Performance Measures for The New IRS

C. Eugene Steuerle

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In a recent column on management in *Governing Magazine* (May 1998), Katherine Barrett and Richard Greene point to their assessment a few years ago that the IRS was "a model of good government management." They now conclude they had been in error.

Most troubling, they found, was the IRS's "simplistic dependence upon performance measurements." The IRS, in other words, put too much emphasis on collection rates as a measure of success. Barrett and Greene basically conclude that the IRS's failure came from managing one thing too well. They cite Harry Hatry of the Urban Institute: "Sometimes the measure is a perfectly good one. But it is a mistake to use it without other balancing measures." Obviously, Congress and the administration came to the same conclusion and reinforced their views with legislation and internal Treasury efforts to restructure the IRS, along with the appointment of a commissioner whose expertise was in information systems and management, not tax law and accounting.

Lest the entire blame be put on the IRS, however, it should be remembered that during much of the 1980s and 1990s extraordinary pressure was put on the agency to raise revenues through compliance efforts. The large deficits of those times led to numerous demands from both the Executive Branch and Congress to strengthen enforcement efforts and to attack the underground economy. Elected officials hoped that such efforts would reduce the amount of tax increases or expenditure cuts required to meet budget targets.

I distinctly remember threats to cut off funding for IRS functions, such as taxpayer service, simply so those resources could be spent on enforcement. Meanwhile, the IRS had already been developing an internal dynamic where career advancement was more and more associated with enforcement rather than other service functions. An analogy can be made with the military during periods when it stresses advancement for line, not support, positions. Outside pressure, therefore, encouraged the IRS to lean in a direction toward which it already had some natural proclivity.

No one measure of success and no one performance measure will ever be adequate for an organization as complex as the IRS, nor should any set of measures remain static over time. Despite its new emphasis, the IRS can no more measure its future success solely by the speed with which it adopts new computer systems or the number of questions from taxpayers it gets right than it could measure its past success by the amount of revenues from compliance efforts. Not that those measures shouldn't be used, they simply must be placed in their proper perspective.

What, then, might be some measures of performance or success for the new IRS? If balance is required, how can it be achieved? Here are a few practical suggestions, which by no means are meant to be complete.

One set of performance measures for the new IRS obviously must relate to customer satisfaction. Having basically adopted customer service as its new motto, the IRS must now go out and figure out some way to measure how it is doing. The task is not easy. It is much more difficult for the IRS to measure customer satisfaction than it is for a private company. A customer in the private market generally exchanges money for a good or service if he anticipates that its value will equal or exceed its purchasing price. Hence, through the very act of voluntarily purchasing the good or service, the customer indicates that he expects satisfaction, or else the purchase would never have been made in the first place. It is only when expectations are dashed—the product turns out to be no good or the company does not back up the product with adequate service—that satisfaction ratings fall below what was expected at purchase time.

The IRS starts out with no such voluntary purchase of its services. It cannot expect to receive satisfaction ratings of 100 percent from customers who are mandated by Congress to make use of its services. Similarly, we don't expect criminals to give high satisfaction ratings to the FBI, nor to those who drive recklessly to love the traffic cop. We do expect, however, to be protected by law enforcement agencies with a minimum of harassment.

The IRS still can check out its performance against the perceptions of the population. To achieve that goal, it needs to divide its "customers" into at least four groups: those who are believed to be compliant with the tax laws, those who turn out to be compliant but who go through a stage where they are contacted by the IRS for potential violation, those who are noncompliant but cooperative once caught, and those who are noncompliant and noncooperative.

I have no set target level of satisfaction for each group, but the IRS can monitor results over time to see how each of those groups responds to interaction with tax administration. Often individual compliments or complaints will be more important for assessing practices than some average rating.

Given the amount of reorganization now taking place at the IRS, the agency also needs to create some internal measures to track how well it is doing. Like any organization of its type, the IRS needs to maintain, develop, or enhance an esprit de corps and a sense of mission among its employees. No one probably knows better how well the organization is faring than the employees themselves. Among the many internal measures worth attention is the job satisfaction of the employees—whether they believe they are performing an important public function, how well other parts of the organization respond to their requests for assistance in their tasks, and whether they sense the public is being served well.

With renewed emphasis on computers and information systems, an especially telling piece of information would be the assessments of internal computer scientists and other computer personnel on the quality of equipment and software they are using and whether the tools they have are adequate to help them perform their mission. When I wrote a book on the IRS over a decade ago, it was easy to detect that IRS was losing what few top-notch programmers it had and was having great trouble attracting new ones because of its archaic equipment.

Many computer problems—indeed, many organizational problems—stem more from the lack of bottom-up solutions than from poor top-down guidance. If the IRS is ever really going to solve its computer problems, it is going to have to have some top-notch programmers who are excited about what they are doing and certain that they are not becoming obsolete in their profession because they are working on old equipment and using outdated computer languages.

Some problems of the IRS will probably be solved by contracting out work. However, this only places a new set of demands on performance measurement. The IRS must develop new standards to judge the success of contractors and of its own contracting procedures. IRS management must know what they are buying and why, and develop ways of measuring the potential competitiveness of alternatives.

Another measure I suggest for the IRS is a list of the hardest-to-enforce provisions and what successes it achieves over time in dealing with them. This is a tough political area because many solutions are not internal to the IRS but rather legislative. And legislation is not solely or even primarily under the purview of the IRS. Instead, the agency must defer to both Treasury and the Congress. Historically, this has put the IRS on the spot.

Because of the lack of full control, it has tended to downplay compliance problems, whether of its own making or created through legislation. When the IRS hides its worst problems, however, it almost always ends up suffering the blame—fairly or not—when those problems are finally brought to light.

No matter how authority is shared, it is the IRS that has the responsibility for collecting the compliance data and keeping score. It must pro-actively seek help, legislative or otherwise, when no internal administrative reform appears to be able to deal with major compliance problems.

Measuring the satisfaction of taxpayers, the sense of mission of employees, the competitiveness of contractors, and the successful reduction in high noncompliance and error rates are only some of the many measures the IRS needs to use. In all likelihood, some have been developed already, although not given enough attention in the past. Not all of these are performance measures either, but they provide a much broader basis for assessing the success of tax administration at the IRS than the amount of compliance revenue picked up.

[Note: If you would like to suggest your own performance and success measures for the IRS, please submit them to us. We will reprint them in our letters to the editor feature.]

Other Publications by the Authors

- C. Eugene Steuerle