TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Implementation of Fiscal Year 2013 Sequestration Budget Reductions

June 12, 2014

Reference Number: 2014-10-025

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IMPLEMENTATION OF FISCAL YEAR 2013 SEQUESTRATION BUDGET REDUCTIONS

Highlights

Final Report issued on June 12, 2014

Highlights of Reference Number: 2014-10-025 to the Internal Revenue Service Deputy Commissioner for Operations Support.

IMPACT ON TAXPAYERS

Sequestration is a process of automatic, largely across-the-board spending reductions required by law to meet or enforce certain budget policy goals. On March 1, 2013, the President issued a sequestration order reducing budgetary resources across the Federal Government for the remainder of Fiscal Year (FY) 2013 in order to reduce the Federal budget deficit.

WHY TIGTA DID THE AUDIT

Our objective was to evaluate the process used to allocate the required sequestration reductions in the IRS's FY 2013 budget.

WHAT TIGTA FOUND

Overall, the IRS generally took reasonable steps to plan for the required sequestration spending reductions in its FY 2013 budget, and the IRS monitored the status of those reductions. The IRS was required to submit an operating plan within 30 days of enactment of the annual appropriations legislation.

Our analysis of the IRS's year-end budget for FY 2013 determined that the IRS achieved the overall savings it planned in each of its operating appropriations. However, because savings achieved by cost area varied widely from budgeted amounts, the IRS needed to significantly revise its post-sequestration budget. As part of this revision, funds from cost areas with greater than planned savings were reallocated to other cost areas. The IRS also reduced its planned furlough days from seven days to three days.

In addition, implementation of the mandated sequestration cuts, coupled with a trend of lower budgets, reduced staffing, and the loss of supplementary funding for the implementation of the Patient Protection and Affordable Care Act of 2010, collectively affected the IRS's ability to effectively deliver its priority program areas, including customer service and enforcement activities in FY 2013.

For example, in FY 2013, IRS customer service representatives provided a Level of Service to taxpayers of 61 percent compared to 68 percent in FY 2012. In addition, examinations of individual taxpayers declined more than five percent in FY 2013 compared to FY 2012 examinations. Collection activities initiated by the IRS, such as taxpayer liens, levies, and property seizures, declined by approximately 33 percent.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations as a result of the work performed during this review. However, key IRS officials reviewed this report prior to its issuance and agreed with the facts and conclusions presented.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 12, 2014

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT

FROM: Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Implementation of Fiscal Year 2013 Sequestration Budget Reductions (Audit # 201310030)

This report presents the results of our review of the Internal Revenue Service's (IRS) implementation of Fiscal Year 2013 sequestration budget reductions. The overall objective of this review was to evaluate the process used to allocate the required sequestration reductions in the IRS's Fiscal Year 2013 budget. This audit is included in our Fiscal Year 2014 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

The Treasury Inspector General for Tax Administration made no recommendations as a result of the work performed during this review. However, key IRS officials reviewed this report prior to its issuance and agreed with the facts and conclusions presented.

Copies of this report are also being sent to the IRS managers affected by the report conclusions. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

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Abbreviations

ACA	Patient Protection and Affordable Care Act of 2010
CFO	Chief Financial Officer
FTE	Full-Time Equivalent
FY	Fiscal Year
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration

Background

The Internal Revenue Service (IRS) is the largest bureau of the Department of the Treasury and has primary responsibility for administering the Federal tax system. The IRS's role is unique within the Federal Government in that it collects the revenue that funds the Government and administers the Nation's tax laws. It also works to protect taxpayer dollars by detecting and preventing the growing risk of fraudulent tax refunds and other improper payments.

The IRS has four appropriations, of which Taxpayer Services, Enforcement, and Operations Support are the three largest. The Taxpayer Services appropriation provides funding for programs that focus on helping taxpayers understand and meet their tax obligations, while the Enforcement appropriation supports the IRS's examination and collection efforts. The Operations Support appropriation provides funding for functions that are essential to the overall operation of the IRS, such as infrastructure and information services. Finally, the Business Systems Modernization appropriation provides funding for the development of new tax administration systems and investments in electronic filing.

The Balanced Budget and Emergency Deficit Control Act, as amended by the Budget Control Act of 2011,[1] required the Office of Management and Budget to calculate and the President to order on March 1, 2013, reductions in budgetary resources. These spending reductions applied evenly to all non-exempt appropriations within applicable Federal agencies, including the IRS.

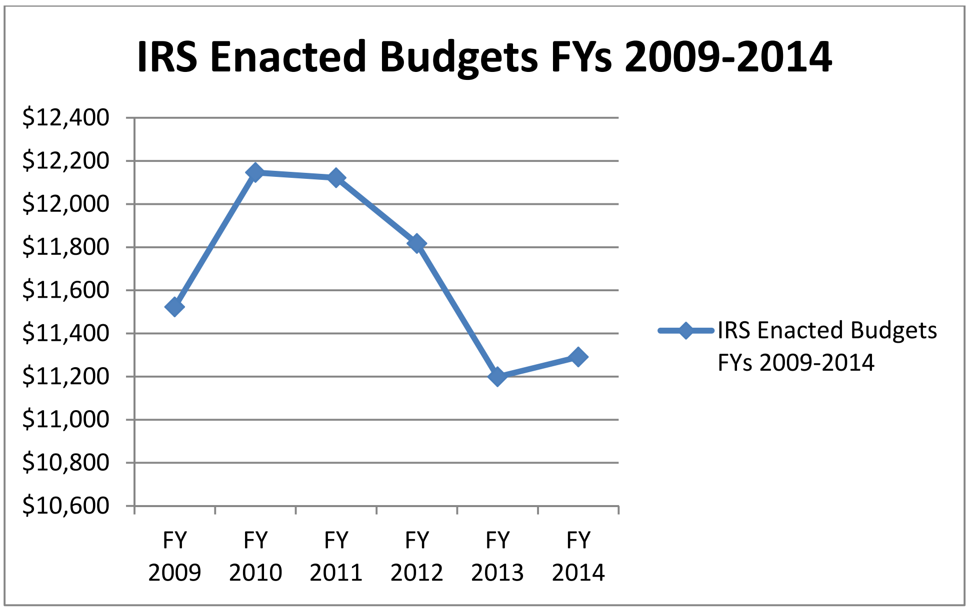
As a result of the Balanced Budget and Emergency Deficit Control Act, the IRS was required to reduce planned spending from its appropriations by $594 million for Fiscal Year (FY)[2] 2013. The IRS was also required in FY 2013 to reduce planned spending from its appropriations by $24 million as the result of an across-the-board rescission. These funding reductions represent a total decrease of $618 million to IRS's budget of $11.8 billion, resulting in a revised annual budget of $11.2 billion.

Overall, the IRS's FY 2013 budget was almost $1 billion less than its FY 2010 budget as a result of the FY 2013 rescission and sequestration[3] combined with declines in the IRS's FYs 2011 and 2012 budgets. The IRS's FY 2014 budget is comparable to its FY 2013 funding, at approximately $11.2 billion. However, in FY 2014, Congress granted the IRS an additional $92 million solely to improve the delivery of services to taxpayers, to improve the identification and prevention of refund fraud and identity theft, and to address international and offshore

[1] Pub. L. No. 112-25, 125 Stat. 240 (2011).
[2] A 12-consecutive-month period ending on the last day of any month. The Federal Government's fiscal year begins on October 1 and ends on September 30.
[3] Sequestration is a process of automatic, largely across-the-board spending reductions to meet or enforce certain budget policy goals.

compliance issues, which represents a small increase in the IRS's budget from FY 2013. Subject to statutory provisions, these additional funds may be transferred by the IRS for use into its Enforcement, Operations Support, and/or Taxpayer Services appropriations and are available for use through FY 2015. Figure 1 illustrates a year-by-year comparison of the IRS's budgets for the period FY 2009 through FY 2014.

Figure 1: IRS Enacted Budgets for FYs 2009 Through 2014 (in Millions)



Source: The IRS's FYs 2011, 2013, and 2015 Budget Request, Congressional Budget Submission.

This review was performed at the IRS offices of the Chief Financial Officer (CFO), Human Capital Officer, and Small Business/Self-Employed Division in Washington, D.C., and with information obtained from the Wage and Investment Division, Agency-Wide Shared Services, the Office of Procurement, the Office of Physical Security and Emergency Preparedness, the Affordable Care Act Office, and the Office of the Chief Technology Officer during the period August 2013 through March 2014. This review focused on the budgetary cuts in the four largest cost areas the IRS originally planned to reduce as a result of the $618 million budget reduction. These four areas combined account for approximately 87 percent of the $618 million.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Sequestration Spending Cuts Were Proportionally Allocated Among the Internal Revenue Service's Four Operating Appropriations

Overall, the IRS generally took reasonable steps to plan for the required sequestration spending reductions in its FY 2013 budget and monitored the status of those reductions. The CFO was responsible for ensuring that the IRS reduced its appropriated budget by the five percent requirement stipulated under sequestration and monitoring the implementation of these cuts through the remainder of the fiscal year.

Management of the FY 2013 reduced budget

In order to implement the $618 million budget reduction in FY 2013 required by the sequestration and rescission, the IRS developed a modified budget with reduced spending expectations proportionally allocated among its four operating appropriations as required by the Balanced Budget and Emergency Deficit Control Act. In April 2013, the IRS requested and subsequently received approval from Congress to transfer up to $75 million from its Enforcement appropriation to its Operations Support and Taxpayer Services appropriations. The IRS requested this transfer to allow it to avoid the disproportionate furloughing of employees dependent upon the appropriation from which they were funded.

In addition, during FY 2013, the IRS was responsible for funding implementation of the Patient Protection and Affordable Care Act of 2010 (hereafter referred to as the ACA)[4] from its own appropriations. Between FYs 2010 and 2012, the IRS received $488 million from the Health Insurance Reform Implementation Fund to implement ACA provisions. The Health Insurance Reform Implementation Fund is administered by the Department of Health and Human Services. ACA implementation expenses totaling approximately $284 million in FY 2013 were funded from IRS appropriations, thus further reducing the amount of funds the IRS had available for other operations. The Health Care and Education Reconciliation Act of 2010[5] that made amendments to the ACA contains an extensive array of tax law changes that, absent added funding, will present budgetary challenges for the IRS in the coming years. The IRS stated that it did not receive any additional funding from the Health Insurance Reform Implementation Fund for implementation of the ACA in FY 2013.

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[4] Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered section of the U.S. Code).
[5] Pub. L. No. 111-152, 124 Stat. 1029.

In order to assist it in implementing the required sequestration reductions in its FY 2013 budget, the IRS developed general estimates of the potential impact of reduced funding on nine of its priority program areas[6] and also broadly evaluated the risks of planned cuts to the delivery of its priority Information Technology initiatives. The CFO also worked with the various IRS business units to quickly develop a budget for each business unit that took into account the necessary cost reductions. The IRS was required to submit an operating plan within 30 days of the enactment of the annual appropriations legislation.

Budget monitoring was accomplished via the use of status reports to track spending. Figure 2 illustrates the impact of the rescission, sequestration, and the up to $75 million transfer on the IRS's budget.

Figure 2: FY 2013 IRS Budget Reduction by Appropriation (in Thousands)

Appropriation	FY 2013 Budget Pre-Rescission and Sequestration	Total FY 2013 Budget Reduction (Sequestration and Rescission)	Inter-Appropriation Transfer	FY 2013 Operating Plan
Taxpayer Services	$2,239,703	($117,150)	$13,000	$2,135,553
Enforcement	$5,299,367	($277,189)	($73,000)	$4,949,178
Operations Support	$3,947,416	($206,474)	$60,000	$3,800,942
Business Systems Modernization	$330,210	($17,272)	None	$312,938
Total	**$11,816,696**	**($618,084)**	**$0**	**$11,198,612**

Source: IRS FY 2013 Sequestration Operating Plan and IRS FY 2015 Budget Request Congressional Budget Submission. Note: Figures subject to rounding.

Analysis of FY 2013 sequestration required, planned, and actual cost savings by selected budget categories

The four largest cost areas the IRS originally planned to reduce as a result of the $618 million budget reduction were contractor advisory and assistance services ($231 million)

[6] These program areas include Pre-Filing Taxpayer Assistance and Education, Filing and Account Services, Investigations, Examinations and Collections, Regulatory, Infrastructure, Shared Services and Support, Information Services, and Business Systems Modernization.

employee compensation and awards ($216 million), travel ($49 million), and equipment ($41 million), which combined accounted for approximately $537 million (87 percent) of the $618 million. However, savings actually achieved in these four areas varied widely from original budgeted amounts. Figure 3 describes the reductions the IRS planned to achieve in its original projections and the actual amount of the IRS's budget reductions on the four selected budget categories.

Figure 3: IRS Planned and Actual FY 2013 Year-End Budget Reductions for Selected Cost Areas (in Millions)

IRS Cost Area	Description	Planned Budget Reductions	Actual Budget Reductions	Additional or (Reduced) Savings
Personnel Compensation	Includes costs related to salaries for full-time and part-time employees.	$216	$276	$60
Travel	Includes costs of travel related to training and operational activities.	$49	$92	$43
Equipment	Includes costs of purchases of information technology software and hardware and telecommunication services.	$41	$50	$9
Advisory and Assistance Services	Includes costs of professional support services, studies, and technical services procured from non-Federal sources or other units within the Federal Government.	$231	$46	($185)
Total		**$537**	**$464**	**($73)**

Sources: Financial Management Codes Handbook, IRS FY 2013 Sequestration Operating Plan, and IRS Integrated Financial System.

Personnel compensation

The IRS planned to fund 89,858 full-time equivalent (FTE) employees[7] before budget reductions and 86,381 FTEs following the sequestration and rescission reductions. This represents an overall reduction of more than 3,000 planned FTEs which were not filled due to the hiring freeze the IRS has had in place (with very limited exceptions) since December 2010. As IRS budgets have decreased, so have the number of employees working in the IRS. In August 2013, the Treasury Inspector General for Tax Administration (TIGTA) reported[8] that since 2010, approximately 8,000 full-time positions have been lost, including approximately 5,000 from front-line personnel. The IRS ended FY 2012 with 89,551 employees, and ended FY 2013 with 83,613 employees. In addition, the IRS implemented three employee furlough days in FY 2013.[9]

Personnel compensation costs were also reduced by the elimination of performance awards for bargaining unit employees in FY 2013. The Office of Management and Budget issued a Memorandum on February 27, 2013, directing Executive agencies to discontinue all discretionary monetary awards unless such awards were legally required. On March 25, 2013, the IRS informed the National Treasury Employee Union that bargaining unit employee performance awards, calculated to cost $76 million, would not be paid in FY 2013. However, in January 2014, the IRS decided to distribute reduced performance awards to bargaining unit employees for FY 2013 performance. This decision was based on negotiations with the IRS employee union and includes a monetary award pool of $43 million, lower than the originally calculated $76 million. The IRS also implemented three employee furlough days in FY 2013. The IRS calculated that salary savings attributable to the three furlough days totaled approximately $72 million with an additional $16 million in savings attributable to employee benefits. Overall, the IRS's budgeted savings in personnel compensation increased from a planned $216 million to an actual $276 million at the end of FY 2013.

Travel

Although the IRS indicated that it planned to save $49 million (8 percent) of its required $618 million in total savings through reductions in travel costs, it actually achieved a budget reduction of $92 million in travel costs in FY 2013. As a result, travel cost savings increased from a projected 8 percent to 15 percent of the required reduction.

Significant savings occurred in the areas of training travel (a reduction from $51 million to $12 million) and operational travel (a reduction from $116 million to $64 million). The IRS

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[7] A measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For FY 2013, one FTE was equal to 2,088 staff hours.
[8] TIGTA, Ref. No. 2013-30-078, *Trends in Compliance Activities Through Fiscal Year 2012* p. 4 (Aug. 2013).
[9] The IRS originally planned to implement up to seven furlough days in FY 2013; however, this number was subsequently reduced to three days.

stated that training-related travel savings occurred through an increase in the use of virtual training opportunities, reduced employee travel to training sites, and a revised approval process for IRS employees attending training courses. IRS management stated that some operational travel savings came from reduced managerial visits to field offices. Additionally, the IRS implemented new guidelines aimed at better controlling executive travel. These new guidelines require executives to receive approval from the IRS Commissioner to travel more than 75 nights per fiscal year. A July 2013 TIGTA report[10] found that in FY 2012, the IRS had 65 executives who traveled for 75 nights or more. In FY 2013, the IRS stated that only eight executives traveled 75 nights or more.

Equipment

Planned savings in costs for equipment purchases were originally expected to be $41 million (7 percent) of the $618 million FY 2013 budget reduction. Again, the IRS was able to achieve additional budgeted savings in equipment costs for a total equipment costs reduction of $50 million, 8 percent of the $618 million reduction. Equipment cost savings are attributable primarily to the IRS's Information Technology function. Information Technology function officials stated that they reduced costs by delaying infrastructure and other acquisitions such as servers, routers, and cell phones.

Advisory and assistance services

Although the IRS originally planned to achieve $231 million (37 percent) of its required $618 million in total savings through reductions in advisory and assistance (contract) services such as management and professional support, studies, and technical services, its adjusted year-end budget actually indicated a savings of $46 million related to this area. As a result, cost savings decreased from a projected 37 percent of the total required reduction to 7 percent of the required reduction. This difference between the planned and actual cost savings occurred because, as the IRS achieved savings in other cost areas beyond what was originally budgeted, it was able to reprogram funds to support contracted and advisory services and reduce the amount of cuts in this area while still implementing the overall budget reduction required by the sequestration. The majority of FY 2013 funding relating to the advisory and assistance services cost area was designated for information technology contract spending.

Summary of total FY 2013 sequestration required, planned, and actual cost savings

Our overall analysis of the IRS's year-end budget for FY 2013 indicates that the IRS did achieve the overall savings of $618 million required by the sequestration as well as the total savings it

[10] TIGTA, Ref. No. 2013-IE-R007, *Analysis of Executive Travel Within the Internal Revenue Service* p. 6 (Jul. 2013).

planned in each of its operating appropriations. However, because savings achieved by cost area varied widely from budgeted amounts, the IRS needed to significantly revise its post-sequestration budget. As part of this revision, funds from cost areas with greater than planned savings were reallocated to other cost areas. The IRS also reduced its planned furlough days from seven days to three days. Appendix IV illustrates the total actual impact of the IRS's required budget reductions on all major spending categories.

Ultimately, the IRS ended FY 2013 with a balance of approximately $214 million in multi-year accounts relating primarily to information technology, Business Systems Modernization, and the Community Volunteer Income Tax Assistance matching grants program. These multi-year account funds are available for future use and can be used only for the purposes specified in the IRS's annual appropriation. For example, multi-year information technology funds can be used only for information technology support, Business Systems Modernization funding is specifically for capital asset acquisition of information technology systems, and multi-year matching grants funding is for tax return preparation assistance.

CFO management advised us that having significant balances of unspent multi-year funding is a normal business practice and, in an uncertain budget environment, is a critical tool to ensure sound financial management. These funds allow the IRS to have reasonable assurance that funds will be available in future years to complete multi-year projects.

The IRS also informed TIGTA that it spent approximately $284 million to implement the ACA in FY 2013. The IRS spent approximately $29 million less on ACA implementation activities in FY 2013 than originally expected. IRS management stated that this spending reduction occurred largely through reduced personnel costs. In addition, among the savings achieved by the IRS was a reduction in the area of physical security, totaling approximately $2 million from an initial budget of approximately $125 million. The IRS attributed these savings, in part, to program efficiencies and the increased use of risk analysis for expending funds. The IRS stated that building security was not reduced to achieve these savings.

Sequestration, Coupled With a Trend of Lower Budgets, Affected the Internal Revenue Service's Ability to Effectively Deliver Its Priority Program Areas

Implementation of the mandated sequestration cuts, coupled with a trend of lower budgets, reduced staffing, and the loss of supplementary funding for the implementation of the ACA, affected the IRS's ability to effectively deliver its priority program areas, including customer service and enforcement activities. Our analysis of select customer service and enforcement statistics indicates that the downward trend in these performance areas may continue.

Customer service trends

In FY 2013, IRS customer service representatives provided a Level of Service to taxpayers of 61 percent. The IRS's Level of Service is a measure of the relative success rate of taxpayers who call the IRS's 27 toll-free telephone lines seeking assistance from an assistor. The IRS's 61 percent Level of Service in FY 2013 compares unfavorably to its FY 2012 Level of Service of 68 percent. The IRS's Level of Service in FY 2013 was its lowest in the last five fiscal years. Figure 4 shows the IRS's Level of Service performance over the previous five fiscal years.

Figure 4: IRS Level of Service for FYs 2009 Through 2013

FY	2009	2010	2011	2012	2013
Level of Service	70%	74%	70%	68%	61%

Source: IRS FY 2013 Enforcement and Service Results.

In addition, the IRS's adjustments correspondence inventory notably increased in FY 2013. This correspondence includes taxpayers responding to notices informing them of proposed increases in their tax liability situations. The IRS had an increase of more than 7 percent of taxpayer correspondence in its adjustments inventory at the end of FY 2013.[11] Figure 5 shows the IRS's adjustments correspondence inventory over the previous five fiscal years.

Figure 5: IRS Adjustments Correspondence Inventory for FYs 2009 Through 2013

FY	2009	2010	2011	2012	2013
Ending Adjustments Correspondence Inventory	775,960	606,029	920,768	1,028,539	1,103,509

Source: IRS Joint Operations Center Weekly Enterprise Adjustments Inventory Report.

Enforcement trends

The IRS collected $53.3 billion in enforcement revenue[12] in FY 2013, which compares favorably to the $50.2 billion enforcement revenue the IRS collected in FY 2012. However, the IRS explained that $2.6 billion of the FY 2013 amount was related to a small number of cases in which revenue came in after appeals or litigation pertaining to cases worked in prior years. The IRS had originally expected this revenue to be accounted for in its FY 2012 collections. Figure 6 depicts the revenue collected from enforcement efforts during the previous five fiscal years.

[11] Adjustments inventory relates to taxpayer correspondence submitted in response to IRS proposals increasing the liability of the taxpayer. Additionally, 53 percent of the adjustments inventory correspondence was over-age at the end of FY 2013, compared to 48 percent over-age adjustments inventory at the end of FY 2012.

[12] Revenue collected through the IRS's major enforcement programs of Examination, Collection, or Automated Underreporter.

Figure 6: IRS Enforcement Revenue Collected for FYs 2009 Through 2013 (in Billions)

FY	2009	2010	2011	2012	2013
Enforcement Revenue	$48.9	$57.6	$55.2	$50.2	$53.3

Source: IRS FY 2013 Enforcement and Service Results.

Key examination and collection statistics also showed declines. For example, examinations of individual tax returns declined from 1,481,966 in FY 2012 to 1,404,931 in FY 2013, an approximate five percent decrease. Further, collection activities initiated by the IRS, such as taxpayer liens, levies, and property seizures declined from 3,669,663 in FY 2012 to 2,457,647 in FY 2013, an approximately 33 percent decrease. Figure 7 depicts examinations of individual tax returns from FY 2009 through FY 2013. Figure 8 depicts collection activities initiated by the IRS, such as taxpayer liens, levies, and property seizures from FY 2009 through FY 2013.

Figure 7: IRS Examinations of Individual Tax Returns for FYs 2009 Through 2013 (in Thousands)

FY	2009	2010	2011	2012	2013
Examinations	1,426	1,581	1,564	1,482	1,405

Source: IRS FY 2013 Enforcement and Service Results.

Figure 8: IRS Collection Enforcement Actions for FYs 2009 Through 2013 (in Thousands)

FY	2009	2010	2011	2012	2013
Enforcement Actions	4,444	4,704	4,792	3,670	2,458

Source: IRS FY 2013 Enforcement and Service Results.

Overall, IRS data show that funding has affected key customer service and enforcement efforts. With respect to sequestration oversight, the IRS monitored the implementation of the required budget cuts and made adjustments in instances of larger than initially planned savings. For example, furlough days were reduced from a planned seven days to the three actual days taken. Further, although the IRS did need to modify its post-sequestration budget, these modifications did not materially affect the overall allocation of the budget cuts among the four IRS operating appropriations.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the process used to allocate the required sequestration reductions in the IRS's FY 2013 budget. To accomplish our objective, we:

I. Determined the steps taken by the IRS to plan for the FY 2013 sequestration.[1]

   A. Reviewed relevant guidance, such as reports, regulations, and orders for compliance with the Balanced Budget and Emergency Deficit Control Act, as amended by the Budget Control Act of 2011.[2]

   B. Analyzed any guidance prepared by the CFO to assist IRS business units in allocating the required cuts.

   C. Analyzed any guidance prepared by the IRS business units regarding allocating the required cuts.

II. Determined the overall process used to allocate the required sequestration cuts in FY 2013.

   A. Reviewed the methodology used to allocate the cuts among the IRS's appropriations and programs/projects/activities.

   B. Evaluated how the labor-related personnel costs were calculated and allocated among IRS staff within each appropriation.

      1. Determined how the IRS allocated cuts in personnel costs among furloughs, reductions in authorized staffing levels, and/or other personnel cost-reducing actions.

      2. Evaluated the impact of the IRS's decision to suspend awards to IRS employees during FY 2013.

      3. Determined whether approval was received for the transfer of up to $75 million from the Enforcement appropriation to the Taxpayer Services and Operations Support appropriations and obtained supporting documentation.

   C. Evaluated how the cuts to selected non-personnel expenses were allocated within each budget appropriation.

[1] Sequestration is a process of automatic, largely across-the-board spending reductions to meet or enforce certain budget policy goals.
[2] Pub. L. No. 112-25, 125 Stat. 240 (2011).

1. Identified the impact of the budgetary cuts in equipment and advisory and assistance services.
2. Identified what types of travel, such as training or operational, the IRS cancelled as a result of the budgetary cut in travel.

III. Determined whether the IRS is monitoring the impact of reduced FY 2013 operating funds on its customer service and enforcement programs.

A. Reviewed the IRS's estimates of the impact of the sequestration on FY 2013 customer service and enforcement programs metrics.

B. Evaluated the IRS's efforts to monitor the impact of reduced FY 2013 operating funds on its customer service and enforcement programs, the ACA, and physical security.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's FY 2013 budget operating plan, Office of Management and Budget Memorandas related to Federal agency sequestration requirements, IRS internal planning documents relating to expectations for yearly spending, IRS Integrated Financial System budget reports, and congressional legislation granting the IRS spending authority. We evaluated these controls by interviewing management, reviewing the IRS's budget documents for conformance to initial estimates of FY 2013 spending and Office of Management and Budget sequestration requirements, and the IRS's adherence to congressional allowance for transfer authority.

Appendix II

Major Contributors to This Report

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
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Appendix III

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Appendix IV

Detailed Chart of Internal Revenue Service Fiscal Year 2013 Cost Area Spending (in Thousands)

IRS Cost Area	Brief Description	Planned Budget Reduction (A)	Actual Budget Reduction (B)
Total personnel compensation	Includes compensation such as salaries, overtime, and awards for employees.	$216,275	$275,528
Personnel Benefits	Benefits for currently employed personnel.	$29,960	$23,651
Benefits of former personnel	Benefits for former employees or their survivors.	$225	($5,202)
Travel	Travel and transportation costs of employees and other persons, while in an authorized travel status.	$48,893	$92,227
Transportation of things	The care of things while in process of being transported and other services incident to the transportation of things.	$2,404	$4,672
Rental payments to the General Services Administration	Payments to the General Services Administration for rental of space and rent related services.	$8,506	($2,704)
Rental payments to others	Payments to a non-Federal source for rental of space, land, and structures.	$177	$901
Communication, utilities, and miscellaneous charges	Payment for information technology, utilities, and miscellaneous charges.	$11,583	$39,292
Printing and reproduction	Printing and reproduction obtained from the private sector or from Federal entities.	$2,606	$4,703
Advisory and assistance services	Services acquired by contract including management and professional support, studies, and technical services.	$231,461	$46,056
Other services from non-Federal sources	Contractual services with non-Federal sources.	$847	$48,354

IRS Cost Area	Brief Description	Planned Budget Reduction (A)	Actual Budget Reduction (B)
Other goods and services from Federal sources	Purchases from other Federal Government agencies or accounts.	($1,234)	($9,122)
Operation and maintenance of facilities	Operation and maintenance of facilities.	$6,933	$7,822
Research and development contracts	Contracts for the conduct of research and development.	$0	$34
Medical Care	Payments to contractors for medical care.	$0	$457
Operation and maintenance of equipment	Operation, maintenance, repair, and storage of equipment,	$482	$20,129
Subsistence and support of persons	Contractual services for board and lodging.	$1,622	$2,480
Supplies and materials	Commodities	$8,016	$15,533
Equipment	Includes purchases of information technology software and hardware and telecommunication services.	$40,945	$49,929
Lands and structures	Purchase and improvement of land and structures.	$8,610	($3,120)
Grants, subsidies, and contributions	Includes payments to States, corporations, associations, and individuals.	$907	$657
Insurance claims and indemnities	Benefit payments from the social insurance and Federal retirement trust funds and payments for losses and claims.	($169)	$204
Unvouchered expenses	Charges that may be incurred lawfully for confidential purposes and are not subject to detailed vouchering or reporting.	($965)	$5,602
Total		**$618,084**	**$618,084**

Sources: Financial Management Codes Handbook, IRS FY 2013 Sequestration Operating Plan, and IRS Integrated Financial System.

Note: Numbers are rounded and may not total. Positive numbers in columns (A) and (B) represent budget reductions and negative numbers represent budget increases.