Management Quarterly Updates

Fiscal Year (FY) 2023 Q3 Updates (revised 10/23/23)

The Management Quarterly Update is a supplemental document to the IRS Financial Report, Management Discussion and Analysis section to provide transparency on the IRS's management and operational challenges. The following five updates highlight recent challenges and the actions we are taking to mitigate risk. The FY 2023 Q3 update includes a brief status on the Strategic Operating Plan, progress on information technology (IT) data security, assessments of the filing season, paper document inventory and a data storage review. These updates are part of an effort to provide transparency and timely information to the public on key management challenges.

IRS's Strategic Operating Plan

On April 6, 2023, the IRS released its Strategic Operating Plan which replaces the FY 2022-2026 Strategic Plan and serves as the new strategic plan and transformation vision for the IRS. The plan outlines five transformation objectives, composed of 42 initiatives demonstrating how the IRS will provide best-in-class customer service and transform how taxpayers interact with the IRS, modernize technology and analytics, reduce the tax gap by focusing on taxpayers with complex filings and high-dollar noncompliance, and become an employer of choice. The IRS has shared planned spending and staffing information by appropriation and program activity through FY 2024 with Congress and the public in its FY 2024 Congressional Justification. Moving forward, the IRS will report to Congress quarterly on its actual obligations and number of full-time employees as well as provide Inflation Reduction Act (IRA) budget updates in its annual budget request.

IT Data Security

Through a combination of new technology capabilities, training and enhanced management controls, the IRS has significantly strengthened information security with a focus on implementing security methods to achieve effective, secure data sharing and reductions in vulnerabilities for system attacks. Measures have already been taken to enhance our data security, including ensuring all system accesses are appropriately authorized and tracked via enterprise management and fortifying auditing and logging on all IRS systems containing federal tax information (FTI) and/or personally identifiable information (PII).

For example, numerous steps were taken to strengthen controls for critical infrastructure that supports enterprise-wide research and analytics. This infrastructure was taken offline and brought back up with enhanced physical and data security controls. The IRS also reduced the number of agency staff and contractors who have access to this sensitive information. For those who require access, new steps were instituted to ensure that access was limited to only the information for which there was a clearly documented need. A new firewall was added between this infrastructure and the rest of the IRS, providing additional monitoring capabilities. And stronger 24/7 monitoring using advanced analytics will be used

to detect and prevent risky data usage, providing improved insight into suspicious activities around the clock. IRS also expanded masking protection for PII, making it harder for underlying raw data on a tax return to be linked to a specific taxpayer.

The IRS has implemented significant enhancements across the entire agency to strengthen its ability to know who is accessing what information and where it is being stored. To that end, the IRS has implemented significant controls that limits the ability to remove sensitive information from the IRS computing environment, including tighter email controls to prevent certain contractors from emailing information outside the agency and enhanced monitoring to see what leaves the environment, restricting the use removable media like thumb drives, and new printer controls that include monitoring printing for any printing of personal or sensitive tax information.

Additionally, with expanded availability of resources we can address outstanding recommendations from our oversight partners, i.e., the Government Accountability Office and Treasury Inspector General for Tax Administration and begin implementing the associated Planned Corrective Actions. The IRS remains on track to implement additional cybersecurity capabilities in 2023 to prevent unauthorized access to taxpayer data and proactively respond to potential threats, including making improvements in configuration management, monitoring, cryptography and password management.

Filing Season Assessment

Filing season preparation takes months of planning, developing, programming and testing. The major factors in our success each year are our comprehensive planning efforts, the efficiency of our established filing season readiness processes, effective communications and cross-functional collaboration. The IRS uses the Filing Season Readiness (FSR) Executive Steering Committee (ESC) to evaluate lessons learned from the previous filing season and plan for the upcoming filing season. This year, the FSR ESC co-chairs conducted a one-day face-to-face session with all standing member executives and their meeting representatives on June 1 in Washington D.C. and on June 15 in Atlanta, which included the Filing Season 2024 Kickoff. The agenda included FSR ESC improvements, membership expectations and identification of potential risks and interdependencies.

Paper Document Inventory

A residual effect of the Submission Processing Centers (SPCs) closing during the COVID-19 pandemic was the backlog of paper documents. As the IRS worked to eliminate the backlog of returns waiting to be processed, we faced a similar condition of surging inventory arriving at our Files functions. The Files functions receive two primary inventory streams: original returns processed at the respective SPCs and other source documentation for tax adjustments not associated with posted original returns, such as amended tax returns, audit files, certain correspondence and other documents supporting adjustments to accounts. There is an unbroken chain of custody between the SPCs and the Files functions for original tax returns that have completed processing; however, other supporting documents are shipped to the SPCs from other IRS offices nationwide. These documents must be checked in, associated with their controlling document locator numbers and shelved for subsequent retrieval or archiving at a Federal Records Center. During the pandemic, the National Archives and Records Administration (NARA) did not accept IRS records at normal intervals, which created space constraints at the SPCs. Closures/reduced staffing at NARA

greatly impacted our ability to service requests for returns needed by internal and external customers to execute their functions. The IRS continues to work through the backlog of documents waiting to be associated and shelved by augmenting staff from the front of the pipeline as the volume of paper returns decreases, now that the April filing deadline has passed. Funding from the IRA was critical to keeping our seasonal workforce to address this work. The SPCs are also reviewing the current procedures to find ways to increase the processing and shelving of returns, in addition to shifting work among the three SPCs. Furthermore, current work being performed to scan paper returns will help to reduce resource needs for files maintenance. Submission Processing expects to have all campus files current by the end of the 2023 calendar year, which is possible due to the additional funding the IRS received from the IRA. These funds allowed the IRS to significantly improve call-center level of service while reducing the inventory backlog. However, at the current pace of spending, that source of funding will be exhausted in just four years. The long-term solution to the shortage of personnel in the campuses is additional discretionary funding, which is requested in the FY 2024 President's Budget.

Data Storage Review

Submission Processing expects to complete a detailed inventory of all microfilm cartridges on hand by September 2023. The detailed inventory will include the beginning microfilm count, microfilm disposed of (or missing), microfilm obtained and the ending count of microfilm. Submission Processing will ensure the inventory records include the information as outlined in internal policies. This review will also identify microfilm cartridges eligible for disposal. Submission Processing HQ will hold a discussion with Campus Files to remind them of the requirement to conduct an inventory and reconciliation annually.