

## 4.4 PROCESSES AND STRUCTURE

### a. DECENTRALIZATION

ISSUE: WHAT PROCESSES AND FUNCTIONS WOULD BE DECENTRALIZED THE NEW SYSTEM AND WHAT EFFECT, IF ANY, COULD DECENTRALIZATION HAVE ON PRIVACY AND OTHER RIGHTS, ON CONFIDENTIALITY OF INFORMATION AND SECURITY OF THE SYSTEM?

#### SUMMARY

By creating ten regional service centers, each with its own data base of records about taxpayers residing within its boundaries, the TAS will be setting up what are essentially ten data banks — each with its own data base, central processing unit, remote terminals, and communications lines. While such decentralization is seen by IRS as offering important administrative and service-to-taxpayer advantages, the ten-bank arrangement raises possible problems with regard to civil liberties that may differ from those involved in one national data center with nationwide terminal access.

#### QUESTIONS

1. How will IRS control set rules of variations among the ten centers in the use they can make of individual data for purposes of audit, collection and levy?
2. In the interest of competition among centers there **may be some desire to** encourage local innovation, and yet not violate concepts of equity from one center to another. Will it be possible to define the predictable use of particular sets of data and to install boundaries so that violations of national rules can be detected and inquiries made as to the justification or lack of justification for such departures?

#### BACKGROUND

Despite the issuance of national guides and rules, there have been in the past significant deviations among local IRS offices in the way they use taxpayer return and investigative data. A leading example is the IGRS system, in which local variations involving intelligence operations were sharply

criticized by the Senate Select Committee on Intelligence and other groups for violating individual rights, as well as for failing to accomplish the proper goals that were envisioned by the IGRS system when originally initiated. Therefore, the question as to how the TAS will set national parameters and limits for the operation of its ten regional centers and how it will monitor, test, and supervise local variations becomes an important matter.

There may be a need to gather information for assessing whether adequate provisions are being made by IRS for the development of audit software, system-time for this function, supervisory personnel, and test costs to assure that there is proper uniformity among centers and fidelity to national operating rules. Recent disclosure of improper use of the FBI National Crime Information Files by local law enforcement offices to furnish data about insurance claimants improperly to insurance companies seeking data indicates how vital it is to have within data banks a system which will monitor level of use and types of inquiries.

## **b. ADMINISTRATIVE CENTRALIZATION**

ISSUE: WHAT PROCESSES AND FUNCTIONS AFFECTING INFORMATION POLICY AND INDIVIDUAL RIGHTS WOULD BE CENTRALIZED UNDER THE NEW SYSTEM? HOW MIGHT CENTRALIZING FORCES AFFECT THE OVERSIGHT OF SUCH PREVIOUSLY SEPARATED ACTIVITIES?

### **SUMMARY**

The installation of the TAS will bring certain centralizing forces and administrative changes to the IRS organization and might provide such a potential for other changes that, in the interest of public understanding of the system and in the interest of **accountability on privacy** and due process matters, there may be a need to identify these changes further.

While some of these questions have been raised in another context in the section of this report on "Consolidation," and "Organizational Change" they deserve emphasis in the context of a discussion of the internal functions and administrative separation of powers within IRS.

### **QUESTIONS**

1. What is being centralized under TAS? What activities are being or may be consolidated?
2. What intended or unintended impact may TAS have on the administrative division of powers?
3. Could TAS have the side-effect of contributing to a breakdown in separation of functions within IRS in a way that adversely affects accountability for protection of privacy, due process, equity and other principles desirable in the administrative process?
4. What safeguards will surround the national **directory** of files in Martinsburg, West Va.?
5. What are the implications for monitoring TAS programs by IRS, the Treasury Department, the Executive Office of the President, including OMB, by Congressional committees?

## BACKGROUND

The desirable capacities of the TAS, such as integration of a fragmented data base, and other centralizing forces set in motion by technological changes, may in such a large governmental system, affect the present functional, administrative, and political separation of some activities within the IRS in such a way that, without some new rules or reporting mechanisms, there might be an adverse affect on the exercise of effective accountability and Congressional oversight.

While a major feature sought under the new system is the decentralization of the files to meet the needs of regional and local managers, there will also be a centralization process at work involving integration of previously separated programs. A potential naturally exists for expanding such activities beyond those planned uses already identified.

In order to assure public and Congressional understanding of the ADP changes when they are installed, and in order to promote and preserve accountability in the system for matters affecting the privacy, due process, equity and other rights of taxpayers, it may be important to elaborate further for the record those changes in technical integration of the files and administrative consolidation which will be departures from previous ways of doing business. This may help to forestall any adverse side-effects on the quality of IRS relationships with taxpayers, with Congress, and with Executive branch personnel charged with monitoring the system.

For example, a major need cited by prospective users of TAS and one of the advantages claimed for the system is the ability to consolidate all activity for an individual taxpayer under one account. Taxpayer accounts in the Master File Processing System are now grouped by taxpayer characteristics such as business individuals, exempt organizations and others. They are stored and maintained as large master tape files, essentially separate from each other in handling and processing, with software designed for each file. Under the new concept, according to internal IRS documents, ADP will tie together transactions affecting taxable entities over an extended period, rather than treating each tax return as an individual transaction. This means business tax returns of sole proprietors, presently filed under employer identification numbers, would be consolidated with the taxpayer's individual tax return filed by social security number.

Another advantage sought under TAS is the ability to consolidate the Delinquent Account, Delinquent Investigation and Returns Compliance Programs. After appropriate notices are issued, the system will provide a profile of the taxpayer, a Taxpayer Compliance Profile (TCP) for field

investigations which will furnish to the Revenue Officer all pertinent information such as previous actions, balance due, return delinquency tax periods for which the taxpayer has a filing or payment responsibility. An updated profile will be issued each time a new delinquent tax period is established on the Master File. Presently, separate investigation notices may be issued for each return delinquency tax period. Among other results of this separation of action is the fact that more than one collection representative will contact the taxpayer and work on different phases of the case instead of having a consolidated record handled by one person.

### **c. ORGANIZATIONAL CHANGE**

**ISSUE: COULD THE NEW SYSTEM BRING ABOUT ORGANIZATIONAL CHANGES TO THE IRS WHICH MIGHT AFFECT ITS ABILITY TO CARRY OUT RESPONSIBILITIES FOR RESPECTING THE RIGHTS OF TAXPAYERS?**

#### **SUMMARY**

The installation and operation of a large sensitive information system like TAS requires a sophisticated management structure and may require drastic changes in personnel in positions of trust. If there are significant organizational changes in the functions to be performed, and in responsibilities, rights, and duties which may be exercised, there may be a need for assuring that IRS has developed plans in advance and considered the need for new rules to deal with those changes.

#### **QUESTIONS**

1. What preparations has IRS made to deal with any significant change to be wrought by TAS which might bear on privacy, due process, confidentiality, and security? What regulations are proposed?
2. How might TAS affect information relationships between IRS component offices?
3. How can Congress assure itself that the IRS has identified major organizational changes and is prepared to deal with them?
4. What kinds of decisions are being given to the computer under TAS which in the past have not been made by the computer at all or at least not on such a scale?
5. Is the taxpayer going to be denied a valuable paper trail which, under a slower, less efficient process, at least enabled the tracking of errors and the correction of records and which, with the help of investigative pressures, discovery processes, or Freedom of Information Act provisions helped to establish administrative responsibility for the courts and Congress? If so, how does the IRS propose to deal with this change?
6. What are the specific details of the new staff structure under TAS?

## BACKGROUND

Management problems under TAS will be quite different from those under the old system. Installation of a system of the size and sensitive nature as TAS involves actual and potential new relationships among internal IRS components who will use it. New staffing patterns are created. New competitive forces among offices and regions can be set in motion. The number of employees in a position of trust may be drastically altered.

In authorizing such a system Congress ought to be able to assure itself that the agency has anticipated problems of organizational change and that policy statements and rules have been drafted to meet them. As one panelist expressed it, the stakes are so important that taxpayers and Congress cannot afford to let the government rest its case on generalities that good things will happen. The agency ought to be able to say "here is the way our staff will be organized. Here, for instance, are job positions for security accountability; here are job positions at each administrative level for those controlling what goes into the system, how it is used, and who gets the information, and what programs are instituted. "

Concern was expressed that not enough such information was supplied about TAS to assure that the steps proposed by IRS for dealing with important changes which could affect privacy, due process, confidentiality, and security are not merely cosmetic but are substantive and are actually implemented. Congress ought to have more information as to how TAS will be staffed as an information system.

Questions of organizational change are basic to the issue of the total security of such an information system as TAS. In the opinion of computer experts~ no system today is invulnerable to compromise. Too often discussions of security in new computer systems focus on technical problems and ignore the fact that the real security problems rest in the preparations of adequate management and personnel policies to deal with perceived threats. For example) where IRS indicates that its employees will be advised of security needs and warned about penalties for violations, it may be advisable to obtain and evaluate copies of such education~ documents for their adequacy.

Other questions relating to organizational changes and Policy implications of the technology for the administrative structure could be identified which did not appear from available TAS documents to have been sufficiently addressed.

A number of aspects of management and staffing policies related to security were addressed in a recent report on TAS by the General Accounting Office. It would seem reasonable for Congress to

expect to see plans for significant treatment by IRS of the management considerations identified there before TAS is installed.

The TAS documents make a number of references to the automating of clerical duties and to eliminating research and memoranda, but it is difficult to obtain from them a clear picture of how IRS proposes to assess the potential for any adverse side effects for the taxpayer who may be affected by the role of the TAS technology in changing the functions and programs it supports or the processes it may replace. For instance, when the Integrated Data Retrieval System was introduced to put on-line tax histories for only 10 percent of taxpayers, thousands of letters and memoranda are said to have been eliminated. The significance of this kind of organizational change, when all of the files for 132 million taxpayers, businesses, and organizations are put in real time and decentralized for random access storage, may need evaluation to determine a need for (1) statements of major policy changes, (2) new rules defining rights of taxpayers in the operation of the new system, and (3) rules assigning specific personnel responsibilities.

A number of operational and management problems affecting taxpayers have been identified in the IDRS in various hearings and reports and difficulties cited in communications between IDRS personnel and taxpayers. If such problems develop when only ten percent of the files are on-line, there may be a real need to consider what similar problems could arise on a grander scale when TAS is installed, and result in harassment of taxpayers through computer-assisted human errors, lack of effective communications, and lack of operational complaint mechanisms.

Opinions of public administration specialists might help further define this issue.



#### d. ACCELERATED PROCESSES

ISSUE: COULD THE TAS PRODUCE AN ACCELERATION IN INFORMATION PROCESSING AND DECISIONMAKING TO A DEGREE WHICH MIGHT HAVE ADVERSE IMPACTS ON CIVIL RIGHTS AND LIBERTIES OF **TAXPAYERS** IN **THE** ADMINISTRATION AND ENFORCEMENT OF INTERNAL REVENUE AND OTHER LAWS?

#### SUMMARY

One of the chief claims for the merit of the TAS is the greater efficiency to be achieved from increased speed in access to and transmittal of information and in the automatic linkage of information. Processes which previously took five to *six weeks can be reduced for a day*, and for some days are reduced to microseconds. TAS will speed Up the process of billing, audit, investigation, collection, delinquencies, levies, seizure and prosecution. Major benefits will be greater response capacity for dealing with taxpayer inquiries, faster refunds, earlier notices, and possibly less time between each process and the official determinations affecting the taxpayer's property and other rights and obligations. These are all desirable reforms which have been sought by Congress and interest groups, and promoted in various studies of the operations of the IRS. However, without proper planning and possibly more elaborate guidelines, there might be some adverse side effects for the taxpayer not only in IRS and Treasury Department programs but in compliance and enforcement programs of other government users of IRS data. public documents on TAS do not indicate the extent to which such planning has been undertaken and guidelines developed.

#### QUESTIONS

1. Could acceleration of processes create a Potential for computer-assisted errors in billing and issuing notices of all kinds, or for errors in programming *and retrieval* which might result unintentional harassment of the taxpayer population?
2. Could acceleration of processes have any detrimental effects on the taxpayer's enjoyment of previously developed due process guarantees in the administration and enforcement of the tax

laws? Could it create new due process problems for the taxpayer in such matters as investigations, audits, jeopardy assessments, levies, collections, or prosecutions?

3. What could be the unintended side-effects of the stepped-up processes which might affect the quality of service rendered as well as the present relationships between taxpayers and employees of IRS and other governmental units?

## BACKGROUND

Since acceleration in processes and transactions is the obvious purpose of a new system, it is seldom examined, as an independent factor, for possible side effects which may be subtle and complex, or difficult and time-consuming to prove. Although Congress has examined claims of efficiency and feasibility in considering budget requests for new or expanded ADP systems, it has given little, if any attention, to the possible long term impact on organizations and people of the tremendous changes in time involved in performing the functions to be served by the systems.

Acceleration of the gathering, storing, processing, using and disseminating data on taxpayers theoretically might work substantial changes in the quality of the services, on information management methods and on the decision processes of users of *tax data* within the IRS, the Treasury Department and the rest of government. The rate and the effects of acceleration desired might, of course, be tempered by organizational, economic, political, or other factors. An area for further study may be whether the increased efficiency and speedier services will result in a loss of other values and intangible elements affecting civil liberties and relationships between government and citizen for which compensation needs to be made in the new system.

The speed of administrative processes in the IRS has been governed by the manual speed and slower computing time with which these jobs were done. The long lead time required to perform functions and carry out programs and the delays inherent in the system of administration and enforcement, have tended to protect the taxpayer from the immediate intense enforcement of tax laws. There can be no reasonable objection to increase in speed which results in the effective administration of justice unless the increase in speed leads to miscarriage of justice. For instance, will the taxpayer have time to find a lawyer and develop a case? Will tax lawyers accept a case if the process is accelerated?

While delays and slippages in administration have been the focus of sharp public criticism of IRS management techniques, they might, in certain programs, also provide a desirable temporal

buffer zone between government and taxpayer which encourages voluntary compliance and the good faith of the taxpayer. Given the right conditions, such as setting of quota or local political pressures, acceleration might have just the opposite effect from that which is intended.

If all processes of administration and enforcement are accelerated, attention should be given to whether or not this might cause the system to become more rigid, causing taxpayer attitudes to harden in response. To provide a basis for speculation about this possibility, major documentation on the time changes in functions and missions to be served by the TAS might be reviewed to consider their possible impact on individual taxpayers and business.

Given quota problems<sup>27</sup> and other organizational pressures to show performance, is it possible that an accelerated rate of production in tax decisions might result in a change in the nature of the IRS as an organization?

There may be a need to establish to what extent customary delays heretofore tolerated or expected by the taxpayer would be eliminated by the speed-up afforded by the TAS. The main point, in the opinion of some panelists, is whether or not there could be adverse side effects from reducing the customary response time presently afforded the taxpayer in responding to IRS actions. The taxpayer needs time to put his papers together and acquire information, usually without the aid of a computer. A point for consideration might be if the IRS personnel can work in 12 seconds, **will** taxpayers be expected to work on a similar scale? If substantial delays are eliminated by the technology, it may be that in the interest of fairness and individual rights, artificial delays may have to be imposed for certain decisions.

#### Privacy Invasions

TAS will make large quantities of personal information about people available in the time it takes to snap two fingers. There may be a vastly increased potential afforded by TAS for speedier, more efficient invasion of privacy and breach of confidentiality of information, whether intentional or not, and whether authorized or not. This is true for inquiries and action in individual cases as well as for the initiation and pursuit of entire programs. Speed in obtaining access, retrieving and manipulating data may, without stringent rules, be a lure to repetition of past abuses affecting the privacy

---

27 . See, for example, S. Rept. 93-1028, 93d Cong., 2d Sess., Committee on Appropriations, July 1974, p. 7.

and due process of individuals and to pursuit of even more novel, wide-ranging programs for questionable or non-tax related purposes. It is relevant to this issue that one Congressional committee finding showed that the discredited Special Service Staff, which was organized to conduct selective investigations of taxpayers for political reasons, would have been more effective had it been able to collect and integrate all the tax returns and related pieces of information that were scattered in file cabinets around the IRS and State governments.

Given the considerable benefits to be achieved under TAS, the potential for more rapid retrieval for questionable use of data may be an acceptable risk. However, if there is any important trade-off between efficiency and freedom, then compensating features and rules may perhaps need to be built into the system. Legal limits on transfer of data and mechanical techniques for perfunctory audit trails when a file is accessed may not be enough to prevent misuse, particularly when access is authorized. Those intending to misuse information may not hesitate, as investigations have shown with former information programs, to avoid the established structure and controls installed in the system. When information rewards are even more quickly available under the TAS, it perhaps should be considered whether temptations to avoid controls will outweigh the possible consequences of discovery much later during IRS or Congressional oversight or monitoring of TAS processes.

#### Law Enforcement

Faster accessibility of tax return information may have an impact on the techniques and vigor with which tax law enforcement is pursued and thus raise some issues similar to those presented by the impact of the FBI National Crime Information Center computerized system upon law enforcement.

For example, the telecommunications network and the automation of "rap sheets," or arrest records, in the NCIC system allowed immediate access to data through police car radios and made possible the use of the rap sheets for instantaneous decisionmaking, such as in stop-and-frisk situations, where the opportunity for abuse was greater. Prior to automation, manual arrest record systems could only be used in more benign situations, such as setting bail, because of the slow process of access which could involve at least two weeks for FBI rap sheets.

The Panel did not have enough facts about details of tax enforcement and about formal and informal access to computerized information which might be available under TAS as now planned

or as it might develop in the future, to speculate about what similar opportunities for changing investigative techniques or for abuses in information usage might be presented by faster accessibility to computerized tax history information.

#### Audits and Investigations

There may be a need to consider possible negative effects on public attitudes toward TAS from the faster access to data which would facilitate audits and investigations focused on special groups for certain purposes in programs of so-called “unbalanced” tax enforcement, and which would allow audits of new groups for which there previously were not sufficient time or resources. Without a very effective flagging procedure or an audit of records regularly reviewed, it might be speculated whether or not the accelerated processes might encourage IRS to run compliance checks on ideological, political, or other groups where the time lag, cumbersome manual, and mail delivery system now discourage such requests. The potential for abuses in this area and the possible need for new rules and for careful audit and monitoring processes in the new system on a scale more sophisticated and detailed than in the present one, might be considered in light of the findings of several congressional committees. These findings point out the civil liberties problems in special enforcement of IRS programs directed against ideological organizations and other groups and individuals. Furthermore, the use of the IRS computerized Information Gathering Retrieval System to further IRS investigative and intelligence policies may provide useful examples of information abuses which might develop from the speedy access afforded by the TAS.

#### Errors and Due Process

Unless the IRS has initiated satisfactory programs to offset such consequences, the human errors which are bound to occur wherever computers assist employee decisions might be increased and their effect magnified on the taxpayer population. The potential for computer errors in billing and issuing notices of all kinds, and for errors in programming and retrieval may result in unintentional harassment of the taxpayer.

Speed of change in the TAS may affect the quality of management and employee performance to a degree which results in an adverse impact on taxpayers in compliance and enforcement programs. If the whole process is potentially accelerated, the organizational force will naturally fuel a drive for

increased production in every phase of employee work. Many more cases per employee will have to be handled. Because they can be handled more speedily, audits can be expected to be enlarged and the number of audits increased considerably throughout every community. Errors made automatically and instantaneously will have to be corrected manually and resolved in communications between taxpayers and IRS employees.

These and similar questions might be raised to alert the taxpaying public and users of TAS data in the IRS and other government agencies to the possible need for addressing these problems both administratively and legislatively over time as TAS is developed and used.

Issues associated with acceleration in IRS data processes are not simple ones to be dealt with on a one-time basis and dismissed for all time. They will be continuing ones which may need careful scrutiny and routine monitoring. Before any conclusion can be drawn, more information may need to be acquired on this issue and study given to ways of institutionalizing concern for these possible side effects in the TAS.

The panel addressed a number of questions to the Acting Assistant Commissioner of the Accounts Collection and Taxpayer Service seeking clarification concerning time changes involved in the acceleration in decisionmaking and in the various stages of information processing. It may be that additional questions in this important area must be raised before a judgment can be made about possible effects on taxpayers of the speed-up sought in the TAS.