to improve operational efficiency, and to increase compliance with the law.

The Blueprint is based on the specific business needs of the IRS and integrates those needs with a functional and technical systems architecture and a project sequencing plan. Last year, Secretary Rubin and I promised to take a sharp turn in the systems modernization program at the IRS. This Blueprint represents one very significant step in our pursuit of effective technology modernization.

We are also transmitting to you a Request for Comments -- a document that will invite input from the private sector and begin a process of competitive bidding for the hiring of a Prime Contractor to take responsibility for building the modernized tax system. This is the first comprehensive attempt to form a strategic partnership with private industry in order to solve past problems and ensure that the IRS is flexible for the future. It is a new way of doing business at the IRS.

In developing these documents, we have strived to make certain that the results are logical, prudent, cost-effective and achievable. These documents call for:

√ Hiring a Prime Contractor through competitive bidding among private sector firms, and using performance incentives to get the best deal possible for the taxpayers. As you know, this is a major change from the prior Tax Systems Modernization approach.

√ Using centralized, mainframe-based systems to protect taxpayer privacy and minimize cost, while enabling IRS customer service and compliance personnel to access more accurate and timely information. Improving system security is a top priority, as is improving IRS productivity.

√ Protecting the ability to collect revenue. Our tax filing seasons have been very successful in the last few years, and their operations will not be jeopardized as we modernize under the Blueprint.

√ Developing a set of systems that are effectively linked with each other. When the Blueprint is implemented, for example, IRS employees who now have to check five to nine different terminals to get information for taxpayers will be able to retrieve data from a single terminal.

The Modernization Management Board reviewed and approved the Blueprint and the Request for Comment earlier this month. Taken together, these documents form the basis for modernizing IRS technology. They outline the first steps to solving the technological problems at the IRS, but they are essential to overcoming problems which have developed over many years and developing flexible systems for the future. During the next few months, we will produce more detailed business plans that will provide Congress and the Treasury with specific analyses of costs and benefits.

Art Gross, the IRS Chief Information Officer, is in the process of providing technical briefings for your staff. In the meantime the Secretary and I would be delighted to discuss this program with you at any time.

Sincerely,

Lawrence H. Summers

cc: Chairman Stevens

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

May 14, 1997

The Honorable Herb Kohl
Ranking Member
Subcommittee on Treasury, Postal Service and General Government
Committee on Appropriations
United States Senate
Washington, D.C. 20510

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Sincerely,

Lawrence H. Summers

cc: Senator Bird

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

The Honorable Steny H. Hoyer
Ranking Member
Subcommittee on Treasury, Postal Service and General Government
Committee on Appropriations
U. S. House of Representatives
Washington, D.C. 20515

Dear Mr. Hoyer:

Pursuant to the requirements of the 1997 Treasury Department Appropriations Act (Public Law 104-208), I am transmitting copies of the IRS Modernization Blueprint. This Blueprint outlines a plan for updating the IRS computer systems in order to provide superior service to the taxpayer, to improve operational efficiency, and to increase compliance with the law.

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Sincerely,

Lawrence H. Summers

cc: Congressman Obey

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

The Honorable Jim Kolbe
Chairman
Subcommittee on Treasury, Postal Service and General Government
Committee on Appropriations
U. S. House of Representatives
Washington, D.C. 20515

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Sincerely,

Lawrence H. Summers

cc: Chairman Livingston