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CLINTON–GORE V. THE AMERICAN TAXPAYER

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL ECONOMIC GROWTH, NATURAL RESOURCES, AND REGULATORY AFFAIRS

AND THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

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CLINTON–GORE V. THE AMERICAN TAXPAYER

THURSDAY, APRIL 15, 1999

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON NATIONAL ECONOMIC GROWTH, NATURAL RESOURCES, AND REGULATORY AFFAIRS, JOINT WITH THE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY, COMMITTEE ON GOVERNMENT REFORM,

Washington, DC.

The subcommittees met, pursuant to notice, at 2 p.m., in room 2154, Rayburn House Office Building, Hon. David M. McIntosh (chairman of the subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs) and Hon. Stephen Horn (chairman of the Subcommittee on Government Management, Information, and Technology) presiding.

Present: Representatives McIntosh, Horn, Ryan, Terry, Ose, and Kucinich.

Staff present: Marlo Lewis, staff director; Barbara Kahlow, professional staff member; Jason Hopfer, chief counsel; Luke Messer, counsel; Andrew Wilder, clerk; J. Russell George, staff director and chief counsel; Bonnie Heald, director of communications, professional staff member; Mason Alinger, clerk; Elizabeth Mundinger and Faith Weiss, minority counsels; and Earley Green, minority staff assistant.

Mr. HORN. The joint meeting of the hearing of the House Subcommittee on Government Management, Information, and Technology and the Subcommittee on National Economic Growth, National Resources, and Regulatory Affairs will come to order. April 15 is tax day for all Americans. It is the day the Internal Revenue Service holds individuals accountable for the accurate reporting of their tax liability.

It is fitting that today we hold the IRS accountable as well. In the past years, the Subcommittee on Government Management, Information, and Technology has held similar hearings and heard reports of management problems at the Internal Revenue Service.

Last year on this date, we heard from the newly appointed Commissioner of the Internal Revenue Service, Mr. Charles Rossotti. He outlined for us his priorities for restructuring and refocusing the IRS. Commissioner Rossotti spoke as follows: "Shifting entire focus of the agency from one which focuses solely on conducting our own internal operations to one which puts far more emphasis on trying to see things from the point of view of the taxpayers and emphasizing service and fairness to taxpayers."

A few months after that testimony, on July 22, 1998, the IRS Restructuring and Reform Act of 1998 was signed into law. The un-

derlying theme of the act is one of creating a cultural change within the IRS. In the broadest terms, the act shifts the emphasis on the IRS from its defined role of an enforcement agency, to a role that resembles more closely a financial service organization.

The initiatives presented by the Commissioner last April 15 and the broad array of provisions in the IRS Restructuring and Reform Act seem to go hand and hand. One year has passed since we heard from the Commissioner, and nearly 9 months has passed since the enactment of the restructuring act.

Today we hope to learn of the first steps taken by the Commissioner to restructure and refocus the Internal Revenue Service. I think that's one of the most difficult jobs that has been ever undertaken in government, and might well be one of the most difficult ever taken in a human organization.

In addition, we need to have a candid discussion of the challenges that lie ahead for the agency. Great things are expected and the road will be difficult. The Commissioner knows that, and most of us know that.

However, the effort is much needed, and we will all be better off when it has been accomplished. The Government Management, Information, and Technology Subcommittee will focus on these and other management practice issues within the IRS. I will then yield the chair to Mr. McIntosh whose subcommittee will examine the agency's record in complying with the Paperwork Reduction Act.

That law is intended to reduce the burden of paperwork the Federal Government places on the American people. The National Economic Growth, Natural Resources, and Regulatory Affairs Subcommittee will focus specifically on the paperwork imposed by the IRS and the Department of Agriculture.

Let us begin today by welcoming our witnesses. Mr. Charles Rossotti, Commissioner of Internal Revenue Service, has a distinguished career. He's the type of person that should have long ago been made Commissioner, and we now have one that has been a chief executive, knows what it is to be a chief executive. And when you preside over a complicated organization, such as the IRS, with 102,000 employees, the challenges are obviously great.

He will be panel 1. And the Members on both sides will have the opportunity to question the Commissioner after his statement has been made, and we will alternate 5 minutes each, varying between the majority and the minority.

On panel 2, we will hear from Mr. Nye Stevens, Director of the Federal Management and Workforce Issues at the General Accounting Office, which is the legislative arm of the government, and does our program and fiscal accounting; Mrs. Deidre Lee, Acting Deputy Director for Management at the Office of Management and Budget; and Mr. James R. White, Director of Tax Policy and Administrative Issues at the General Accounting Office will finish out panel 2.

Panel 3 will consist of Ms. Sydney Hoff Hay, a taxpayer activist from Phoenix, AZ; Ms. Kaye Whitehead, a pork farmer in Muncie, IN; Mr. William N. Lindsay, president of Benefit Management and Design Inc. in Denver, CO; and Mr. Jack Nicholson, owner of Company Flowers in Arlington, VA.

On our fourth and final panel, we will hear testimony from Anne Thompson Reed, Chief Information Officer of the Department of Agriculture.

I now yield to Mr. McIntosh for his opening statement.

[The prepared statement of Hon. Stephen Horn follows:]

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"Oversight of the Management Practices at the Internal Revenue Service"

Opening Statement of Chairman Stephen Horn (R-CA)
Subcommittee on Government Management, Information, and Technology
April 15, 1999

April 15 is tax day for all Americans. It is the day the Internal Revenue Service holds individuals accountable for the accurate reporting of their tax liability. It is fitting that today we hold the IRS accountable as well.

In past years, the Subcommittee on Government Management, Information and Technology has held similar hearings and heard reports of management problems at the IRS.

Last year on this date, we heard from the newly appointed commissioner of the Internal Revenue Service, Mr. Charles Rossotti. He outlined for us his priorities for restructuring and refocusing the IRS. Commissioner Rossotti, spoke of, and I quote, "shifting the entire focus of the agency from one which focuses solely on conducting our own internal operations to one which puts far more emphasis on trying to see things from the point of view of taxpayers and emphasizing service and fairness to taxpayers."

A few months after that testimony, on July 22, 1998, the IRS Restructuring and Reform Act of 1998 was signed into law. The underlying theme of the Act is one of creating a *cultural change* within the IRS. In the broadest terms, the Act shifts the emphasis of the IRS from its self-defined role of an enforcement agency to a role that resembles more closely a financial service organization.

The initiatives presented by the Commissioner last April 15 and the broad array of provisions in the IRS Restructuring and Reform Act, seem to go hand-in-hand.

One year has passed since we heard from the Commissioner, and nearly nine months has passed since the enactment of the Restructuring Act.

Today, we hope to learn of the first steps taken by the Commissioner to restructure and refocus the Internal Revenue Service. In addition, we need to have a candid discussion of the challenges that lie ahead for the agency. Great things are expected, and the road will be difficult. However, the effort is much needed, and we will all be better off when it is accomplished.

The Government Management subcommittee will focus on these and other management practice issues within the IRS. I will then yield the chair to Mr. McIntosh whose subcommittee will examine the agency's record in complying with the Paperwork Reduction Act. That law is intended to reduce the burden of paperwork the Federal Government places on the American people.

The National Economic Growth subcommittee will focus specifically on the paperwork imposed by the IRS and the Department of Agriculture.

Let us begin today by welcoming our witnesses.

Mr. McINTOSH. Thank you, Chairman Horn. I'm delighted to be able to cochair this hearing with you and welcome Mr. Rossotti today.

Last year, Congress passed the IRS Restructuring and Reform Act, because of its concerns about IRS treatment of taxpayers. The IRS accounts, in addition, for nearly 80 percent of the government-wide paperwork burden on Americans. This hearing will examine the IRS's failure to initiate any specific actions to reduce paperwork burdens during 1999 and 2000 for any of its 671 tax forms and recordkeeping requirements, which impose approximately 5.8 billion hours of burden on the American public.

This equates, by the way, to about $154 billion in costs for paperwork compliance. I think of it, and it nearly equals the total $182 billion of taxes imposed on businesses in this country each year. I think of it as a hidden tax, an extra tax that goes along with the tax that Americans are paying today on April 15, because it's a cost that is borne by them in order to comply with the laws as Congress has passed them and the paperwork requirements the IRS uses to collect those revenues.

In addition, we understand from the IRS staff that IRS has not analyzed all of the paperwork imposed on individuals to spare them the burden of providing the same information on multiple tax forms. Also, IRS has not analyzed all paperwork imposed on small businesses to identify duplicative form burdens on them. I find the agency's lack of effort to be unacceptable and believe the American people will share my assessment.

Today's hearing will also examine the Office of Management and Budget's mismanagement of the paperwork burden imposed on Americans. The OMB is supposed to be the Federal Government's watchdog agency guarding the public against waste, fraud, and abuse. Yet OMB has failed to push the IRS or, frankly, many other Federal agencies to cut existing paperwork burden on taxpayers. Worst, the GAO confirms today that the OMB has mislead the American people, providing a falsely inflated picture of the Clinton administration's paperwork reduction accomplishments.

First, I want to turn my attention to the IRS. A survey conducted 2 years ago found that most respondents would rather undergo root canal surgery than be audited by the IRS. A magazine poll found that the scariest words Americans could imagine hearing when they pick up the telephone are, "This is the IRS calling."

Indeed, for many persons, today's hearing falls on the worst day of the year, April 15, or tax day. Much of their frustration and anger is directed at the government's tax collector, an unenviable duty that has been assigned to the IRS. Although I'm very disappointed with its effort, or lack of effort, to reduce the paperwork burden, I do not intend at this hearing to take cheap shots at what has been done by the agency, either for sins of past Congresses or Presidents.

America should be mad at the unfair and oppressive tax system. But, the source of most of the unfairness and oppressiveness is the mind-numbingly complex, economically irrational, special interest-dominated Tax Code, in other words, 86 years of bad tax policy. The IRS can't be held accountable for that. That's written here in Congress and signed into law by the President.

But, what I would like to focus on today is how the IRS takes that Tax Code and translates it into the paperwork that is required by the American people to fill out that message. And, I believe—right now the staff is putting here the Internal Revenue Code which includes all of the regulations implementing the code of law to indicate how that has grown in terms of the complexity just in the sheer volume of the paperwork that is required to produce that.

If it helps policymakers get the message that more and more Americans are sending to Washington, it is time to scrap the code and replace it with something that is economically fair and decent, then I think the hearing will in itself be a success.

Now, we all know the direct costs of the Tax Code is about $1.7 trillion that Americans pay in taxes to the government. But, there is this hidden cost which adds an extra 10 percent, or about $154 billion, to that burden. Each American spends an estimate of 5.8 hours in complying with the 671 different tax forms. To me, this is unconscionable. And, what is even worse is that the IRS projects this hidden tax burden will go up by 150 million hours in 1999 and 130 million hours in the year 2000.

IRS correctly observes that recent and anticipated statutory changes in the Tax Code are the driving force behind the growth in the paperwork. Please note that the huge stack of the Internal Revenue Code represents not only the statute but also the 12,000-some pages of tax regulations used to implement that code.

Clearly, the code is too complicated. Nonetheless, that does not excuse the IRS from failing to provide any significant paperwork-reducing initiatives for existing forms. I understand there are many that were created as a result of recent tax bills, but there are also many, many that have been in existence for some time that could easily be examined to determine whether they're duplicates, whether they need to be filled out in order for the IRS to do its job in enforcing the Tax Code.

Now, let me turn to the entire government's paperwork, which OMB has severely mismanaged. The 1999 Treasury and General Government Appropriations Act required OMB to issue a report by March 31 that identified specific paperwork reduction accomplishments expected, constituting 5 percent reduction in the paperwork expected for 1999 and fiscal year 2000.

The next day, I submitted comments that the draft report is not responsive to the statutory requirements in several ways. First of all, OMB estimates that 2.6 percent increase in paperwork requirements for 1999 and 2.3 percent increase in 2000, instead of a 5 percent decrease in each of those years. This expectation follows 3 successive years of increases in paperwork, instead of decreases.

Second, the draft report only identified some specific reductions. This aspect of the report is not acceptable to us or responsive to the congressional requirement. In fact, IRS and 5 of the 14 Cabinet Departments—Energy, Health and Human Services, Housing and Urban Development, State, and Veterans Affairs—were unable to identify any specific paperwork reduction initiatives in 1 of 2 years.

Now, why didn't the administration say no to these proposed budgets and ask OMB to send them back to the agencies? I believe the administration's incredible disregard for the $7 billion of paper-

work burden experienced by the American people is insensitive and unacceptable.

This burden equates to $185 billion in costs each year, and OMB's draft report includes 872 violations of law last year alone, where the agency levied unauthorized paperwork burdens on the American people, including over 100 each by the Department of Agriculture, Health and Human Services, and Veterans Affairs. In other words, there were at least 872 times when the Clinton administration required paperwork without the legal authority to do so.

The GAO says, as disconcerting as these violations are, even more troubling is the fact that OMB reflects the hours associated with unauthorized information collections ongoing at the end of the fiscal year as burden reductions.

We believe that OMB has an obligation to Congress and the American people to accurately report paperwork burdens imposed on the public and that OMB must immediately take necessary steps to stop the violations. I believe the public deserves substantially more paperwork reduction initiatives by the administration, especially the IRS, the largest component of that hidden tax of paperwork, and an honest accounting to the American people, which reflects only actual burden reduction accomplishments and not the total burden.

It's only fitting that today on tax day we hold this hearing, and I appreciate Mr. Horn in joining us in a joint hearing on this to find out exactly how we can best reduce the hidden tax of paperwork.

[The prepared statement of Hon. David M. McIntosh follows:]

Statement of Chairman David McIntosh
Subcommittee on National Economic Growth,
Natural Resources and Regulatory Affairs
on
"Clinton-Gore v. The American Taxpayer"
April 15, 1999

Today, the Subcommittee is conducting a joint hearing with the Subcommittee on Government Management, Information, and Technology on paperwork reduction under the Paperwork Reduction Act and management practices at the Internal Revenue Service (IRS). Last year, Congress passed the IRS Restructuring and Reform Act because of its concerns about IRS' treatment of taxpayers. The IRS accounts for nearly 80 percent of the government-wide paperwork burden on Americans. This hearing will examine the IRS' failure to initiate any specific actions to reduce paperwork burdens during 1999 and 2000 for any of its 671 tax forms and recordkeeping requirements, which impose 5.8 billion hours of burden on the American public. This equates to $154 billion of paperwork compliance costs on Americans, which nearly equals the total $182 billion of taxes imposed on businesses this year. In addition, we understand from IRS staff that IRS has not analyzed all paperwork imposed on individuals to spare them the burden of providing the same information on multiple tax forms. Also, IRS has not analyzed all paperwork imposed on small businesses to identify duplicative information burdens on them. I find IRS' lack of effort to be unacceptable and believe that the American people will share my assessment.

Today's hearing will also examine the Office of Management and Budget's (OMB) mis-management of the paperwork burden imposed on Americans. OMB is supposed to be the Federal government's watchdog agency, guarding the public against waste, fraud, and abuse. Yet OMB has failed to push the IRS - and other Federal agencies - to cut existing paperwork burdens on taxpayers. Worse, GAO confirms today that OMB has lied to the American people, providing a falsely inflated picture of the Clinton Administration's paperwork reduction accomplishments.

So, today I want to welcome IRS Commissioner Charles Rossotti, who is with us on Tax Day, an important day for the American public. The Clinton Administration will also be represented by Diedre Lee, who is OMB's Acting Deputy Director for Management, and Agriculture's Chief Information Officer (CIO) Anne Thomson Reed. OMB's Office of Information and Regulatory Affairs, which has principal responsibility for the Paperwork Reduction Act, reports to Ms. Lee. I want to also welcome two General Accounting Office (GAO) officials with principal audit responsibility for paperwork reduction and the IRS -- Nye Stevens, Director of Federal Management and Workforce Issues, and James White, Director of Tax Policy and Administration Issues.

Lastly, but very important to all of us here today, I want to welcome Sydney Hoff Hay, who is a taxpayer activist from Phoenix, AZ; Kaye Whitehead, a pork farmer from Muncie, IN; William N. Lindsay, President of Benefit Management & Design, Inc., from Denver, CO; and, John Nicholson, owner of Company Flowers, from Arlington, VA . They will address paperwork issues of concern to American taxpayers, farmers, and small businesses.

First, I want to turn my attention to the IRS. A survey conducted two years ago found that most respondents would rather undergo root canal surgery than be audited by the IRS. A magazine poll found that the scariest words Americans could imagine hearing when they pick up the telephone are, "This is the IRS calling." Indeed, for many Americans, today's hearing falls on the worst day of the year - April 15th - Tax Day. And much of their frustration and anger is directed at the Federal Government's tax collector, the IRS.

Although I am very disappointed with the IRS's effort - or lack of effort - to reduce the paperwork burdens on American taxpayers, I do not intend at this hearing to take cheap shots at the IRS or make the agency a scapegoat for the sins of past Congresses and presidents. Americans should be mad at an unfair and oppressive tax system. But the source of most of the unfairness and oppressiveness is the mind-numbingly complex, economically irrational, special interest-dominated tax code -- in other words, 86 years of bad tax policy. This hearing will have served its purpose if it helps taxpayers understand better the root of their troubles. And, if it helps policymakers get the message that more and more Americans are sending to Washington: it is time to scrap the code -- time to replace the current morass with a system that is simple, economical, and fair.

We all know the direct costs of the tax code -- the $1.7 trillion Americans pay to Uncle Sam on April 15th. But there is a "hidden" cost that adds an extra 9 percent or $154 billion to that burden. Each year Americans spend an estimated 5.8 billion hours and $154 billion complying with the 671 tax forms. This is unconscionable. What is even worse is that the IRS projects that this "hidden" tax burden will go up by 149 million hours in FY 1999 and 130 million hours in FY 2000. IRS correctly observes that recent and anticipated statutory changes in the tax code are the driving force behind the growth in paperwork. Please note the huge stack of the 9,500 page Internal Revenue Code and the 12,307 pages of tax regulations to implement the tax code. Nonetheless, that does not excuse the IRS from failing to provide any significant paperwork reducing initiatives for existing forms during FY 1999 and 2000. What idea does the IRS have to reduce the "hidden" taxes on us? None!

Now, let me turn to the entire Government's paperwork which OMB has mis-managed. The Paperwork Reduction Act was principally intended to "minimize the paperwork burden for individuals, small businesses, educational and nonprofit institutions, Federal contractors, State, local and tribal governments, and persons resulting from the collection of information by or for the Federal Government" (44 U.S.C. §3501). The 1999 Treasury and General Government Appropriations Act required OMB to issue a report by March 31, 1999 that "identifies specific paperwork reduction accomplishments expected, constituting annual five percent reductions in paperwork expected in fiscal year 1999 and fiscal year 2000."

On March 30, 1999, OMB asked for Congressional comments by April 2nd on its draft report to Congress entitled "Information Collection Budget of the United States Government - Fiscal Year 1999." The next day, I submitted comments stating that the:

> "draft report is not responsive to the statutory requirement in several ways. First, OMB estimates a 2.6 percent increase in paperwork in fiscal year (FY) 1999 and a 2.3 percent increase in paperwork in FY 2000 instead of five percent decreases in each FY. This expectation follows three successive years of increases in paperwork, instead of decreases in paperwork. Second, the draft report only identifies some specific expected reductions. ... This aspect of the draft report is not acceptable or responsive to the Congressional requirement."

In fact, IRS and five of the 14 Cabinet departments -- Energy, Health and Human Services, Housing and Urban Development, State, and Veterans Affairs -- were unable to identify any paperwork reduction initiatives in one of the two years. Why didn't the Clinton Administration say "no" to these proposed paperwork budgets submitted to OMB by the agencies? I believe that the Clinton Administration's incredible disregard for the 7 billion hours of paperwork burden experienced by the American people is insensitive and unacceptable. This burden equates to $185 billion annually of compliance costs, which is about equal to all the taxes paid to the IRS by American businesses annually.

During 1998 and 1999, the Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs sent seven oversight letters to OMB on the Paperwork Reduction Act. OMB's last response finally acknowledged that OMB's recent annual reports to Congress had falsely claimed many paperwork reduction accomplishments. Instead of working to achieve actual paperwork reductions, OMB was claiming paperwork successes for paperwork still in use but without legal authorization. According to OMB's analysis, if a form is not legally authorized, it does not exist, even though the form is still being filled out by citizens and used by the Federal agency. OMB's position is like saying that, if the Government continues to send you tax forms to complete after their authorization has expired, your tax burden has somehow gone down, even though you still fill out the forms and still pay your taxes. To justify this fraud, OMB illogically claimed that its computer "data base tracks agency actions" not "what agencies may be doing that they do not report" to OMB.

In fact, OMB's draft report identifies 872 violations of law last year alone where agencies levied unauthorized paperwork burdens on the American people -- including over 100 each by the Departments of Agriculture, Health and Human Services, and Veterans Affairs. In other words, there were at least 872 times last year for which the Clinton Administration required paperwork without the legal authority to do so. GAO says that there is a "troubling disregard" by the agencies for the requirements of the Paperwork Reduction Act. GAO says "[a]s disconcerting as these violations are, even more troubling is that [OMB] reflects the hours associated with unauthorized information collections ongoing at the end of the fiscal year as burden reductions." We believe that OMB has an obligation to Congress and the American people to accurately report paperwork burden imposed on the public and that OMB must immediately take necessary steps to stop these violations of law.

Besides OMB's falsely-claimed success stories, in our audit of OMB's dockets for other claimed paperwork reduction accomplishments -- which each claimed a 500,000 or more hours reduction on the public -- we found many paperwork dockets were missing or substantially incomplete. As a consequence, it was impossible to determine whether other claimed reductions were, in fact, realized. This failure by OMB to maintain complete and accurate files describing the nature of paperwork burden reductions, at best, conceals the true nature and extent of paperwork reductions. At worst, it misleads Congress and the American people into believing that the paperwork burden is being reduced when it is not. We found other areas of mis-management by OMB of the paperwork imposed on the public. For example, many paperwork requirements found to be in use without current OMB approval one or two years ago are incredibly still in use without current OMB approval.

The Paperwork Reduction Act has a "Public Protection" section (44 U.S.C. §3512) which provides that the public can ignore without penalty an unauthorized paperwork request. Last Fall and again last month, I made several recommendations to OMB to help the public know when paperwork requests by the Federal Government are no longer valid, and when paperwork has actually been reduced. For example, we asked OMB to publish a monthly Notice in the Federal Register that can be widely circulated by interest groups to the affected public indicating paperwork without current OMB approval and describing specific actions taken by the executive branch to achieve each major program paperwork burden reduction. Today, GAO will make additional recommendations for the Clinton Administration to manage the paperwork process better and more fairly to the American people.

I believe that the public deserves substantially more paperwork reduction initiatives by the Clinton-Gore Administration, especially the IRS, the largest component of "hidden" tax, and an honest accounting to the American people which reflects only actual burden reduction accomplishments and the total burden imposed on Americans. It is only fitting that today, tax day, we hold this hearing to find out how to reduce this "hidden" tax.

Mr. HORN. I thank the gentleman. That's quite a list of horrors. And I assume it will come out in the question period a little more.

Commissioner, and all other witnesses on panels 2 and 3, let me just say what our procedures are. This is an investigating committee, as are most subcommittees of the Committee on Government Reform. And, we swear all witnesses prior to their testimony. When we call on the witness, their statement is automatically part of the record, as well as background information on them and so forth. So one doesn't have to ask permission for that. It's in the written record.

So, Commissioner, if you would stand, we will administer the oath. Why don't we get all panels standing. We can have a mass baptism right now. It will save a lot of time.

[Witnesses sworn.]

Mr. HORN. The clerk will note that all the witnesses took the oath.

We will then begin with panel 1. Commissioner Rossotti, it's always a pleasure to have you here, and you must have been the most popular guy in town today with probably the other body, as it is known, also had you over today.

Mr. ROSSOTTI. Actually, I was there yesterday.

Mr. HORN. I see.

STATEMENT OF CHARLES O. ROSSOTTI, COMMISSIONER, INTERNAL REVENUE SERVICE

Mr. ROSSOTTI. Thank you very much, Mr. Chairman, and Chairman McIntosh as well. We have several subjects here. I would first like to very briefly cover some topics on managing year 2000 and filing season and then go on to a discussion concerning paperwork and taxpayer burden.

And, Chairman Horn, I know that your subcommittee is concerned with management, information, and technology. So I think it's actually fitting that you hold a hearing on the IRS at this time, because as you noted in your opening remarks, the IRS is, in fact, faced with a massive program of change in all of these dimensions. And I've got a few of the initiatives listed over here in bullet-point form.

As you noted, last year the Congress passed nearly unanimously the Restructuring Reform Act. And this act has many specific provisions that are all very important. As important as they are, I think collectively the bill said something even more important than any provision, which is that the IRS must fundamentally change our direction. I think what we were told is that we must not only collect taxes, which we must do, but we must think about our job as serving the people who are paying the tax, namely, the American taxpayers.

I believe that we can succeed in this mandate, and as a matter of fact, I think we now know more clearly than we did before what we need to do to succeed. But we also know that this involves a lot of changes, and some very fundamental changes, covering almost all significant aspects of the agency.

Some of these changes are intangible, such as how we communicate and define our mission and our goals and our guiding principles, but many of the changes are very tangible, such as how we

measure our performance, train people, organize ourselves, as well as many very detailed procedures and especially our technology programs. Collectively, this all affects the skills attitude tools that constitute the way we serve taxpayers.

In addition, as you have noted, Mr. Chairman, a number of times the information technology on which the IRS critically depends, is fragile and inefficient and I believe cannot be fixed short of nearly a total replacement. In addition to technology, there are other major areas of change needed to achieve our strategic goals, including reengineering our basic business processes. This includes many of the aspects that pose burdens on taxpayers such as our forms and filing procedures, as well as our internal organization, management and performance measures.

And I recently sent, I believe, to you both—to you gentlemen a copy of a document that we recently wrote called "Modernizing America's Tax Agency," which lays out in some detail, which we don't have time for today, this overall program. I do want to note that this is a massive amount of change; and it has to, of course, be coupled with continuing ongoing operations. And this all means that there is a significant risk in what we're doing, that we may have unanticipated problems, and that we may have operational errors as we go along.

In other words, in the current situation the IRS is in, I don't believe there is any risk-free plan. But, although we know that there are inherent risks, knowing that they exist, means that we can try to manage them so that no setback is fatal and we can be reasonably confident of ultimate success.

And in this regard, I would like to mention two important aspects of our management process: one is the need to rigorously set priorities in light of the fact that we have limited organizational capacity. The other, of course, is to establish effective management over each of our major change processes.

Like any organization, we have limited capacity to manage change. And even before the Congress passed the Restructuring Reform Act and we began our modernization program, the IRS organizational capacity was, in fact, stressed to the maximum in an attempt to respond to actually thousands of individual recommendations that were coming from many studies and proposals, as well as legislative mandates and tax law changes.

And the process of reacting to this many inputs was actually using up all of the available capacity without, actually, in my view at least, addressing many of the underlying problems. So what we have done now is to establish a set of programs to try to manage these activities and priorities in an orderly way, in an orderly sequence so that we attempt to get the most benefit out of the organizational capacity we have, though also building increased capacity to make the improvements come even faster into the future.

Now, Chairman McIntosh, I would like to report just a bit on the one part of our program that is attempting to deal with, specifically, the paperwork burden aspect of our mission. And I would just like to note that the situation, the reality that we face, is that the growth of the economy—the growth in the complexity of the economy and the growth of the Tax Code, all combined to not only

impose the paperwork burden that you noted in your opening statement but also to inherently increase it each year.

In the filing season that ends today, for example, we expect to receive about 3 percent more total returns. That's because of the growth of the economy. In addition, because of the two recent tax bills that were passed, we're actually revising 153 forms to reflect Tax Code changes and unfortunately adding two more forms. And it's estimated that under current estimating methodology that those changes alone would add 92 million hours of burden.

So when you combine all of those economic growth changes and tax law changes, we actually increase just by that alone, 4½ percent to the burden of 5.8 billion hours that was already estimated by OMB. So that's just handling the reality of economic growth and Tax Code changes.

My view of what our mission is, and what my mission is in the agency, is to deal with that reality; we have to note that it's there. But our goal is to try to make it as easy as possible for the taxpayers to comply with those obligations and to essentially rethink our way of doing business, as much as is in our control in order to make it as easy as possible for taxpayers to file and pay.

Now, as I noted, we do have limited organizational capacity. So we have to set priorities. In order to reconcile these various demands, we've tried to give priority to making those changes that we think will benefit taxpayers as quickly as possible. And, of course, we are also making those changes that are mandated by law, while also working on some longer-term changes that we think will really improve service and reduce burden even more in the future.

For the near term, we have basically three strategies that we're pursuing, all in the near term, to deal with this issue. The first is to increase the ability of taxpayers to both file and pay electronically, which we think eliminates errors in paperwork. And this filing season we were successful in increasing electronic filing by about 17 percent of the taxpayers, getting close to 30 million. This includes the 5 million telefile returns which the taxpayer just handles the transactions by dialing the phone. They don't have to file a return at all with telefile.

For small businesses, we also have a similar system for quarterly employment tax returns where they can file by telephone without having to actually file a form at all.

And we are taking a number of steps to try to increase this method of filing. So electronic tax administration is one strategy. A second one is to eliminate the need for some taxpayers to file at all, where we can. For example, over the last year we raised the threshold for small businesses that are required to make monthly tax deposits; and by doing this we've eliminated 500,000 small businesses from having to make these monthly deposits at all, which eliminates 6 million pieces of paper.

We also have noted that there are some taxpayers who file who don't need to, and we've sent letters to 2 million individual taxpayers simply informing them that based on the data that we have they didn't need to file returns, we encourage them not to file. So I mean that's the ultimate paperwork reduction—just get people not to file at all.

A third thing we're doing is that we are working with private contractors to help us redesign certain of the forms and instructions that go with them to make them easier to file and less error prone. We know that there are some good ideas and expertise out there in the private sector. And I can give you some examples that I have with me of working on this.

We're going to continue to aggressively pursue all three of these strategies over the next year, within the limits of our capacity.

Another major step that we are taking is to redesign the way we measure burden. Frankly, the measurements that we have today that address the question of burden are based on a 15-year-old methodology that is very seriously flawed. I came into office—I looked at this, and I said, "this really does not help us very much to determine what we should be doing."

It doesn't take into account, for example, anything about the currently very extensive and growing use of tax preparation software. I think we've learned from our private contractors that this methodology actually sometimes points us in the wrong direction by telling us that a certain way of designing a form makes it more burdensome when, in reality, it makes it less burdensome. And finally, it doesn't take into account what is some of the, I think, most important kinds of transactions that the taxpayers have—which is what happens if there's an error in a form. Then it requires interaction with the IRS after the form is filed, referred to as postfiling.

So we're working with another private contractor to redesign this whole method of measuring burden. We hope this will give us better tools enabling us to improve in the future. And, finally, what I think is really the most important step dealing with increasing our long-term capacity to improve, is our plan to redesign our whole organization structure. That will have a number of objectives, but one of the most important objectives is that it will enable us to put in place a set of management teams that will each have the responsibility for dealing with a particular group of taxpayers.

For example, you mentioned small business taxpayers, which is a sector with which I have some familiarity. We know there are some of the greatest burdens in this sector. Small business needs are very, very different when compared to a typical wage earner who simply files a return once a year and gets a refund in most cases.

In keeping with the Restructuring Reform Act, we're putting in place a whole new structure. Part of this is that we will have a team—this will take a few years—of people whose job it will be to understand very clearly the needs, for example, of a small business taxpayer, as differentiated from a wage earner. The team will have the responsibility for figuring out what we can do to improve the way we provide service to those taxpayers and reduce, not only their paperwork burden, but other burdens in dealing with us.

So those are some of the approaches that we're attempting to take. Recognizing we have many demands on us, we're trying to balance our priorities and address what we think will do the most good the quickest.

Let me stop there. Both Chairman Horn and Chairman McIntosh, I would be happy to take your questions.

[The prepared statement of Mr. Rossotti follows:]

Paperwork, and Overall Management Practices at the Internal Revenue Service

Statement of

Charles 0. Rossotti
Commissioner
Internal Revenue Service

Before the

House Committee on Government Reform
Joint Hearing

Subcommittee on Government Management, Information and Technology

Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs

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TESTIMONY OF COMMISSIONER OF INTERNAL REVENUE
CHARLES O. ROSSOTTI
BEFORE THE HOUSE GOVERNMENT REFORM SUBCOMMITTEES ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY & NATIONAL ECONOMIC GROWTH, NATURAL RESOURCES AND REGULATORY AFFAIRS
APRIL 15, 1999

INTRODUCTION

Chairman Horn and Chairman McIntosh, I welcome this opportunity to testify before the subcommittees on the enormous amount of change that is occurring throughout the Internal Revenue Service, and just as importantly, how we are managing that change both in the short- and the long-term.

In July of last year, Congress passed by nearly a unanimous vote the IRS Restructuring and Reform Act of 1998 (RRA 98). This bill included many provisions to enhance taxpayer rights and to deal with specific aspects of the IRS. As important as these specific provisions are, the bill collectively said something even more important. It told the IRS that we must fundamentally change direction. We must not only collect taxes, we must think about our job as serving the people who are paying the taxes, America's taxpayers.

The IRS is fundamentally changing, Mr. Chairman, in the direction Congress mandated. We are not only implementing the letter of the law that Congress prescribed in RRA 98, we are rethinking and redesigning our whole way of doing business.

The amount of change required for the modernization of the IRS, coupled with current complex operations, such as the filing season, means that there is significant risk that unanticipated problems will arise, plans or milestones may have to be changed, and operational errors will occur. When these events occur, time and money will be needed to address them.

Mr. Chairman, as we have discussed, given the current situation at the IRS, there is no low-risk plan. Any attempt to retain the status quo or make modest incremental changes would fail. It would merely increase the gap between the IRS' ability to deliver required services and what the public and Congress expect, while imposing increasing direct and indirect costs for administering the tax system. In addition, the information technology on which the IRS critically depends is fragile and deficient and cannot be fixed short of a near total replacement. Yet, success in modernization of technology can only be achieved with the appropriate management and organization structure and a program to modernize business practices.

Although there are inherent risks in the modernization process, knowing that they exist means that they can be managed and mitigated so that no setback is fatal and we can be reasonably confident of ultimate success. In this regard, two items are critical: (1) setting overall priorities in light of the limited organizational capacity; and (2) establishing effective management over each major change process.

Organizational capacity and priorities

The IRS, like any organization, has limited capacity to manage and absorb change. These limitations arise from a number of things, such as: (1) the capacity of the top managers to understand, plan and make correct decisions about the many complex issues that arise; (2) the capacity of managers and employees throughout the organization to learn many new ways of doing business, new practices and technology; (3) limitations on the number of subject-matter experts in highly specialized areas, ranging from tax law to technology; time required to consult outside and inside stakeholders; and (4) time required to resolve disagreements.

Because the IRS is a public agency that provides an essential service, capacity to make change rapidly is further limited by the need to ensure that essential services, such as the filing season, are never jeopardized and the financial integrity of the revenue stream is maintained. The inherent limitations of organizational capacity and the need to manage risk make it essential to set overall priorities in light of the overall goals.

Even before the redefined mission and modernization program were undertaken last year, the IRS organizational capacity was stressed to the maximum in an attempt to respond to thousands of individual recommendations from studies and proposals, as well as legislative mandates and tax law changes. This reactive process used up all available capacity without addressing the underlying fundamental problems.

In order to deal with this issue, we established a set of programs to manage activities and priorities in an orderly way in each major area of change with an overall sequence that attempts to maximize the use of available organizational capacity, while gradually expanding it. This sequence aims at delivering on essential near-term operational requirements and improvements in service delivery while carefully planning and implementing longer-term changes. At a very high level, the strategy for each major change program is as follows:

Century date change and essential filing season-sensitive changes are top priorities and are managed as one program.

Near-term taxpayer treatment and service improvements are rigorously prioritized based on those that are either mandated or deliver maximum benefit to the taxpayer in 12-18 months, and are subject to the limitations of the existing operations and information services organization capacity.

Organizational modernization is carefully designed, and a transition plan is being developed that phases in pieces of the new organization as rapidly as possible in light of the limitations in information systems and management.

As the new organization is implemented, organizational capacity to manage business process and technology change will increase. There will be four management teams, each with full responsibility for a major part of the operation, as well as a new information systems organization.

The new balanced measures are first introduced at the operational level, since operational measures depend less on the new organizational structure. As the new organizational structure is implemented, new balanced strategic measures will be developed.

Technology modernization is phased in slowly during 1999. It will initially support near-term business process changes in customer service, and then ramp up as the new organization structures and management teams get in place. These teams are the responsible business owners who will revamp business processes and technology.

In 1999, the major milestones expected from our overall modernization program are:

- Complete and test changes to accommodate the century date change.
- Implement taxpayer rights provisions of IRS Restructuring and Reform Act of 1998.
- Complete 1999 filing season implementing high-priority service improvements, and plan for the year 2000 filing season improvements.
- Complete near-term objectives for improving internal financial management.
- Introduce new balanced measures for most operational field functions.
- Complete the blueprint for the new organization.
- Recruit and set up management teams for first two operating divisions and shared services unit.
- Begin operational implementation of new organization..
- Recruit heads of remaining operating divisions.
- Complete revised strategic plan for technology modernization and begin implementation of initial releases.

Risks and schedules

An essential aspect of managing risk in this change program is properly managing and communicating the schedules and dates for accomplishing particular change events. This huge change process carries with it risk, and the decision as to when and how to proceed must be carefully evaluated and reevaluated in light of all information available at each point in time. Proper risk management depends on constantly using this information to set and reset schedules. Failure to manage risks and schedules in this flexible way enormously increases the likelihood of failures and frequently ends up delaying, rather than accelerating, actual progress.

The role of high-level planning and the presentation of overall milestones, such as those presented in this testimony, are to allow for the setting of priorities and the initiation of more detailed planning and implementation projects. Given the nature of this change process, it is extremely important for management to keep all key stakeholders informed on a regular basis and to explain the intent of presenting various milestones and schedules. It is important for stakeholders to understand the nature of this process, and to evaluate the program based on overall progress towards the strategic goals, rather than placing undue significance on the date on which particular events occur.

Management process

Since the IRS is undergoing extensive change in each of the dimensions described above while current operations continue uninterrupted, an appropriate management process must be established. Each of the dimensions of change affects various parts of the existing operations and requires both high-level leadership and decision making to address major issues and intensive daily management of massive levels of detail and analysis. Finally, each dimension of change requires special expertise and knowledge of best practices used in other private and public sector organizations around the country.

To manage these changes, the IRS established a tailored management process for each area of change. In each change area, an executive steering committee acts as the top-level governing body. The executive steering committee consists of the Commissioner and the senior executives responsible for all the major areas affected by the change.

The purpose of these executive steering committees is to provide consistent direction and prompt decision making on all major issues that affect progress in the change areas. For 1999, we have six Executive Steering Committees: (1) Y2K/Filing Season; (2) Taxpayer Treatment and Service Improvement; (3) Organization Modernization; (4) Measures; (5) Business Process/Technology Modernization; and (6) Internal Management Processes.

Under the general direction of the executive steering committee, there is a program office headed by a senior executive that manages the on-going program and also provides staff support to the committee. The program office maintains plans, performs analyses and provides detailed management and guidance to whatever organizational components within the IRS are necessary for implementation of changes.

I would like to now discuss some of the major changes we are managing: (1) the Y2K Century Date Conversion; (2) the 1999 filing Season; (3) Modernization; and (4) the FY 2000 Budget.

Y2K CONVERSION

The IRS made significant progress in preparing for the Year 2000. As of last month, approximately 93 percent of our mission critical systems were made Y2K compliant and successfully placed back into production for the 1999 filing season. In fact, as of April 2, 1999, we have processed over 60 million of the 70 million returns received. This is three percent more than last year. In addition, any problems that we encountered had a minimal impact on a small number of taxpayers and were generally fixed within 24 hours of being identified. We believe that the success of this year's filing season is a reflection of the quality of the work being performed to prepare the IRS for the Year 2000.

From April on, most of our efforts will be applied to wrapping up remediation activities on some smaller systems, infrastructure components and most importantly, completing the full-scale End-to-End Testing. While this picture is generally positive, I want to emphasize that there is still risk and a great deal of work to be done.

Ensuring Our Success

There are a number of factors and efforts that I believe will contribute significantly to a successful Y2K effort: management commitment, independent assessment and managing priorities.

Y2K is an IRS top priority, as well as one of my own this year. In support of our Y2K repair project, I chair a monthly Executive Steering Committee and I meet regularly with the IRS' Chief Information Officer and other key executives to obtain individual project status updates, monitor key risks, and to ensure that all necessary actions are being taken.

We continue to receive independent assessments of our work from Booz•Allen & Hamilton, Inc. and Northrop Grumman, Inc. Booz•Allen is performing risk identification and assessment on all Century Date Change (CDC) Program activities, while Grumman is performing a 100 percent review of our code renovation. They have reviewed over 75 percent of our code and have found only one in every 30,000 lines of code that requires reprogramming.

We also prioritized our schedule so that systems involved in the filing season were either converted, tested, and implemented in January or held off until after the filing season. If we do not continue to manage risks and schedules in this flexible fashion, we may increase the likelihood of failure and end up delaying, rather than accelerating, actual progress.

Current Priorities

As we move into the spring of 1999, we will focus our Y2K conversion efforts in a few key areas.

Improved Tracking Mechanism

Based on a GAO recommendation, we recently developed a matrix that relates all of our applications to their respective infrastructure systems. In the past, we tracked infrastructure separately. The new matrix approach allows both IRS and outside organizations to better track our progress toward becoming Y2K compliant.

End-to-End Testing

Like many other organizations, we are conducting integrated tests to ensure that our Y2K remediated systems will actually function *together* once we reach January 2000. We have been conducting End-to-End Testing since last July and have been successful to date. As we move towards the summer of 1999, we will begin incorporating more and more of our mission critical systems into the End-to-End tests. These activities leading up to the Fall of 1999 will prepare us for the final phase of End-to-End Testing which begins in October. During this last phase, all of the tax law changes for Filing Season 2000 will have been incorporated into our software applications. This will allow us to run the test in an environment that is as close as possible to what we will actually face in the Year 2000.

End Game Planning

We are also devising an "end game" strategy that will guide our activities during the critical "rollover" weekend of December 31, 1999 through January 2, 2000. End game plans will be developed for all of our organizations that are critical to tax processing activities.

Taxpayer Impact

We want to be sure that taxpayers who attempt to file in good faith or pay on a timely basis are not harmed because of a Y2K computer problem beyond their control. At the present time, the IRS has discretion to abate penalties for reasonable cause, but has only limited discretion to abate interest. We are now working with the Treasury Department to develop abatement policies and recommendations to address this issue. We will certainly keep you aware of our progress and advise you of any legislative changes that may be needed.

Contingency Planning

The IRS is also developing contingency plans that outline the necessary procedures to follow in the event that any of the IRS' mission critical tax processing systems suffer a major failure. These plans concentrate on those areas that have the greatest impact on tax processing activities in addition to the areas we know to be particularly affected by the Y2K problem. We do not think we will encounter such a failure, but it is better to have plans ready in case they are needed.

1999 FILING SEASON

The IRS is having a very successful filing season, especially given the enormous challenges and risks we faced when nearly all of our mission critical systems were made Y2K compliant and placed back into production for the 1999 filing season. The massive amount of change made to our systems in the last year, coupled with the extremely heavy volume of processing that occurs during the filing season, posed major risks as we began the season.

However, I am pleased to report that by managing this massive risk and change in an orderly and integrated fashion, the 1999 tax filing season has been relatively error free to date. Projected net collections for FY 1999 are $1.7 trillion. During FY 1999, we also project to receive, 228 million returns, including over 126 million individual returns, and expect to issue over 93 million individual refunds. As of April 2, 1999, refunds are up almost four percent over last year, and the average refund is $1,575 . On-line filing is running 156 percent ahead of last year's pace and has already exceeded last year's total volume of 942,000. And of course, the successful completion of the filing season is a major milestone on the road to solving the Y2K problem.

In addition to the Y2K conversion and filing season challenges, we are also managing pervasive change in many dimensions of the IRS in response to the direction given to us by the public and Congress in the IRS Restructuring and Reform Act of 1998 (RRA 98). These include:

- implementing 157 near-term initiatives to improve service and treatment of taxpayers, of which 82 are mandated by the IRS Restructuring and Reform Act of 1998 (RRA 98);
- implementing 1,260 tax code changes from the Taxpayer Relief Act of 1997 and RRA 98, many of which require significant and complex interpretations to guide taxpayers and employees;
- completing the planning for a fundamental reorganization of the IRS to increase accountability for meeting taxpayer needs;
- taking the first steps in a long-term effort to redesign and replace our business systems and supporting information technology;
- implementing a completely redesigned and balanced system for measuring performance throughout the organization; and
- providing essential training related to all these many changes for nearly every one of our over 100,000 full time and seasonal employees.

In summary, much has been done and some critical risks have been managed, but far more changes and many more risks lie ahead. Let me address the major areas of current activity.

ELECTRONIC TAX ADMINISTRATION

Today, I want to highlight our progress in several critical areas this filing season including: electronic tax return filing; electronic payments, and direct deposit.

Individual Taxpayers

The 1999 filing season is turning out to be another growth year for Electronic Tax Administration as more taxpayers than ever before are enjoying the benefits of filing taxes electronically. Through April 2, 1999, nearly 25 million individual taxpayers filed using one of three convenient *e-file* options; a 16 percent increase over the same period last year.

- Nearly 18.4 million taxpayers *e-filed* their tax returns electronically through an IRS-authorized Electronic Return Originator (ERO); a 17.7 percent increase over the same period last year.

- Approximately 1.8 million taxpayers filed their tax returns on-line via their home computer through a third party transmitter. On-line filing is running 156 percent ahead of last year's pace and has already exceeded last year's total volume of 942 thousand.

- Almost 4.8 million taxpayers filed their returns over the telephone using the award winning TeleFile system. For the first time, taxpayers in Indiana and Kentucky can file both their federal and state returns in a single telephone call during the pilot of the first Federal/State TeleFile option.

- Overall, 7.4 million taxpayers have chosen to file both their federal and state tax returns simultaneously in a single electronic transmission. This year, 35 states and the District of Columbia are participating in the program.

In addition, this filing season the IRS is conducting two pilots which provide a paperless filing experience for thousands of taxpayers. These pilots involve the use of Personal Identification Numbers (PIN) as the taxpayer's signature, thus eliminating the need to file the paper signature *jurat*.

- Nearly 452,000 taxpayers have participated in the On-Line Signature Pilot where the IRS distributed *e-file* Customer Numbers to taxpayers who prepare their own returns using tax preparation software to file from their home computers.

- Another 322,000 taxpayers have participated in the Practitioner Signature Pilot where taxpayers choose a PIN when filing through 8,100 participating practitioners.

Also new this year, taxpayers filing balance due returns have several options for not only filing electronically, but paying electronically as well.

- Over 33,000 taxpayers filing balance due returns paid using an Automated Clearing House (ACH) debit as part of their electronic return. Taxpayers can file early and have the debit occur as late as April 15th.

- Another 5,600 taxpayers used credit cards to pay the taxes due as part of two credit card pilots that the IRS is conducting this year. Under the first pilot, US Audiotex (San Ramon, CA) is processing credit card payments over the telephone. After *e-filing* by computer — either from home or through a tax preparer — or by TeleFile, a taxpayer can charge the balance due with a toll-free phone call. US Audiotex is accepting MasterCard, Discover or the American Express card. In the second pilot, individuals using Intuit's (Mountain View, CA) TurboTax or MacInTax software to *e-file* from their computers are able to use a credit card to pay the balance owed to the IRS. Taxpayers can charge their balance due to a Discover Card brand.

Business Taxpayers

Business taxpayers are also benefitting from the wide range of electronic filing and payment options that are available to them.

- On February 16, 1999, the IRS announced that taxpayers have made more than $2 trillion in tax deposits electronically since the government established the Electronic Federal Tax Deposit System (EFTPS) in November 1996. Over two million businesses are now enrolled in the Hammer Award-winning EFTPS system which allows taxpayers to make their federal tax deposits over the telephone or by using a personal computer, eliminating the need for paper deposit coupons, checks, or trips to the bank. During FY 1998, taxpayers made $1.2 trillion in tax deposits through EFTPS which accounts for over 80 percent of all federal tax deposits.

- During Fiscal Year 1998, 750,000 quarterly employment tax returns were filed over the telephone by small businesses, in addition to the nearly 582,000 Forms 941 that were filed electronically by payroll service providers. In FY 1999, the IRS expects over 2.3 million Forms 941 to be either filed electronically or over the telephone.

- Under the Simplified Tax and Wage Reporting System (STAWRS), the IRS is working with other federal agencies and states to reduce employer burden by conducting single point filing projects in the states of Iowa and Montana, establishing a Harmonized Wage Code database, and improving customer service.

PROVIDING INFORMATION AND SERVICE TO TAXPAYERS

From web-based technology to 24 hour-a-day/7-days-a-week phone service to sitting down one-on-one with a taxpayer with a problem, the Internal Revenue Service is working to provide the easiest and most efficient ways for taxpayers to get the information and assistance they need not only during filing season, but throughout the year.

Web Site

An increasing number of taxpayers are discovering that the IRS home page on the World Wide Web (www.irs.ustreas.gov) is an excellent and convenient source for tax forms and tax information. And they can get them around-the-clock, 365-days-a-year and from anywhere in the world. Since coming on line in January 1998, taxpayers have downloaded over 69 million forms, publications and products. For the first two months of the filing season there have been over 24 million downloads as compared to 9.4 million for the same period in 1998 — an increase of almost 150 percent.

Web Site Alerts

This filing season, the IRS also created a new page found on its web site to alert taxpayers and practitioners about problems that could affect them. Similar to a product recall notice, the "Special Taxpayer Alert," describes the problem, its scope — such as the number of people likely to be affected, where they are located — and most importantly, what the IRS is doing to fix the problem, and what, if anything the taxpayer needs to do about it. In most cases, taxpayers do not have to take any action. However, if they want more information, taxpayers can call our toll- free, 24 hour-a-day/7-day- a week phone number 1-800-829-1040. Thankfully, there were few problems to report on the "Special Taxpayer Alerts Page."

Web Site Small Business Corner

The Small Business Corner located on the IRS web site was inaugurated in January 1999 to benefit the over 23 million small business taxpayers and the 800,000 start-up businesses begun each year. It is intended to provide these taxpayers with easy-to-access and understand information. This type of convenient "one-stop shopping" for assistance could provide most, if not all of the immediate products and services that a small business needs. If also offers the potential for Web-based Q&As which can help the IRS identify and address trends and systemic problems. Improved electronic access to information should also result in decreased demand for telephone and walk-in assistance.

CD-ROM

The Federal Tax Forms CD-ROM contains more than 600 tax forms and instructions, and some 3,000 pages of topic-oriented tax information. Users can electronically search, view-on-screen, or print-out any of the items contained on the CD. In conjunction with the Small Business Administration, the IRS also recently produced the joint small business CD-ROM, "Small Business Resource Guide: What You Need to Know About Taxes and Other Topics." It is an interactive multi-agency product utilizing the latest technology to provide the small business taxpayer with easy-to-access and understand information. A total of 17,000 copies will be available for distribution; half of which will go to SBA Small Business Information Centers.

TELEPHONE ASSISTANCE

24/7 Phone Service and Access

One of the hallmarks of the IRS' new commitment to providing top quality service to taxpayers is 24 hours-a-day/7 days-a-week toll-fee telephone service (1-800-829-1040) which we began on a trial basis at the end of the 1998 filing season. So-called "24/7" phone service became a permanent IRS service feature on January 4, 1999. As of March 27, 1999, more than 28 million taxpayers have been served, compared to almost 30 million over the same filing period last year.

As the subcommittee is aware, the expansion of hours of service to 24 hours/7 days a week, combined with increased training demands to implement the new tax law and preceding requirements, did cause the effective level of service to decline, especially during the beginning of the filing season. For the season as a whole so far, our level of access is 68 percent in 1999 compared to our target range of 80-90 percent. In the last four weeks, however, the level of access averaged 88 percent.

One of the very important steps we are taking to improve telephone service is to change the way we measure service and quality to better reflect the real world way that taxpayers receive it. These are more stringent, but also more useful ways, of measuring.

Concerning access, we have begun to measure the percentage of calls in which the taxpayer receives actual service, in relation to the percentage of time the taxpayer simply gains access to our system. In terms of call quality, we are now rating the quality of a sample of actual taxpayer calls and rating those who receive complete and accurate service, as well as technical tax law or account accuracy.

In order to deliver truly high quality communication to taxpayers, we need to improve the management, organization, technology and training that support these operations. This is a major objective of our overall modernization program.

Forms By Fax

Taxpayers can receive about 100 different tax forms 7 days-a-week, 24-hours-a-day from IRS TaxFax. In addition to forms and instructions, taxpayers can receive faxed copies of TeleTax topics and small business newsletters. Taxpayers use the voice unit of their fax machine to dial the service at 703-487-4160. The only cost to the taxpayer is the cost of the call.

Recorded Tax Information

TeleTax has 148 topics available 24 hours a day using a Touch-tone phone. Taxpayers can call (toll-free) 1-800-829-4477 to hear recorded information on tax subjects such as earned income credit, child care/elderly credit, dependents or other topics such as electronic filing, which form to use, or what to do if you cannot pay your taxes. Nearly nine million taxpayers used TeleTax last year for recorded tax information. As of March 27, 1999, over six million taxpayers have taken advantage of this option.

Automated Refund Information

Last year more than 52 million taxpayers used the Automated Refund Information system on TeleTax to check on the issuance of their refund checks. As of March 27, 1999, the number stands at nearly 22.5 million. Taxpayers may call 1-800-829-4477 to check on their refund status Monday through Friday from 7 a.m. to 11 p.m. if using a Touch-Tone phone, or 7:30 a.m.— 5:30 p.m. for rotary or pulse service.

WALK-IN ASSISTANCE

Saturday Service

Delivering on its promise to supply even more reliable and helpful taxpayer assistance, the IRS provided Saturday walk-in service during the 1999 filing season on 13 Saturdays at nearly 262 locations nationwide, compared to six Saturdays in 178 locations in FY 1998. As of March 27, 1999, we served over 122,000 taxpayers on weekends. So far this filing season, we have served over 4.3 million taxpayers at all of our walk-in sites — a five percent increase over last year.

The first six Saturday sessions focused on assisting low-income taxpayers who may be eligible for the earned income tax credit (EITC). We assisted over 15,000 EITC taxpayers through March 20, 1999 compared with about 4,000 during the last filing season

Problem Solving Days

Problem Solving Days continue to be a great success story on the problem resolution front. Begun in November 1997, over 32,000 taxpayers have taken advantage of this innovative program. Monthly Problem Solving Days are held at all IRS District Offices and taxpayers can

make an appointment to meet with IRS personnel to resolve special tax problems they have. In addition, many taxpayers who called to set up an appointment for a Problem Solving Day had their problems resolved over the phone, and never had to come in person.

Mr. Chairman, as I testified earlier this year on the Taxpayer Advocate's Annual Report to Congress, the taxpayer advocates have built a lot of equity into Problem Solving Day and I want to see it continue, but more importantly, I want to build these practices into our everyday treatment of taxpayers. From their many meetings with taxpayers, including Problem Solving Days, they see trends and patterns emerging. If they help us diagnose these overarching taxpayer problems, the National Taxpayer Advocate and I will do our best to get the right prescription to cure them.

Volunteer Programs

During FY 1998, over 3.5 million taxpayers were assisted by more than 39,000 IRS Volunteer Income Tax Assistance volunteers and more than 32,000 Tax Counseling for the Elderly volunteers at a combined 16,500 sites. Last year, 2,400 VITA and TCE sites also provided *e-file* to over 400,000 taxpayers.

We also opened up VITA and TCE offices that were in locations close to our walk-in offices observing EITC awareness day. Our volunteer programs are set up in shopping centers, libraries, churches and community centers. This provided an additional avenue of support to taxpayers visiting an IRS office for EITC assistance.

In addition to this type of volunteer assistance, our outreach program targeted EITC education and assistance. We identified EITC coordinators in our offices who are responsible for the full complement of our EITC outreach activities. Since the end of February, this program has reached nearly 100,000 EITC taxpayers through social workers, community organizations, homeless shelters and similar organizations.

Forms Simplification Research

For the 1999 filing season, we developed 11 new forms and 177 forms and instructions and 39 publications were revised. During 1999, Tax Forms and Publications Division personnel are working with an outside contractor to redesign the earned income credit and child tax credit forms and instructions. As part of the project, focus groups were conducted using the current IRS products. After redesign, focus groups will be conducted to test taxpayers' reactions. A forms simplification research plan is also in development to provide strategies for moving taxpayers to the simpler tax forms and for targeting where revisions are needed.

MORE TAXPAYER RIGHTS

The 1999 filing season brings a major expansion in taxpayer rights due to the landmark IRS Restructuring and Reform Act of 1998. From new rules ranging from protecting innocent spouses to burden of proof to greater power for the National Taxpayer Advocate, taxpayers are finding an array of new options available to assist them.

Delivering on the new law and the hundreds of specific changes to both the tax code and our organization is an enormous task. As I previously noted, we are in the process of: (1) implementing 157 near-term initiatives to improve service and treatment of taxpayers, of which 82 are mandated by the Restructuring Act; (2) implementing 1,260 tax code changes from the Taxpayer Relief Act of 1997 and the Restructuring Act, many of which require significant and complex interpretations to guide taxpayers and employees; and (3) providing essential training related to these many changes to nearly every one of our over 100,000 employees.

The IRS is fully committed to implementing these laws and changes on behalf of America's taxpayers. However, as in any cases where there is such a multitude of change, problems and mistakes may occur and timetables may need to be adjusted.

Strengthening the Taxpayer Advocate

The power of the National Taxpayer Advocate was significantly expanded by the Restructuring Act which both enhanced the role and independence of the National Taxpayer Advocate. The expansion includes creating a national system of taxpayer advocates serving in local IRS offices. These local taxpayer advocates also work independently, reporting to the National Taxpayer Advocate rather than to the IRS' examination, collection and appeals functions. The Act also increased the presence of local taxpayer advocates so that one will be available to taxpayers in each state.

One of their tools is the Taxpayer Assistance Order, which can be requested by a taxpayer suffering or about to suffer a "significant hardship" involving tax law administration. The orders can be issued if the National Taxpayer Advocate determines a significant hardship exists that justifies granting the emergency assistance order.

Easier Access to The Problem Resolution Program

This filing season, the National Taxpayer Advocate also spotlighted the Problem Resolution Program with a new toll-free number for people with long-standing tax troubles. The hotline for help — 1-877-777-4778 — is available for taxpayers who have not been able to promptly resolve problems through normal IRS channels. The call puts taxpayers in touch with the trouble-shooters at the Problem Resolution Program. A personal taxpayer advocate will be assigned to each taxpayer to help clear up problems and ensure each case is given a complete, impartial review. For routine questions, taxpayers are asked to first call 1-800-829-1040 before calling the Taxpayer Advocate's Problem Resolution Program number.

Citizen Advocacy Panel

On March 16, 1999, National Taxpayer Advocate Val Oveson introduced the Brooklyn District's Citizen Advocacy Panel (CAP), bringing the total number of panels to four. There is now a CAP in each of the four geographic regions of the United States. The other three are located in the South Florida District (Ft. Lauderdale); Midwest District (Milwaukee); and the Pacific Northwest District (Seattle).

CAP members are non-tax experts from the local community who will help identify problems and make recommendations to improve IRS systems and operations. They will help the IRS identify taxpayer issues and concerns; give taxpayers a voice; and provide an additional avenue for taxpayer access to problem resolution procedures

TAXPAYER BURDEN AND PAPERWORK REDUCTION

Chairmen Horn and McIntosh, I would like to turn to another topic, paperwork burden and reduction for America's taxpayers.

Requirements of the Paperwork Reduction Act

First, let me provide some background. The Paperwork Reduction Act (the Act) requires each Federal agency to seek and obtain Office of Management and Budget (OMB) approval before undertaking a collection of information directed to ten or more persons. This includes, for example, tax forms, regulations, surveys, and questionnaires.

OMB approval can last a maximum of three years and must be renewed before it expires. The Tax Forms and Publications Division serves as the IRS' central clearance office for reviewing OMB submissions and obtaining OMB approval.

Specifically, and most importantly in the context of today's hearing, the Act sets forth an annual government-wide goal for the reduction of burden by at least 10 percent during each of Fiscal Years 1996 and 1997, and five percent during each of Fiscal Years 1998, 1999, 2000, and 2001.

OMB must also prepare an annual Information Collection Budget (ICB), which describes the government's efforts to monitor and reduce the paperwork burden it imposes on the general public. IRS burden reduction initiatives are included in the ICB which I will discuss in greater detail.

In addition, OMB must coordinate government-wide policy in the areas of dissemination of information, the utility of the Federal statistical system, and the acquisition, use, and management of information technology.

IRS Paperwork Burden

The current burden imposed by IRS collections of information is 5.8 billion hours. The IRS burden is approximately 80 percent of the total government-wide burden. This is due in part to the fact that IRS touches virtually every single U.S. citizen, even those living in foreign countries.

However, it is also important to place these numbers in context. Our self-assessed tax system relies on taxpayers to correctly calculate their tax liability and report that liability to the IRS. IRS collections of information are mostly statutory and are necessary to administer the Internal Revenue Code.

The question that is often asked is, "Why are the numbers going up?" As recently reported by the General Accounting Office, most of the increases in our burden-hour estimates were due to factors outside of our control, such as changes in economic activity and new legislative requirements.

For example, provisions of the Taxpayer Relief Act of 1997 caused the IRS burden to increase by over 64 million hours in FY 1998. This was largely due to changes in the calculation and reporting of capital gains taxes. It also increased by over 92 million hours in FY 1999 mostly due to new individual tax credits and increased earned income credit reporting.

In terms of tax law changes, we implemented 1,260 changes for this filing season. This resulted in 11 new forms being developed and 177 forms and instruction and 39 publications being revised. In some cases, the legislation driving the needed changes was not final until October of last year, leaving little time for stakeholder input into the process, which in our experience can significantly reduce burden.

In addition to the statutory increases, there have also been IRS driven increases, such as more n attachments to the Form 1040. Mr. Chairman, very rough numbers taken from current information indicates that IRS programs reduced burden in selected areas by 44 million hours in FY 98, but at the same time generated over 50 million hours in increased burden in other areas.

Burden Estimating Methodology

To address the requirements of the 1980 Paperwork Reduction Act to estimate the paperwork burden of the tax system, the IRS contracted with Arthur D. Little Company. The Arthur D. Little study, performed in 1983-84, was released in 1988. The study was designed specifically to address the 1980 Paperwork Reduction Act requirements. IRS was one of the few agencies to develop a burden estimation methodology. Since then, however, problems have been identified with the study.

Most obviously, the study was done in 1983-84, and is now 15 years out of date. Furthermore, it does not take into consideration the many significant changes in the law since it was conducted.

In addition, the Little study ignores the post-filing burden imposed on taxpayers, such as the burden incurred when the returns are found deficient in some respect either in the processing or by examination. Moreover, it does not look at other preparation methods, such as paid tax preparers and software usage and additional filing technology such as electronic filing and TeleFile.

Finally, it estimates burden by counting the number of lines on forms and then converting these data to hours of time expended. Even if a line actually reduces the burden on taxpayers, it is technically counted as an increase.

The methodology we are now developing to measure taxpayer burden is designed to capture more data consistent with a broader definition of taxpayer burden. The new Burden Estimating Methodology will resolve the problems with the Arthur D. Little study and will allow for accommodation of changes in taxpayer behavior, changes in how the Internal Revenue Service administers the Tax Code, changes in the Tax Code and the introduction of additional or reduced complexity.

The first phase of the new study addresses individual taxpayers. It can be updated regularly, and will include pre-filing, filing, and post-filing burden; will allow for a variety of preparation methods, such as paid preparers and software; will allow for a variety of filing methods, such as electronic (e.g. *e-file*), TeleFile, and paper; and will take into account out-of-pocket costs.

Examples of IRS Burden Reduction Initiatives

The annual Information Collection Budget that IRS submits to the Department of the Treasury summarizes the IRS' burden reduction initiatives. The following are examples of ongoing and future initiatives included in that report.

Form 941 TeleFile — During 1998 the Form 941 TeleFile program was expanded nationwide. Also, the requirement that employers must have a balance due of less than $500 to file Form 941 using TeleFile has been eliminated for 1999. This will significantly increase the number of employers who will be eligible to use TeleFile. In addition OMB estimates that by using 941 TeleFile, we reduce these taxpayers burden by 14 million hours.

Simplification of Form 5500 Series — Form 5500, Annual Return/Report of Employee Benefit Plan, and related Forms 5500-C and 5500-R are being replaced with one streamlined Form 5500 for use by all filers for the 1999 plan year. Forms 5500-C and 5500-R will be eliminated and small benefit plans will have less extensive reporting requirements.

1998 Form 1040 Tax Packages — The tax packages have been improved to promote electronic filing and highlight tax law and form changes to make it easier for taxpayers to find the information they need. The graphics have also been improved by adding more white space and larger print for improved readability. Let me point out that extensive changes were made to the instructions of Form 1040-ES (Estimated Tax for Individuals) that resulted in a decreased burden of 3.7 million hours.

Moving Expense Reporting — The IRS combined annual Form 3903, Moving Expense, and annual Form 3903-F, Foreign Moving Expenses, into one continuous-use Form 3903. This change simplifies the choice for taxpayers as to which form to use and saves taxpayer dollars by only having one form that does not automatically need a revision each year.

Employment Tax Deposit Threshold — Effective July 1, 1998, the IRS increased the threshold for deposits of employment taxes from $500 to $1,000. This regulatory change significantly reduces the reporting burden for an estimated 1.5 million employers who will no longer be required to complete the Federal Tax Deposit coupons (or make deposits) or complete the record of tax liabilities on the employment tax forms.

Substantiation of Business Expenses for Travel, Entertainment, Gifts, etc. — Existing regulations had required supporting evidence, such as a receipt, for all expenses of $25 or more for travel, entertainment, gifts, etc. The regulations were revised in 1997 to raise this receipt threshold to $75, thus reducing the paperwork burden on taxpayers.

Burden Initiatives FY '99 and '00

Earned Income and Child Tax Credits Project — The IRS plans to hire a private contractor to apply innovative document design and writing techniques to simplify the Form 1040, 1040A, and 1040EZ earned income credit instructions and child tax credit instructions and worksheets. Work is also being performed on Form 8812, Additional Child Tax Credit, and Publication 596, Earned Income Credit. The objectives are to increase taxpayers' awareness and understanding of the credits and thereby reduce errors in claiming them.

Rewrites — As I have previously mentioned in my testimony, we will begin the rewriting of notices by a private contractor.

Electronic Tax Administration

Electronic filing holds one of the biggest keys to reducing taxpayer burden. Filing a federal tax return electronically — by TeleFile, IRS *e-file* using a practitioner, on-line using a personal computer — has never been simpler or more convenient. Not only does IRS *e-file* result in a faster refund; it also reduces taxpayer burden. Let me recap the key points. For example:

- More accurate returns mean there is less chance of getting an error letter from the IRS that will require both the IRS' and the taxpayer's time and energy to resolve.

- Quick electronic confirmation provides taxpayers with the peace of mind that their return has made it to the IRS.

- Ease of payment means that taxpayers don't have to write out a check and mail it separately to the IRS. Instead, they can choose the convenience of paying by credit card or Automated Clearing House (ACH) debit.

- No paper allows eligible taxpayers to sign their returns with an alternative method that eliminates the need to mail a paper signature to the IRS.

Through April 2, 1999, nearly 25 million individual taxpayers have enjoyed the benefits of IRS e-file — a 16 percent increase over the same period last year. In addition, 18.4 million taxpayers e-filed their tax returns electronically through an IRS-authorized Electronic Return Originator (ERO) — a 17.7 percent increase over the same period last year.

Approximately 1.8 million taxpayers have already filed their tax returns on-line via their home computer through a third party transmitter. On-Line filing is running 156 percent ahead of last year's pace and has already exceeded last year's total volume of 942,000.

Nearly 4.8 million taxpayers filed their returns over the telephone using our award winning TeleFile system. The telephone call takes about ten minutes, and the IRS computes the adjusted gross income, standard deduction, exemption, taxable income, tax and any earned income credit plus any refund or tax due, while the taxpayer is on the line.

New For This Year

Taxpayers in Indiana and Kentucky also enjoy the convenience of filing both their federal and state returns in a single telephone call during the pilot of the first Federal/State TeleFile option. Overall, 7.4 million taxpayers have chosen to file both their federal and state tax returns simultaneously in a single electronic transmission. This year, 35 states and the District of Columbia are participating in the program.

In addition, this filing season nearly 452,000 taxpayers have participated in the On-Line Signature Pilot where the IRS distributed e-file Customer Numbers to taxpayers who prepare their own returns using tax preparation software to file from their home computers.

Another 322,000 taxpayers have participated in the Practitioner Signature Pilot where taxpayers choose a PIN when filing through 8,100 participating practitioners.

Also new this year, taxpayers filing balance due returns have several options for not only filing electronically, but paying electronically as well. Nearly 33,000 taxpayers filing balance due returns have paid using an Automated Clearing House (ACH) debit as part of their electronic return. Taxpayers can file early and have the debit occur as late as April 15.

Approximately 5,600 taxpayers have used credit cards to pay the taxes due as part of two credit card pilots that the IRS is conducting this year. Under the first pilot, US Audiotex (San Ramon, CA) is processing credit card payments over the telephone. In the second pilot, individuals using Intuit's (Mountain View, CA) TurboTax or MacInTax software to e-file from their computers are able to use a credit card to pay the balance owed to the IRS.

Specific Initiatives — Business Taxpayers

Business taxpayers are also benefitting from the wide range of electronic filing and payment options that are available to them.

Over two million businesses are now enrolled in the Vice President's Hammer award winning Electronic Federal Tax Payment System (EFTPS) which allows taxpayers to make their federal tax deposits over the telephone or using a personal computer, eliminating the need for paper deposit coupons, checks, or trips to the bank. On February 16, 1999, the IRS announced that taxpayers have made more than $2 trillion in tax deposits electronically since the government established EFTPS in November 1996.

During Fiscal Year 1998, 750,000 quarterly employment tax returns were filed over the telephone by small businesses, in addition to 582,000 Forms 941 that were filed electronically by payroll service providers. In Fiscal Year 1999, the IRS expects over 2.3 million Forms 941 to be filed either electronically or over the telephone.

Under the Simplified Tax and Wage Reporting System (STAWRS), IRS is working with other federal agencies and states to reduce the wage and tax-reporting burden on employers. This includes conducting single point filing projects in the states of Iowa and Montana, establishing a Harmonized Wage Code database and improving customer service.

Customer Service Initiative

We have a four-year effort to obtain sufficient funding for the training required to increase competencies. This initiative will enable the IRS to achieve top quality customer service by developing and delivering training to improve services to taxpayers, and by providing the technology and infrastructure necessary to invigorate IRS training quality and capacity.

New Forms and Publications

The second part of burden reduction strategy for 2000 is to simplify commonly-used tax forms and instructions and produce new "lifetime event" publications, to redesign the Small Business Tax Education Program and to develop new taxpayer education materials.

MODERNIZATION

Mr. Chairman, a little more than a year ago, I presented to the Congress our concept to modernize the IRS. A year ago, it was just that — a "concept." However, a year later we have achieved a number of milestones in our modernization plan that I want to share with you today.

This real progress is due to the Restructuring Act which gave us our marching orders and the tools to implement the practical changes needed to move the IRS in the direction of seeing our operations, and their impact from the taxpayer's point of view.

The short-term improvements that I described are important, but they will not enable the IRS to meet the public's expectations. More fundamental changes are needed in nearly all aspects of the way the IRS does business. To succeed, this modernization process must address both soft issues — like culture and attitudes — and hard issues — like organization structure and technology. Today, I want to discuss the progress we are making on the three modernization fronts: reorganization, balanced measure of performance and technology.

Reorganization

The Restructuring Act directed the IRS Commissioner to restructure the IRS, establishing it as an organization built around serving particular groups of taxpayers with similar needs. Under our plan, which we are beginning to implement, the IRS will be based on four business units each charged with full end-to-end responsibility for serving a different group of taxpayers. The four units are: (1) Wage and Income, (2) Small Business and Self-Employed, (3) Large and Mid-size Business, and (4) Tax Exempt.

Obviously, their needs and problems are indeed very different. And serving them effectively and efficiently will require different services, different ways of delivering that service and different technical expertise to do it.

I want to stress that the IRS restructuring is not just a rearrangement of organizational boxes. Rather it's designed to implement our new approach to tax administration, which is to work **with** taxpayer groups to understand **taxpayer** problems and **taxpayer** needs from **their** point of view — and then tailor and improve taxpayer programs to meet them.

Balanced Measures of Performance

The techniques that an organization uses to measure its performance go to the heart of what the organization really values. And in the IRS, as elsewhere, what the organization values is communicated through a variety of means, both explicit and implicit, including what behavior is rewarded, ignored or punished.

For many years too, enforcement statistics, especially enforcement revenue, were a key issue in measuring performance at the IRS. Enforcement statistics are counts of actions taken, such as number of levies or seizures, and enforcement revenues are counts of revenue gained from enforcement activities, such as audits or collection actions.

Critical to creating an appropriate balanced measurement system is establishing the measurements based on what we need and want to measure in order to achieve our strategic goals and mission, rather than simply what is most easily measured.

Also critical to the measurement system is following the guiding principle that measures must be aligned at all levels, from the top to the front-line employee. This means that the measures or evaluations are aimed at encouraging the type of behavior that will advance the organization's overall strategic goal — service to each taxpayer, service to all taxpayers and productivity through a quality work environment — and do not encourage inappropriate behavior.

Since the beginning of the year, we have introduced in concrete terms "balanced measures of performance." At the IRS, for the first time, customer satisfaction, business results and employee satisfaction will now carry the same weight. And business results will be determined by both quantity **and** quality.

This whole process also implies profound changes in the way IRS employees work with each other in the IRS and how they interact with taxpayers. All of out actions must be looked at as if we were standing in the taxpayer's shoes. Good quality work at the IRS will be the result of understanding the taxpayer's point of view and the law — not one or the other.

Technology

The IRS' installed inventory of information technology is the principal tool that IRS front-line workers and managers use to deliver services to taxpayers and to manage the organization. Nearly all IRS employees depend on the IRS computer systems every day to do their jobs, including over 70,000 individuals who use these systems to provide direct service to taxpayers. In terms of resources, the cost of IRS staff and information technology makes up nearly the entire budget, with staff costs comprising 70 percent and information technology making up 18 percent.

The IRS technology inventory is very large and diverse, comprising at present approximately 84 mainframe computers from four vendors , approximately 1,500 mid-range computers from 23 vendors, and over 100,000 individual computers. These computers run over 18,000 vendor-supplied software products and 50 million lines of IRS-maintained computer code. There are three major wide area data networks and 1,182 local area networks. The IRS voice network processes 143 million phone calls per year.

As in any information-intensive organization, the current IRS computer systems are a reflection and codification of IRS' established business practices and organization structure, as well as specific tax code provisions. For example, there are three different systems to support collection activities because there are three different kinds of organizational units that perform collection activities, each using particular business practices. The IRS inventory of hardware and software products is very heterogeneous, in part because each service center and region would sometimes procure different products and, even when using the same products, would use them in slightly different ways. In addition, IRS technology inventory includes many specific programs and systems that have evolved in response to specific provisions of the tax code. This process of change continues, with over 800 tax code changes and many procedural changes being implemented for the FY 99 filing season alone.

The large and extremely fragmented nature of the IRS technology inventory creates many problems, including high cost and poor service to end users, high costs and long time lines to implement changes and improvements, and difficult control and security issues.

While large in size, many of the IRS' information technology problems are similar to those of other large organizations that have installed technology piecemeal over a long period of time without a strong focus on professional management of information technology resources from the top. However, the IRS also has a very special problem that is a serious, on-going risk and a fundamental barrier to achieving its strategic goals. This problem is that the core data systems that keep records on taxpayers' tax accounts are fundamentally deficient.

The essential system on which all taxpayer accounts are maintained is called the Master File system. This system was developed in the 1960s in order to provide the first consolidated records of taxpayer accounts. It consists of a series of very large tape files, one set for individual taxpayers and another for business taxpayers. Since it is a sequential tape file, it cannot be updated directly. It is updated once a week based on input from other systems, a process that takes three days. From the Master Files tape system, some records are extracted weekly and are placed on a separate on-line system, the Integrated Data Retrieval System (IDRS), in each of 10 service centers. This IDRS system is used by most IRS customer service representatives and many other front-line employees. Dozens of other specialized systems extract and feed data back and forth through these two basic data systems.

The implications of this situation are serious. Following are some of the more prominent:

- Because of the delays in updating files and the lack of synchronization of data among different systems, IRS employees frequently have inconsistent and out-of-date data about a given taxpayer.

- The Master File computer programs are written to a design and in a language seldom employed anywhere today, and which have the severe limitations of 30-year-old technology. In addition, thousands of changes to the files and the computer code were made over the years, many of which are highly specific to particular sections of the tax code or to IRS procedures. Consequently, very few highly specialized programmers understand this system.

- Because of the limitations of the core systems and the difficulty of changing them, many separate systems grew up to perform specialized functions. In addition to the problems of data synchronization, this situation leads to complex operational problems, great difficulty in making consistent changes to the system as a whole, and increases the chances of errors.

- Some tax law requirements and IRS practices simply cannot be accommodated within the limits of the Master File system, leading to situations where some essential taxpayer data is not even reflected on it. For example, the RRA provision for providing "innocent spouse" relief requires separating a single tax liability on a joint return for the spouses into multiple liabilities that must be tracked separately over time. As the Master Files were not designed for such situations and are limited by 30-year-old sequential file technology, it is not practical to keep such records on the Master Files. So, administration of separate files, and other programs, imposes additional costs and greatly increases the likelihood of error and delays in serving taxpayers.

- Although the Master File system holds the IRS' authoritative financial record for every taxpayer, it does not conform to accepted accounting standards.

Since nearly all IRS systems and procedures require data on taxpayer accounts, the entire IRS inventory of systems is built on a fundamentally deficient foundation. The size of this inventory and databases is comparable to the largest in the world.

Given this situation, the IRS must replace nearly its entire inventory of computer applications and convert its data on every taxpayer to new systems. This must be done in conjunction with redesigned business practices, while continuing to provide service to taxpayers and to respond to ongoing tax law and other changes. This is a vast, complex and risky undertaking that will require many years to accomplish.

The approach that the IRS is taking to deal with this monumental task is to establish an overall architecture for a set of new systems that will accommodate all essential tax administration functions according to modern standards of technology and financial management. Achieving this new system architecture must then be accomplished by defining a sequence of targeted and manageable size projects (known as "releases") that meet important and specific needs while, at the same time, working to complete the overall architecture. During this process, the new and old systems must co-exist and must exchange data accurately for an extended period of time until data is gradually converted from old systems to new ones.

Given this situation, the existing inventory of installed operational systems, commonly called the "legacy systems," must not only be maintained to reflect annual tax law and other business changes. They must also accommodate additional changes in order to bridge to and from new technology systems and convert taxpayer data from old to new formats. Therefore, the demands on the resources and management of the legacy systems staff will increase, not decrease, for the coming years as a result of technology modernization.

In 1997, the IRS published a "technology modernization blueprint" which described a detailed target architecture, including technical, functional and data architecture. It also included a preliminary sequencing plan. This blueprint was an important and valuable step in the process of technology modernization. The speed of implementation of the technology modernization blueprint is subject to three major limiting factors: (1) Capacity to design and develop new business practices and systems; (2) Capacity of the organization to manage the process; and (3) Capacity to make changes in the legacy systems needed to support ongoing operations and temporary integration with new systems.

Of the three factors, the capacity to change the legacy environment is the most constraining. Hence, planning of the technology modernization with the ongoing management of the existing environment is critical.

Because of the close inter-relationships, programs to modernize IRS technology both depend on and enable modernization of the organization and business practices. With respect to organization, there are two important dimensions: how the IRS is organized to manage information technology itself, and how the operational units that manage IRS programs work with information technology to improve business practices and achieve our strategic goals.

Improvements in both dimensions are essential in order for modernizing IRS technology to succeed. Improvements in information technology organization are essential to achieve professional, high-quality results in resource use and in managing technology programs, including modernization of core business systems and management of the legacy systems. And improvements in IRS business organization are essential to create business owners who have the knowledge, authority and commitment to develop improved and consistent business practices.

As part of the IRS overall modernization program, management of essentially all information systems resources was centralized under the Chief Information Officer in October 1998. This was a first step toward creating a professionally managed information technology organization that will provide high-quality, efficient service to all IRS operating units, treating the IRS operating units as customers.

The establishment of IRS operating divisions, as described in the previous section, will enable the appropriate business owner to revamp business practices and work with the information technology organization to modernize supporting technology.

In December 1998, the IRS awarded a PRIME contract to Computer Sciences Corporation and a team of leading technology and consulting firms to be a major partner in managing the modernization of IRS' core business and technology systems.

The modernization of IRS' core systems requires sustained leadership from the top leaders of the entire organization. To provide a framework for the overall management of this process, the IRS established in December 1998 a Core Business Systems Executive Steering Committee, chaired by the Commissioner and including top executives, supported by key staff groups.

Some key operating guidelines about technology modernization were also established, including the following:

- All new systems, large and small, must henceforth conform to the target architecture or get an approved variance. The Program Management and Architecture office within the Chief Information Officer's organization will manage this process.
- All major projects must have committed, engaged business owners, an executive steering committee and an integrated project team. In addition, they should be designed to last a maximum of about 24 months from approval to proceed with development to initial operational deployment.
- Each project will require an approved business case before proceeding to the next phase.
- The process of developing solutions and approaches for each major project will include finding the best practices and products available from the private and public sectors as a basis for the proposed solution.

During calendar year 1999, the technology modernization program will focus on three major objectives:

1. Establishing a clear working governance and management process for core business systems modernization;

2. Launching the first releases for development and deployment; and

3. Creating a top-level, longer-range strategy for developing and deploying core business systems envisioned by the blueprint and for supporting modernized business practices in the new organization structure.

FY 2000 BUDGET

Fiscal years 1999 and 2000 represent a crucial turning point for the IRS. In this period we are aggressively addressing the problems described by Congress and the American people over the past few years. As mandated in the Restructuring Act, the IRS is expected to do a far better job of serving the public based on an much better understanding of the taxpayers point of view. Delivering on this mandate is our top priority in the FY 2000 budget.

We will complete the plan for our new organization structure this year and have already begun implementing parts of it. Much more implementation will occur in FY 2000. Using the authority granted by Congress, we also have put in place a new top management team and are actively recruiting to fill leadership positions in our new operating divisions.

Updating our business practices for dealing with taxpayers requires almost a complete replacement of IRS information technology systems, which are built on a 30-year old fundamentally deficient foundation that cannot provide accurate up-to-date information about taxpayer accounts. And GAO has repeatedly reported IRS cannot provide reliable financial information to manage the Agency. On December 9, 1998, the IRS awarded a Prime Systems Integration Services Contract (PRIME) to Computer Sciences Corporation (CSC) and their partners. We are currently working with CSC to update our strategic systems plan and to implement near-term projects which will focus on improved phone service and electronic filing options.

Despite these many challenges, in preparing the budget request for FY 2000, we are well aware of funding constraints and have therefore requested the bare minimum. Without this funding, the entire reform and restructuring program demanded by Congress and the public could stall, and the risks increase.

The FY 2000 resource request of $8.105 billion will enable steady progress on the many changes needed to deliver on the reform and restructuring program and the Year 2000 Conversion. This request in total is essentially level with resources provided in FY 1999, which totaled $8.125 billion including $505 million from the Y2K emergency fund.

This is an unlikely combination -- major changes requiring investment with a flat budget. This combination is only possible in FY 2000 for three reasons: first, because of the stringent fiscal constraints we are carrying out many of the changes by diverting resources from on-going programs such as compliance; second, the Congress advance funded our ITIA to a level that will sustain us through FY 2000; and third our current estimates of specifically identified and known year 2000 costs are less than the costs for FY 1999.

These three factors enable us to include in our budget request some absolutely essential items for implementing the required changes. These include $40 million for implementing the Restructuring Act's customer service and ETA initiatives, $17 million to train our employees in the tax laws that Congress passed; and $140 million for implementing the modernization plan called for in the Restructuring Act which will increase accountability for service to specific groups of taxpayers. The money for implementing the modernization plan will be used to reorganize and provide new skills for the IRS workforce.

I want to particularly stress that increased training of our employees is essential for delivering on the mandates that Congress gave us and the service that the public expects. About 70 percent of IRS employees deal directly with taxpayers. Taxpayers have every right to expect that in every such encounter with an IRS employee, whether it's a phone call asking a question about how to fill out a return, or a meeting with a revenue agent in an audit, the IRS employee should understand the current tax law and have the skills to understand the facts and circumstances of that taxpayer. A year ago, when I took office, it was abundantly clear that there was already a serious deficit in this area. Since then, Congress has given us the responsibility of implementing 1,260 changes to the Tax Code and a mandate to restructure the whole way we do business with taxpayers. The money in the budget request, including that part included within modernization program, is essential and will only begin to rectify our training deficit.

Overall, this budget will continue the trend of the last six years in which the IRS workforce has been shrinking in relation to the size of the economy. In FY 2000, while the workload grows as a result of the growth in the economy and the additional demands of the Restructuring Act, the total workforce size will remain approximately constant. This trend will only be possible if we make the investments in organization, training and technology that are needed.

CONCLUSION

Mr. Chairmen, I hope you agree that the modernized IRS is coming into sharper focus and that we are providing better service and reducing taxpayer burden. Granted, many of the changes needed to carry out our new mission statement, such as reorganizing our outdated structure and replacing our archaic technology will take years. However, we are convinced of the necessity and value to America's taxpayers of reaching this higher level of performance. With the continued support of the Congress and the American people, we are confident we can succeed. Thank you.

Mr. HORN. Well, thank you very much, Commissioner. We have been joined by Mr. Terry, the gentleman from Nebraska; and we have been joined briefly by Mr. Ose, the gentleman from California, and we now have the ranking Democrat on the National Economic Growth, Natural Resources, and Regulatory Affairs Subcommittee, Mr. Kucinich of Ohio.

And I'm going to begin with some questioning, then I will yield to the cochairman here, Mr. McIntosh. Then we will yield to the ranking Democrat. Each of us is going to take 5 minutes, so staff will please monitor the time so we can get through a lot of questioning.

I'm curious, since you spoke of significant risk associated with the efforts being entertained by—the efforts—you also stated that there is no low-risk plan. What specific risk-management strategies are you deploying?

Mr. ROSSOTTI. Well, we have defined a number of major change areas. For example, the organizational change is one major change area; the replacement of our basic technology systems is another major change area; year 2000 is another area. There are about five of them. And in each one of these, we have a whole management process. At the top is an executive steering group of which in most cases I'm a member, and the key executives who are involved in managing these programs are all part of this process. Then we have a program management office whose staff has the responsibility for day-to-day management and oversight of all the activities that are involved in making these changes.

For example, the first one that we established and the example that is the one that has the most media impact is Y2K. As soon as I got in office I knew that this was clearly a huge change area, over $1 billion affected everything, and we put this process in place. Of course, it's not over until it's over.

But one of the most important milestones in this Y2K issue was the filing season that just ended, because we have almost all of our mission-critical application software systems renovated, made compliant and put back in. We knew that with that much change there could be a lot of risks during the filing season.

So one of the risks would have been major failures during the filing season, incorrect notices, delayed refunds, that sort of thing. Having gotten through that, many of those things didn't happen.

Mr. HORN. If I might, let's take many of those examples because I'm sure there are many other things you want to do also. But one of the things that's long concerned me is what happens to the checks that relate to Social Security and Medicare. An employer sends them in, the employee has a deduction from income. And my understanding is it simply goes in the Treasury bank account at the end of the day and that there's no separate bank account for what is a trust fund.

Now, you have about 14 major trust funds, your money from employers, employees, all depending on what the law is. The people that drive up to the gasoline pump, they've got a tax they pay to the Federal Government to maintain interstate highways and on and on down the line.

How does that system work, and can you really tell as Commissioner how much money came in that day for the Social Security

trust fund, for the Medicare trust fund, for the interstate highway trust fund, the aviation improvement fund that we pay excise taxes every time we buy a ticket, and that's to complete, extend, renovate runways around the country?

Mr. ROSSOTTI. Well, I think your first point is, does the money come in and go into different bank accounts. Clearly that's not the case. I mean, we receive money from, for example, an employer that comes in to us; and we process that, get the cash to the Treasury. Most of it comes in electronically—now actually, almost all of it—and then we get the forms that go with it. And in most cases those forms designate what the purpose of the money is.

But as you noted and, as GAO has noted, in some cases, the initial transaction that is initiated by the taxpayer does not fully designate exactly which trust fund it is for. So it has to be an estimating process after the fact.

This gets fairly technical, but the net of it is that, although we think that these estimating processes are reasonably reliable, they are not; and some improvements noted by GAO have been made. They are not 100 percent reliable. That's for two reasons: One is that some of our systems, our old systems, are not as good as they need to be in order to do the most accurate accounting.

And in a few cases we don't actually have the source data from the taxpayer to be precise about which amount that has been deposited is for a particular trust fund.

Mr. HORN. Isn't the fact the following—that we really can't account for the dollars that go ultimately to Social Security. We—and I don't understand why not. It seems to me it is very simple. The employer sends his or her half, the employee's half is also sent by the employer, and it clearly is marked or should be, Social Security, Medicare trust fund. It just seems to be when your office and processing centers around the country get those checks they ought to be able to identify it, put it into a special account in the Treasury.

And we don't have that; we have an estimate. Does anybody know if we're off $1 million, $1 billion? Here we are trying to use the surplus to give more integrity to the Social Security fund than it has had. And what's your feeling on this? Can't we solve a simple problem like that? A business would.

Mr. ROSSOTTI. Well, I think it could be solved. I'll say there are very few things I found at the IRS that turn out to be actually simple—but that doesn't mean they can't be solved. I think the source of the issue is the fact that there's a great deal of cash that comes in through the deposits which, in order to make it simple for taxpayers, are simply designated as cash come in; and then when the forms, the actual tax returns, are filed, there's a need for a reconciliation process; and that's what creates the complexity and the need for making estimates. So I guess I will just stop there.

Mr. HORN. Well, do you have any concerns that this is misestimated and who does the estimation work?

Mr. ROSSOTTI. Well, anytime there's an estimate, of course, there could be errors in estimating. But some of it is done by the Office of Tax Analysis and Treasury, and some of it is done by IRS.

Mr. HORN. And what do they do, compare notes and say, well, shall we split the difference or what?

Mr. ROSSOTTI. Well, that gets into—I think that there's different parts of the estimate that are the responsibility of different people. They each have a methodology which has been reviewed which is being reviewed constantly by GAO. Clearly, there's room for improvement in those methodologies.

But I think if you want to identify the solution to this problem, some of the solution has to do with the computer systems. Even in a business, you have some estimates when you put your financial statements together, and they're not always perfect. Some of it gets to a basic issue of do we want to add more burden for taxpayers to provide more precision when they make deposits; to identify what it's for, which would then give us perfectly accurate data as to not require estimates.

I think we've been a little reluctant to do that because of the very points that Mr. McIntosh raised. We don't want to put more burden on the taxpayers. So the rest of the limitations are based on what kind of burdens we put on the taxpayers.

Mr. HORN. Well, in the age of computers, I think we would all agree the one thing that a computer does is do things that you and I could do, but it does it very fast. And it can handle millions of things when we might still be trying to figure out what our tax form is all about. And it just seems to me that it is a crazy system when some of the many billion dollars, trillions, indeed, down the line, in these trust funds, that we ought to have a very strict policy of putting the money where it belongs at the beginning.

Now, I'm going to yield to Mr. McIntosh, and maybe we will carry on this dialog afterwards. The gentleman from Indiana, 5 minutes.

Mr. MCINTOSH. Thank you, Mr. Chairman. And, Mr. Rossotti, let me tell you I appreciate hearing those three different areas in which you are working and reducing the burden.

My first question is essentially why aren't those reflected in the OMB report for 1999 or 2000? 2000 is pretty devastating through the agency where they say you don't have any plans, specific plans to reduce the paperwork burden. If in fact, you're doing those three, what happened between the agency plans and the report?

Mr. ROSSOTTI. I think, unfortunately, one of the things that is true is that while we are pursuing those things, they tend—in terms of the way that OMB measures burden, the numbers tend to be overwhelmed by the other numbers that represent growth in the size of the number of forms filed, and also the number of forms that we have to change, and add elements to, because of the tax law.

So I don't want to overstate my case. We have these kinds of strategies. We are doing them. But they are relatively limited in their impact as compared with the overwhelming volume of change that we get as a result of tax law and volume increases. I think that probably is the honest answer to your statement.

Mr. MCINTOSH. Then I guess my further question would be, and I had the staff—asked them to print out all the forms. They told me it would take 6 hours, so they printed out a list, 30-some pages of all the different forms. Not all of those are changing because of the economy or are new because of changes in the Tax Code.

Why doesn't the agency take a further step and adopt a strategy to figure out how we could reduce either the number of the forms or the complicated nature of the forms?

Mr. ROSSOTTI. Part of our strategy is to do that. Here's an example of one we're working on. We're working with a private contractor that we think is one of the best in the country to work on—and you can see this. This is one example. This is the child credit worksheet. And here's what it was before, and here's what it is now. And, you know, clearly by any reasonable estimate, when we get this done, this is going to be a better form.

On the other hand, here's another one that they did, which has to do with form 8812. After all of the analysis that they've done, it looks better, but it still has the same number of lines on it. So it doesn't always follow that you can, even under the best review, make things better.

I think we are going to systematically work on this problem, but I also want to be honest and raise another aspect of this. If you look on this chart over here it says "Process Flow to Change a Form." That's the process that is required because of regulation and other constraints to change even one line on one form.

And I think you can see—right now we're in the process this year of having to put 153 forms through that process required by law. That tends to use up a lot of time in an organizational capacity, and this is not something that we can just disband or eliminate based on anything that we do in the IRS. This requires a review by OMB. There's legal reviews to ensure that forms conform to the law. There are also issues related to pure processing considerations. We have to get our information systems, which have major problems, to be able to process these forms.

So these things are all needed in order to just make sure that we're complying with the law and that we can actually mechanically process these forms. This is what I mean by the issue of organizational capacity. There is no possibility that we could take all of the forms on your list in 1 year or 2 years and even go through the process we've done here, and that's not to say something we can promise to do.

Mr. MCINTOSH. You were able to report 130 million increased hours in 2000 as projected out. And are you telling me essentially you want to put as your agency priority only having your manpower work on ways of increasing the burden and don't want to put anybody to studying and using that process to decrease it?

Mr. ROSSOTTI. No, I'm actually——

Mr. MCINTOSH. I find that somewhat unconscionable.

Mr. ROSSOTTI. That would be unconscionable. But I don't think that's what I'm intending to say. I'm saying that the first thing we have to do is we have to comply with the law. That uses up a tremendous amount of capacity when you have the tax law change. I mean there's just no alternative to that.

What we're attempting to do is, within the available capacity that we have, we're attempting to do projects like that, as many as we can, to improve and simplify forms that are on the books. The other thing we're attempting to do, as I mentioned in my testimony, the other strategy is to eliminate the forms, which is actu-

ally better than redesigning them, because if you can eliminate the need to file, of course, that's 100 percent reduction.

I just want to be honest and say that with the volume of data that we have, the volume of changes and the capacity that we have, I would not want to commit that we could review every form on the books over the next year or 2 years, over the next several years. As we make the other changes that we're proposing, I think that we can make a dent at least in this. And we're certainly going to try.

Mr. MCINTOSH. OK. Well, my recommendation, and I want to see if you think it's reasonable, is to go back and review the submission under the OMB project for reduction and say we can do better than zero, because you've laid out that you have some plans to do some.

Mr. ROSSOTTI. OK, we will take note of that.

Mr. MCINTOSH. And come up with a timetable.

Mr. ROSSOTTI. That's a fair request. We will take a look at that and see if there's some things that are not reflected in there that we can do, because we definitely have this as part of our strategy; and we will attempt to see if we can do better than what's in there. I will take that under advisement.

Mr. MCINTOSH. If we have extra time, I would also like to talk with you on the methodology, because I think that's a good project, too, on making sure you measure it accurately.

Mr. ROSSOTTI. Sure. Certainly. Incidentally, we would be happy to come in and talk with you about that methodology, because I think that might be something of interest to you.

Mr. MCINTOSH. Exactly.

Mr. ROSSOTTI. Without that, frankly, we're shooting in the dark. We don't know where we're going.

Mr. HORN. The gentleman from Ohio, the ranking member, Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Horn, Mr. McIntosh, members of the committee. Being tax day, I think it's also an appropriate day to thank the people of the United States for their support of this government and the many important functions which this government has on their behalf, our Social Security programs, our health, our education, all the many functions of government are funded by the taxpayers of this country.

And while we're scrutinizing the collection system and talking about what we can do to make it work better, we certainly on this day owe the thanks of this government to the American people for their support.

Before I get started with my question, Mr. Chairman, I would like to express concern about the unfortunate partisan title of these proceedings—and I'm going to quote—"Clinton-Gore versus the American taxpayer."

Now, the subject of this hearing is very important. People want to know what we're doing with their tax dollars and what can be done to make the system better. But I don't believe that it adds dignity to these proceedings to cast them in the light of some partisan conflict when the fact is that we work long and hard on many of these issues together to try to find a way to make this system work a little bit better.

And in that line, I would like to say that there is strong evidence that the taxpayer has significantly benefited under Clinton and Gore, President Clinton and Vice President Gore, the following ways: the Federal budget has gone from a record deficit of $290 billion in 1992 to an expected surplus of $79 billion in fiscal year 1999, which is the largest budget surplus in history; 18 million new jobs have been created and real wages have risen 6.1 percent after declining 4.3 percent during the previous two administrations, and the unemployment rate has dropped from 7.5 percent in 1992 to 4.2 percent.

[The prepared statement of Hon. Dennis J. Kucinich follows:]

Statement of Rep. Dennis Kucinich
Ranking Minority Member
April 15, 1999 Hearing on the IRS

Mr. Chairman, today is not so lovingly referred to as "tax day." Many Americans were up late last night filling out their tax forms and writing their checks. It is a good time to reflect on whether the IRS is doing a good job at limiting the paperwork burden it places on the American taxpayer.

However, Mr. Chairman, without taxes, our government could not provide the protections, benefits, and services Americans depend on and often take for granted. Thus, it is imperative that the IRS successfully fulfill its mission to collect the right amount of tax. Thank you for holding this hearing which will hopefully shed some light on whether the IRS has eliminated unnecessary paperwork without sacrificing its ability to accurately and efficiently complete its monumental task.

I expect we will be hearing some criticism of the fact that the federal government has not reached the Paperwork Reduction Act goal to reduce the paperwork burden by 25% over the last 3 years. The paperwork burden placed on the American taxpayer by the IRS is nearly 80% of the total paperwork burden imposed by the federal government. Unfortunately, over the last 3 years, the IRS paperwork burden has increased by 7.5%.

It is my understanding that much of the increase is due to our actions here in Congress. For instance, Congress passed the Taxpayer Relief Act of 1997 -- an initiative originally proposed as part of the Republican Contract with America -- which cuts capital gains, estate, and gift taxes. The IRS estimates that these changes increased the paperwork burden by over 64 million hours. Similarly, last year, we passed the IRS Restructuring and Reform Act -- with my support -- which prohibits politically motivated audits, creates an oversight board and Taxpayer Advocate, and creates and strengthens taxpayers rights when dealing with the IRS. However, this initiative also increased the paperwork burden by another 92 million hours. These two changes, alone, account for more than 1% of the 7.5% burden increase we have seen over the last 3 years.

Much of the remaining increase may be due to the increased economic activity in our booming national economy. Furthermore, the methodology for estimating the paperwork burden may not be giving enough credit for the time saved by the increase in the use of electronic and telephone filing. I look forward to hearing from the witnesses who can provide further insight into underlying causes of the increased paperwork burden.

However, Mr. Chairman, before we get started, I would like to express my concerns about the partisan title you have given this hearing, quote, "Clinton Gore versus the American Taxpayer." Despite the implications of this title, there is strong evidence that the American taxpayer has significantly benefited under the Clinton Administration in the following ways:

* The federal budget has gone from a record deficit of $290 billion in 1992 to an expected surplus of $79 billion in FY 1999 -- the largest budget surplus in history.

* 18 million new jobs have been created and real wages have risen 6.1% after declining 4.3% during the previous two administrations.

* The unemployment rate has dropped from 7.5% in 1992 to 4.2%.

* The average annual inflation rate has fallen from 4.2% during the Reagan and Bush Administrations to 2.5% during the Clinton Administration.

* Furthermore, President Clinton has signed into law tax relief that benefits those who need it most, including a $500 per-child tax credit benefitting 27 million families with 45 million children and expanded the Earned Income Tax Credit for 15 million working families.

Thank you, again, for holding this hearing and I look forward to the testimony.

Mr. KUCINICH. Now, I've got a long list of the benefits that have accrued to the American taxpayers that I would submit for the record. I will ask Mr. Rossotti—welcome, Commissioner. The American taxpayers paperwork burden is nearly 80 percent of the total paperwork burden imposed by the Federal Government. Unfortunately, over the last 3 years, the IRS paperwork burden has increased by about 6.9 percent.

I'm wondering, did legislation pass in 1997 that cut the capital gains, the estate and gift taxes increase the paperwork burden placed on the American taxpayers, or did it decrease the paperwork burden?

Mr. ROSSOTTI. Well, I know that I have the data here on each one of those changes, and I would have to look up precisely. I do believe—I'm not sure about the estate and gift tax—I believe that the schedule D changes which are the ones that dealt with capital gains did have the effect of increasing the complexity—and while I don't have the precise data, I believe that they did. I can get that for you, but I believe——

Mr. KUCINICH. It's possible that there might be some changes which the taxpayers find to be beneficial for them which simultaneously may increase the paperwork burden. Is that possible?

Mr. ROSSOTTI. Well, I believe that Congress passes certain provisions which are designed in some cases to provide benefits to the taxpayers; but in order to administer them, it does require some additional forms, that's true.

Mr. KUCINICH. Thank you, Commissioner. Now, I read a GAO report that was released yesterday showing that large foreign-controlled corporations which are doing business in the United States pay considerable less in U.S. corporate taxes than similarly sized American companies.

For example, I think it was Robert McIntyre, who is the director of the citizens for tax justice, I think he said that paying too much or charging too little on paper transactions with their foreign affiliates is a typical way that multinational companies shift income out of the United States for tax purposes.

My question, Commissioner, is the IRS committing adequate resources to ensure that multinational companies are not inappropriately avoiding paying their fair share of the taxes to this country?

Mr. ROSSOTTI. Well, what you're addressing there is the issue of transfer pricing which is one of the complex areas of the Tax Code. It actually applies to both domestically controlled and foreign-controlled corporations, and we do have—there have been actually some additional regulations issued on that subject by the Treasury Department within the last, I think, it was 2 years, that are specifically aimed at addressing that issue.

So it is an important area on which to focus. By the way, in our new organizational structure, we will have a special group that will be focusing on those kinds of things.

Mr. KUCINICH. Commissioner, I'm glad you're acknowledging it is important. My question is, do we have corporations in this country who are basically shifting income out of the United States for tax purposes?

Mr. ROSSOTTI. Well, if they are, it would only be because we haven't been able to find out about it, because that is something

that our audit program is designed to detect. And if we do find out about it, they would certainly be given additional assessments to reflect what the tax should have been. The program is not perfect, but it is designed to address that kind of an issue.

Mr. KUCINICH. So can you report to this committee as to the prevalence of that?

Mr. ROSSOTTI. We will report back what data we have. I'm not sure that we have an exact report on that particular subject. But we will be glad to get back to you and report what information we have.

[The information referred to follows:]

In response to a similar Congressional directive contained in our FY 1999 appropriation legislation, we recently completed a through study of the application and administration of Section 482 - transfer pricing. The resulting report contains estimates on the gross income tax gap related to transfer pricing, and describes some legal and administrative developments undertaken by the Service to promote compliance with section 482. Attached is a copy of the report which answers several questions related to transfer pricing that are ongoing concers of the Committee.

Mr. KUCINICH. Thank you very much, Commissioner.

Mr. HORN. I thank the gentleman and now yield 5 minutes to the gentleman from Nebraska, Mr. Terry.

Mr. TERRY. Thank you. I appreciate that. If reducing taxes creates such a paperwork burden, perhaps we should just eliminate them. Mr. Kucinich, I'm glad you're going in the right direction with us. I appreciate that, Dennis.

Today, some of my good friends back in Nebraska are filing their taxes with the help of tax preparers, and they fall into the classic group that you wouldn't think would use a tax preparer. And I keep hearing the argument and tax application that so few actually itemize and need it; but yet, at least in our local paper, in the last week showed that almost 60 percent now are using tax preparers.

First of all, my background is small business; and there's no way I can run a small business without having both a bookkeeper and a CPA to keep track of all what I need to do to prepare for our taxes.

But I'm focusing my questions on the individuals, the hard-working people that shouldn't have to hire H&R Block; and if you've seen some of the commercials from some of the tax preparer companies, they feed off of this now, the complication in the forms and the paperwork and put the fear into the average citizen that the code—and I think that fear is real—is just too complex.

So first of all; what paperwork reductions and simplification is the IRS pursuing for fiscal year 1999, 2000 that will benefit specifically the individuals and the individual preparers?

Mr. ROSSOTTI. The individual taxpayer. One of the areas that has the characteristic of being designed to be a benefit for individuals are things like, the child-care credit and the earned-income tax credit. They are precisely the kind of thing that affects many individuals; but they also have the characteristic that they require sometimes an additional form to fill out, or in some cases, a complicated definition of a complicated form.

So one of the areas that we have, as I mentioned in my remarks to Mr. McIntosh, as part of our strategy, is to try to make some selected forms and some selected areas that affect a large number of people. And with the aid of some outside contractors, to redesign

these to make them easier for people to fill out. And this is actually an example of two that we're working on exactly in that area. One is the child credit, which is the $500 per-child child credit, which is very important—and it's one of the reasons refunds are up 15 percent this year. In our earlier version it had, you know, this particular form, which admittedly is not a real user-friendly kind of a form. But it has the information on it that you needed.

What we've done, with the aid of our contractor—and we haven't gotten this out yet; I'm giving you a little bit of information—we got this form—and I know you can't see it, but it's got the information you need. It's a lot simpler and it reduces the number of lines. Now there's another form that some people need which is called the additional child tax credit. And, you know, this is even a more complicated one.

Unfortunately, they're not as successful as in eliminating that, because it still—it is a little bit easier but it still has nine lines on it. That's because with all the research that has been done, the lowest that you can get down do. Nevertheless by doing this kind of a process, we can really affect a significant number of people who want to take the child credit but who have to fill out this form to get through it.

Another area that's basically the same kind of a process is the earned-income tax credit which similarly affects, by definition, lower income people. It also has significant complexities. So those are some of the steps that we're taking in order to deal with this issue.

Another relavant area is our phone service. When people do fill out tax forms themselves, they sometimes need to ask questions. It's not the form itself. We tried to improve our phone service, and we have improved it. We added 24-hour-a-day, 7-day-a-week phone service. I personally sat in over this filing season in a number of different locations and listened to these calls.

And, of course, a significant number of them do come in, precisely from the kind of taxpayer that you're referring to, a person that might be low to middle income. They might be trying to get one of these credits. They know that there is such a thing, but they're not quite sure how to do it. And so in addition to simplifying the forms, we try to provide phone service as well, and Internet service, by the way, to help those kind of taxpayers. So that's the kind of strategy that we're attempting to pursue to deal with the kind of situation you're talking about.

Mr. TERRY. I appreciate that.

Mr. HORN. Is the gentleman yielding back his time?

Mr. TERRY. I will yield back my time.

Mr. HORN. I will take 6 minutes then if he's yielding back 1 minute, just to round this out as far as the management side is concerned. At our March 1, 1999, hearing the General Accounting Office discussed the weaknesses in computer security at the Internal Revenue Service. Both internal and external weaknesses were listed.

I wonder to what degree you've had an opportunity as Commissioner to review that matter, and what is happening to assure the security privacy laws, all the rest.

Mr. ROSSOTTI. I'm going to ask Mr. Cosgrave to join me up here. He's been already sworn in, so we don't have to ask him to do it again.

Mr. HORN. It isn't Charlie McCarthy and Edgar Bergen?

Mr. ROSSOTTI. As I think you know, you met him. He came in also from the outside to help me with this. And I think that before either of us got there, I do want to say this was a matter that was very seriously—you know, it was acknowledged there were serious problems, physical security and computer security. And there was an important step taken to set up a high-level security office that reports to the Chief Information Officer. We have two senior individuals that actually happen to come both from GAO, and we think, are world class in the security area. They have put together a multiyear plan. This is not a 1-year plan. I think—it's I forget how many specific line items that deal with both, with all dimensions of security.

I think we've got about three-fourths of those implemented. Now, I would like to ask Paul to elaborate just a minute.

Mr. HORN. Try to do it in a minute, because I've got a lot of questions.

Mr. COSGRAVE. Very quickly, this program identifies risks from the most serious and works down. So we start where we have the most potential with our main computer sites, then we go to our service center computer sites, then our district field offices, and then our, what we call POD locations throughout the country. There's some almost 800 locations, so it's quite an extensive number of facilities that we have to track security on.

The program that is run by Mr. Baptiste, who is actually here at the end, is a very extensive program. It's over 60 people in his employ overseeing that program, and we've been working down the risks. We've, in the computer area, already corrected over 80 percent of the risks that were identified in that GAO report over 2 years ago. And we're continually managing the risk.

Mr. HORN. You have equipment to trace who is interfering, or do you not in terms of high school students, and saying, gee, let's see what's in the IRS files today?

Mr. COSGRAVE. Yes, we have most of the standard technology in place. In fact, we work with NAS and other folks in terms of making sure we're up to date on all of that.

We employ firewalls and things of that sort, which essentially keep the parts of the IRS such as the Web site—whose use has increased about 153 percent this year, over 600 million hits this year in people accessing it for legitimate purposes—isolated through firewalls so that they can't get into any of the taxpayers'——

Mr. HORN. How many accessed that were not legitimate taxpayer purposes? Do we know that?

Mr. COSGRAVE. I don't have specific data for you on that.

Mr. HORN. The answer is no.

Commissioner, are you optimistic that that can get under control, at least in the next 6 months?

Mr. ROSSOTTI. Excuse me?

Mr. HORN. Are you optimistic that you will have the security situation solved in the next 6 months, as GAO, General Accounting Office, noted?

Mr. ROSSOTTI. I do not believe that we will have everything solved in the next 6 months, no. I think we have already addressed the top two levels.

Mr. HORN. This is a high priority?

Mr. COSGRAVE. Chairman Horn, as I indicated, over 80 percent of the GAO problems have been identified. It is very difficult for us in open session here to give you any specifics just because of the nature of the topic. So in closed session we would be glad to give you a lot more detail.

Mr. ROSSOTTI. But in answer to your question, it is absolutely a priority, and I think we have already addressed the more high risk issues, frankly.

Mr. HORN. Let me ask briefly, this is before your time, Commissioner, but the IRS blew $4 billion on a computer system that didn't work. Isn't there a chance that some major businesses, maybe mail order businesses or something, have computers that you can get them off the shelf that would solve some of your problems? You are an expert in this area. How do you feel about that?

Mr. ROSSOTTI. Actually, the two of us both came from the same kind of background. We were competitors with each other, but we are on the same team now. We both went through 25 years in the business of doing those same kinds of systems; and I think here, because we are determined to not let that kind of problem happen again, I think on the specific issue of using off-the-shelf software, our strategy is to use outside expertise. That is why we have Computer Sciences Corp. to help us do this and to use off-the-shelf products as much as we can.

Now, we can use a lot of off-the-shelf products. Certainly all of the basic technology can be off the shelf, all of the operating systems, the hardware and telecommunications and those things; and in some cases there is application software that we can use. It does have to be integrated because we are in a tax processing environment, so it isn't like we can take the whole thing off the shelf.

Mr. HORN. My penultimate question here is how much has IRS written off that they cannot collect? When I got my debt collection bill with Mrs. Maloney on the books in 1996, that situation was at about $110 billion, and she had—the then commissioner had another pool of $60 billion and thought she could collect more out of that, but there was no organization. So what is happening on that front?

Mr. ROSSOTTI. Well, this is a topic of longer discussion, but I think that—you know, the IRS, the way it is done now in terms of tracking accounts receivable, is very confusing, frankly, very confusing and not a very management-oriented approach. But part of it is because of the losses. We have to keep everything that is on it for 10 years, and that adds up to a number that is $222 billion, which is the number that is published. But as GAO has noted, that is not comparable to what anybody in the real world would consider. There is about $103 billion that is potentially realizeable receivables, that is, about half that have some potential for collecting. But when you really get down to what GAO considers to be, you know, the normal receivable, the actual financial receivables, that gets down to about $23 billion, which is a more realistic estimate

of what the total receivables are, that we are in the collection business to go after.

Mr. HORN. So you are organizing a systematic collection business to go after it?

Mr. ROSSOTTI. We are, but I again want to be very frank and realistic about this topic, OK? I mean we have massive room for improvement in the way the IRS goes about our whole collections process. Collection is one of our main businesses, but we have some very archaic computer systems. They, in turn, constrain what we can do. We have some organizational structures that are not very conducive to a modern approach. So a major part of our whole reorganization, our new technology, those two pieces are going to address the issue of really positioning us to do what I consider to be a far more modern kind of approach to doing collections. There is very significant room for improvement over time, but it is not going to be fast.

Mr. HORN. Before you arrived, I suggested that they use regular bill collectors, and I was given this argument: oh, no, the privacy laws. The privacy laws I don't think pertain here. Just give them the address, give them the amount, have them knock on the door. If they can't get it and there is something that the IRS, the client, customer thinks about and says, gee, you know, that is where my fight is, fine, bring IRS into it. But in the meantime, if you don't go after debts, people think it is a grant within a few months. Gee, you know.

Of course, I regarded the $110 billion back in 1995—it started mostly in 1991, but really accelerated. I regard that as a national scandal that we can't lower that amount. And I don't know—you know, people listening today say, gee, why should I file my tax form when somebody is in that pile of $110 billion or whatever. So that bothers me.

I will save my final question for the next round, and I will yield to Chairman McIntosh now.

Mr. MCINTOSH. I notice that our colleague, Mr. Ryan, came in, so I will yield my time to him if he has a question; and then I will take mine on the next round.

Mr. HORN. Fine.

Mr. RYAN. Commissioner, I would like to ask you a couple of questions about the complication of the duplication required in our various tax forms. Have you made a crosscutting analysis on how we can weed out the type of duplicative information required on different tax forms? Specifically, I just went through the experience of going through my schedule D, looking at schedule E, a lot of the same information is required on those things. Have you identified a solution toward routing out that type of duplication? If not, what is the status?

Mr. ROSSOTTI. Well, could I ask my colleague here to come up and answer that specific question? This is Lynda Willis who has joined us. She was formerly with GAO and is working with me on this particular initiative.

Ms. WILLIS. Congressman, we have not put in place a program that would look at every single item on a form or a set of forms for redundancy. One of the things that we hope to do under the new burden methodology we are developing is that after we iden-

tify sources and causes of burden, we will then go in and look at the entire inventory of forms used by a particular set of taxpayers and do exactly what you are talking about. Specifically, is there a way that we can take the whole inventory and streamline it in such a fashion that we reduce redundancy; and make it less burdensome and easier for the taxpayer to comply.

Mr. RYAN. When is this going to be ready?

Ms. WILLIS. We are into the design phase of the new burden-estimating methodology. By that I mean we are identifying the survey instruments that we need to collect the data. We are in the process of getting feedback from focus groups of taxpayers.

One of the things that we want very much to know from taxpayers is an issue that came up earlier, around what are the circumstances under which you decide to use a preparer, or preparation software. We hope to be out and have the structure of the model finished with this summer, but my best guess is it probably will not be up and operating until fiscal year 2001.

Mr. RYAN. Do you have a time line that you have prepared as an objective? And what are the final results that you hope to achieve with this?

Ms. WILLIS. We hope to achieve a burden model that will not only estimate the amount of time that taxpayers spend complying with the Tax Code from start to finish, prefiling, filing and postfiling, but also to be able to develop a model in such a fashion that we can look at segments of taxpayers, as well as types of activities, and essentially disaggregate the data to a point where we can identify specific types of initiatives that IRS can undertake that will reduce burden across the board.

For example, in some cases when we are looking at postfiling burden, we are better off looking earlier in the process and preventing the problem in the first place. This model is designed to allow us to look at that and also to look at where our resources can best be spent in assisting taxpayers to comply and understand the Tax Code.

Mr. ROSSOTTI. Could I just make one additional comment. One of the reasons that we really need to rethink this whole thing is because of technology. I mean, with tax preparation software and with things like including some that is now available for free on the Internet, it really changes the whole way that you do things, because, for example, you can enter something once and it picks it up on the other form. So it is not just the forms design; we need to look at the technology that people use.

Mr. RYAN. I understand that we need to do a new model, but we have a lot of duplication that exists right now; and in the interim, with the fiscal year 2000, with the fiscal year 1999 tax work we are doing in preparation of the new codes for next year, aren't there interim things you could do to weed out this problem of duplication we have?

Mr. ROSSOTTI. Just before you came in I made a commitment to Mr. McIntosh that we would take another look at the 2000 program. Because of a number of things we discussed, our organizational capacity, the Tax Code changes, that chart would show what we have to do to change one line on the form. We can't, frankly, commit to say we will review every form for duplication, although

I don't want to imply that there is nothing we can do. I think it is certainly a very good request and a fair request that we take a look at the plan that we have for 2000 and see if—there are some things under way, but perhaps there is more that we can do, and we will take a look at that. As a matter of fact, we will report back to you.

[The information referred to follows:]

RESPONSE: The IRS has a multifaceted strategy to simplify tax filing requirements and to reduce taxpayer burden. We have several initiatives underway to address both issues in the short and long term:

- The Simplifying Filing Research Strategy consists of several projects to analyze errors made on returns, profile taxpayers by filing requirements over time, and determine which aspects of the form completion process need simplification the most. We will also use the results of the analysis to find ways to migrate taxpayers to simpler returns. The projects are scheduled for completion in November 1999. Using the results from these analyses, we will identify specific simplification and burden reduction opportunities, develop possible treatments, focus test the treatments, make appropriate changes to tax products and monitor results.

- We have been working with a contractor to redesign the earned income credit and child tax credit forms and instructions. We will incorporate some changes in the tax year 1999 individual income tax instructions to improve comprehension and reduce errors. The instructions will be modified to move complex issues from the instructions to a new publication for the child tax credit. This change will make the instructions simpler for the majority of taxpayers whose situations are more straightforward. Other, more extensive design changes will be phased in as systemic programming modifications can be implemented.

- For tax year 1999, taxpayers who only have capital gain distributions will no longer have to file the 54 line Schedule D. Instead, they will check a box on Form 1040 and use a 15 line worksheet to compute their tax.

- We are applying innovative writing techniques to more effectively explain complex information and replacing detailed narrative descriptions with reduced discrete steps or actions for taxpayers to follow. Employees and managers have been trained by a contractor to use these techniques.

- The major revision for the Form 5500 series (Employee Benefit Plans) has been approved by the Office of Management and Budget for implementation in the 1999 plan year. The simplified forms will be due by July 31, 2000 and a contractor is also developing scannable forms to further improve the reporting process. The Form 5500-C/R has been eliminated while Form 5500-EZ remains.

- We have established internal focus groups to get feedback on proposed changes to forms and instructions more quickly than with external groups. The focus groups will help us identify sections of the forms that are difficult to understand so we can target areas for improvement and simplification.

- We are not aware of unnecessary duplication in the tax forms. In order to respond to the issue of duplication, we need examples of specific situations where this is evident. As we develop new forms and revise existing ones to incorporate legislative, regulatory and other changes, we try to eliminate unnecessary duplication. The new burden estimating methodology we are developing will help us better identify sources and causes of burden and initiate remedies to simplify the tax forms.

Mr. RYAN. Yes, because when we have a goal 2 years out, it always seems to be pushed back every 2 years.

Mr. ROSSOTTI. We are trying to do basically everything on two paths. One path is what we can do now in the next year; and we can only do a few things, but we have quite a few under way. We have to prioritize those. And then we are developing a whole new methodology in order to get us in better shape for the future. Naturally, there is a lot of pressure to put more things into the current year, and we can't always accommodate them; but we will take a look at the suggestion. I think it is a good one, and we will see what we can come up with for 2000.

Mr. RYAN. Thank you. I yield back to the chairman.

Mr. MCINTOSH. Mr. Chairman, I have a whole different question—this is a different subject matter—but while I have you, it is an area I have been working on. Jerry Weller and I have introduced a bill to eliminate the marriage penalty and there are several ways of doing that. But I wanted to ask you if you have focused at all on that, and if you would agree with us that the marriage penalty undermines or causes harm to the family structure when you place that additional financial burden on them.

Mr. ROSSOTTI. Well, I don't want to appear to be ducking your question, but I think in this case I have to say that we have a pretty clear delineation between what the Treasury's responsibility is, and what IRS's is; and a question like that is really one that is not within my scope. I have a big scope at the IRS, but there are some limits on it. I think that that really is a tax policy question, and I am afraid I will have to defer to the Treasury on it.

Mr. MCINTOSH. OK. I might ask your help in getting someone over there to focus on that as well, but I thought I would check while you were here. Thank you.

Mr. HORN. Well, I am sure the Commissioner is in favor of marriage.

Mr. ROSSOTTI. Yes. I don't think that is outside my scope to say that I am in favor of marriage, yes.

Mr. HORN. I yield 5 minutes to the gentleman from Ohio, the ranking Democrat.

Mr. KUCINICH. Thank you very much, Mr. Chairman.

Commissioner, when Congress acted in the last term out of concern for how the American taxpayers were being treated by IRS personnel, the intention was to make the IRS more taxpayer friendly.

Can you give us an accounting as to how the work which Congress had asked for was done inside the IRS to communicate to the employees the importance of being gentle with those taxpayers who may have some conflicts with the IRS or may have some questions that they need help in answering?

Mr. ROSSOTTI. I think that you are right. That basic direction is the direction we have been given. I think it goes even a little bit more than just being friendly. I think what we are trying to do is go beyond that and actually understand what the taxpayer's problem is, and we are trying to be as helpful as we can in trying to solve problems. There are many things we have done, but let me just summarize a few.

For sort of a typical average taxpayer we have tried to be more accessible this filing season by opening the phones 24 hours a day, 7 days a week and opening on Saturdays for people to come in in person and get information and help. That has been very important for the filing season.

A second thing is for the people who have more difficult kinds of problems that have been lingering—and we unfortunately have some of those. For those, we have set up what we call problem-solving days, where each month, in every area of the country, we have special days where people can come in and make appointments. We have quite a few people there from different parts of the IRS, so they can solve problems quickly. We have also reorganized the whole national taxpayer advocate organization which is there to basically assist any taxpayer that doesn't get the service that they need.

More broadly than that, we have developed a whole new system of measurements, and this really goes to the heart of your question about how do we get across to people what they should be doing, whereas previously the focus was very heavily on only how much "enforcement dollars" were brought in. We have eliminated that system and we are rolling out a whole new system of the way we measure performance for our organization. We are also rewriting all of the job descriptions for every one of our frontline contact employees. I could go on and on. I don't know how much longer you want me to say it, but there is an entire program of training that goes beyond—goes with this. Millions of person-hours of training, are being invested this calendar year and this fiscal year to basically deal with these kinds of subjects.

So it is a very broad comprehensive program, but even with all of that, it is a multiyear program. It is not something that we are going to claim is going to be successful or completed this fiscal year.

Mr. KUCINICH. Well, as painful as the experience of having to meet the tax man happens to be, I am sure the American people want to know that you are taking steps to make sure that such an encounter is done with less intimidation, which the American taxpayers feel they have experienced in the past.

Mr. ROSSOTTI. I couldn't agree more.

Mr. KUCINICH. So is there a way that you can communicate to the Congress the kinds of success that you have experienced in this new attempt by the IRS to be more responsive and even more service oriented?

Mr. ROSSOTTI. I think that there are a number of things that we could communicate. I would be glad to give you additional information about some of the activities we are getting. Of course, the feedback from the taxpayers is something that is going to take time, but one of the key things that I think will be a measurement, is that we are actually surveying. Every time we have a transaction with a taxpayer, whether it be audit, collection actions, phone call, we now have an outside market survey firm that is doing a statistical sample of the people we interact with and getting ratings by the taxpayer of how they feel about this. Now, this is going to take some time to accumulate the data, but by the end of this fiscal year we will have some of that data to report.

Mr. KUCINICH. I think that is good. Congress obviously would be interested in getting some feedback about how our constituents are being treated and we would also welcome hearing from constituents on the issues and how the IRS's new approach is working. I am confident that under you, Mr. Rossotti, that the IRS is going to respond to the challenge; and I know that you have a lot—you know, you have a lot of really good, competent employees who I think are easily adaptable to a call for more responsiveness, more service oriented, and more congenial approach to this very difficult job of collecting taxes.

Mr. ROSSOTTI. Actually, I appreciate that comment, and I am sure our employees do. Because I have to tell you that I haven't met very many employees who like to make taxpayers unhappy. Sometimes they have to give them an answer that they don't like, but I think with this training and additional support we are already finding that there can be a far better relationship. In the vast majority of cases there does not need to be an adversarial relationship between an individual one-on-one and an IRS employee.

Mr. KUCINICH. Please let the employees know that we appreciate their efforts to be more responsive.

Mr. ROSSOTTI. I will. I appreciate that very much.

Mr. HORN. I agree with the gentleman from Ohio, and what has been lacking in IRS, very frankly, is good management. And I would hope—and I think you will provide that good management—and I would hope that extensive training goes on from supervisors up to management.

Mr. ROSSOTTI. I really want to stress that I know it is not the subject of this hearing, but in the appropriations hearing and in the other hearings, I want to stress that in terms of short-term and the most immediate need, rectifying what I call the training deficit or the training gap is absolutely critical. I mean every employee that I have talked to virtually identifies that as the No. 1 constraint they have in terms of providing good service to taxpayers, and we are investing a very significant amount of time and training in this fiscal year.

Mr. HORN. My last question—and we will go into recess for a few minutes, Mr. McIntosh will be back—the IRS Restructuring Act of 1999 required the creation of an Internal Revenue Service oversight board. Under that law, the President was required to submit nominations within 6 months of enactment. It has now been almost 10 months and the President has not yet sent one name even for consideration by the Senate. I want to read to you into the record a letter which went today to the President from the Majority Leader of the House, Mr. Armey, the distinguished Ph.D. economist, and also one who is vitally interested in good management in the executive branch and works very closely with our subcommittee.

He said,

Dear Mr. President: Last summer after extensive review of the abusive practices of the IRS, this Congress passed, and you signed, the Internal Revenue Service Restructuring and Reform Act of 1999. This historic piece of legislation forces the IRS to be more honest, open and fair to the American taxpayer. A major part of that law was the creation of the IRS Oversight Board for which you were required to submit nominations within 6 months of enactment. It has now been almost 10 months, and I am deeply disappointed that you have yet to submit even one name for consideration by the Senate. In passing and signing this law, you joined us in

not only reforming the IRS, but in promising to vigilantly oversee its future actions. Your failure to submit nominations for the oversight board breaks that promise. Today, on the day when so many Americans are struggling with the intrusive complicated Tax Code, I urge you to meet your legal obligation to IRS oversight. Ignoring this duty demonstrates to the American people that IRS abuses are not a major concern for this administration, and American taxpayers deserve better. Respectfully, Dick Armey, Member of Congress, Majority Leader.

Now, do you have any idea, Commissioner, why the President is not meeting his legal obligation to IRS oversight?

Mr. ROSSOTTI. Well, the only information I have is that the nominee—there has been a set of nominees that are going through the vetting process which takes some time, but beyond that, I really don't know. I have no idea.

Mr. HORN. So some have been submitted to the White House from various sources?

Mr. ROSSOTTI. I really think it is better to talk to the White House. I really am not part of that process except very indirectly, so I can't really comment.

Mr. HORN. Well, obviously the Secretary of the Treasury is the one that should be submitting them, and I am sure that either the letter will be sent to him by the White House, but somebody ought to conform with the law, and I think that is what this gets down to. I realize you aren't in it. That is above your pay grade, as the saying goes.

Mr. ROSSOTTI. That is correct.

Mr. HORN. But we thank you for coming here, and we thank you for your excellent testimony, and as I have told you for years, you are the guy that can get the job done. So thanks very much.

Mr. HORN. Panel two can be seated now, and Mr. McIntosh will preside in a few minutes. We are in recess until he returns.

[Recess.]

Mr. MCINTOSH [presiding]. The subcommittee will come to order.

I now call forward the second panel. Let the record reflect that Chairman Horn asked each of the witnesses to take the appropriate oath and they are duly sworn in.

Our first witness on the second panel is Mr. Nye Stevens, who is the Director of the Federal Management and Workforce Issues of the General Accounting Office. Mr. Stevens, as Mr. Horn pointed out, your written testimony will appear in the record. Feel free to share with us a summary of that testimony.

STATEMENTS OF NYE STEVENS, DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES, GENERAL ACCOUNTING OFFICE; DEIDRE A. LEE, ACTING DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; AND JAMES R. WHITE, DIRECTOR, TAX POLICY AND ADMINISTRATION ISSUES, GENERAL ACCOUNTING OFFICE

Mr. STEVENS. I will be very brief in describing the work that we have recently done on the Paperwork Reduction Act, which required OMB to establish goals for the executive branch to reduce the paperwork burden that it imposes on the American public by 25 percent, from the approximately 7 billion hours that it imposed in 1995.

The bottom line is that there has barely been any reduction, less than one-half of 1 percent over that 3-year period, and projections

in OMB's latest Information Collection Budget that are just released show that the burden, rather than going down in the next 2 years, is actually going to be going up, and up by hundreds of millions of hours.

There is no question that IRS, from whom you just heard, accounts for the vast majority of this burden, more than 80 percent of it. And it was an increase in the IRS burden that offset a 23 percent reduction among the other agencies of government and resulted in the fact that the overall government burden on the American people was kept about even for that 3-year period. If it were not for a 7 percent increase in the IRS burden, the rest of the government would have come close to meeting that 25 percent goal for the past 3 years. IRS also accounts for about 85 percent of the 468 million hours of increased paperwork that is projected for the next 2 years.

It is the Office of Information and Regulatory Affairs at OMB that is meant to monitor and control the paperwork load. Our reviews of their actions have shown that in many ways they have fallen short. For each of the past 3 years, for example, they did not set agency goals for paperwork reduction until the year was almost over, and it was far too late to serve as a goal in the sense of affecting agency behavior during the year. OMB also sees no necessary connection between the governmentwide goal which is set in law and the goals of individual agencies. So even though OMB can show you in writing that it has a goal of reducing paperwork by 5 percent this year, in fact the Information Collection Budget will show that the individual goals add up to an increase, not to a decrease, and of course that is led by IRS.

The second general issue you asked us to address was the matter of expired OMB authorizations to collect data. The Paperwork Reduction Act prohibits agencies from collecting information from the public unless OMB has approved the data collection and given it a control number so that the public will know that it is authorized. OMB may not approve a collection for more than 3 years at a time.

Now, our review of information that OMB provided to you, Mr. Chairman, shows that there is a troubling disregard by the agencies for this control mechanism. First of all, the current information budget contains a 59-page listing of more than 800 violations of the act, including continuing collections whose authorizations have expired, and collections that were never authorized in the first place. The information that OMB provided focused on the largest of these collections, those that involved more than 500,000 burden-hours. Seventeen were being carried out after OMB's approval had expired, and we added to that another 11 that had continued for a period of time, a limited period of time because they were reauthorized; but they were operating without an authorization for some period of time. These added up to more than 111 million hours of unauthorized burden. And I would point out that this is a real cost for the American people. Using an OMB figure of $26.50 an hour of time that is devoted to tax paperwork, we estimated that those 111 million hours cost the American public more than $3 billion.

As disconcerting as these violations are, it is even more troubling that OMB treats the expirations of authorized collections as a re-

duction in burden. So if the authorization for a collection has expired, when OMB totals up the burden at the end of the fiscal year, OMB counts it as a reduction. Even though in many cases the information continues to be collected, and the public notices no difference.

I can use the Department of Agriculture as an example of this, Mr. Chairman, because you are about to hear from them. USDA can be seen as one of the success stories. It reduced its reported burden by 59 million hours since the end of fiscal year 1995 to a total of 72 million hours. However, this total ignored five large data collections where the authorizations had expired and they were not in effect at the end of the year, even though the information was still being collected. This totaled about 15 million hours. We found another 3 million hours that were associated with 57 other collections in the list of violations of a somewhat smaller scale. So the real agriculture burden we calculate at about 90 million hours instead of the 72 that are shown in OMB's current report.

OMB is certainly on record as taking the compliance problem seriously, but it claims it does not have the power to do much about it other than publish the violations as they have indeed done in the list that we just referred to. We think that OMB could do more than that, including bringing to bear the influence of the budget examiners, the resource management officers and even the Vice President who is charged under Executive Order 12866 with a coordinative role over regulatory review and policy. I would be glad to respond to any questions you have.

Mr. MCINTOSH. Let me ask you to repeat that to make sure I understood it fully. What was that that you said at the end of your testimony?

Mr. STEVENS. I said that OMB is not really powerless in its ability to police violations of the act which are substantial, that it can certainly use the budget powers of the agency, but it could also—I believe our statement calls for using the influence of the Vice President, who is charged under Executive Order 12866 with a coordinative role over regulatory policy and review.

Mr. MCINTOSH. Thank you, Mr. Stevens.

[The prepared statement of Mr. Stevens follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs; and the Subcommittee on Government Management, Information, and Technology, Committee on Government Reform House of Representatives

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PAPERWORK REDUCTION ACT

Burden Increases and Unauthorized Information Collections

Statement of L. Nye Stevens
Director, Federal Management and Workforce Issues
General Government Division

GAO/T-GGD-99-78

Summary

Paperwork Reduction Act: Burden Increases and Unauthorized Information Collections

The Paperwork Reduction Act of 1995 (PRA) required the Office of Management and Budget (OMB) to establish goals to reduce the federal government's paperwork burden by 25 percent by the end of fiscal year 1998. However, the governmentwide burden-hour estimate in OMB's Information Collection Budget (ICB) declined by less than one-half of 1 percent during this period, remaining at nearly 7 billion burden hours. The Internal Revenue Service (IRS) accounts for about 80 percent of the governmentwide burden, and an increase in IRS' estimated burden between 1995 and 1998 offset the decreases in other agencies' estimates. IRS said the increase in its burden estimate was primarily because of increased economic activity and new statutory requirements to collect information. For example, the Taxpayer Relief Act of 1997 reportedly increased IRS' paperwork burden by more than 92 million hours. Both IRS and non-IRS agencies expect their paperwork burden to increase during the next 2 years, with the largest increases expected to occur at IRS.

OMB's Office of Information and Regulatory Affairs (OIRA) has not fully satisfied all of the requirements that the PRA assigns to that Office. For example, OIRA established governmentwide burden-reduction goals late in each of the past 3 fiscal years, and the Office sees no necessary connection between the agencies' goals and the governmentwide goal.

OMB data provided to the Subcommittee on expired paperwork authorizations indicate a troubling disregard by agencies for the PRA requirement that they obtain OMB approval before collecting information from the public. OMB indicated that 17 information collections were being carried out after OMB's approval had expired, and 11 other collections had been continued for a period of time in violation of the PRA. These collections imposed more than 111 million hours of estimated burden in recent years, with an estimated cost to the public of about $3 billion. OMB's ICB for fiscal year 1999 indicates that there were many other PRA violations in addition to those provided to the Subcommittee. Also, the ICB reflects the burden hours associated with these expired authorizations at the end of the fiscal year as burden reductions. Therefore, some of the burden reductions claimed in the ICB did not really occur. OMB can do more to encourage agencies to comply with the PRA, including notifying the President's Management Council and the "budget side" of OMB of agencies' PRA violations.

I am pleased to be here today to discuss the implementation of the Paperwork Reduction Act of 1995 (PRA). As you requested, I will summarize our recent reports and testimonies on the PRA[1] and provide our analysis of data on expired paperwork authorizations that were recently submitted to the Subcommittee by the Office of Management and Budget (OMB).

In brief, our reports and testimonies all indicate that federal paperwork burden estimates have increased dramatically since the PRA was first enacted in 1980, although some of that increase is due to changes in measurement techniques. Agencies' burden estimates have continued to increase since 1995 despite congressional expectations for reductions in federal paperwork burden. The increase in the governmentwide paperwork estimate appears largely attributable to continued increases in the Internal Revenue Service's (IRS) estimates. However, IRS said these increases are due to increased economic activity and new statutory requirements—factors it does not control. In addition,we believe that OMB's Office of Information and Regulatory Affairs (OIRA) has not fully satisfied all of the responsibilities that the PRA assigns to that Office.

Regarding the data that OMB provided to the Subcommittee, we believe it indicates a troubling disregard by agencies for the requirement that they obtain OMB approval before collecting information from the public. Using OMB's measure of the costs associated with federal paperwork, we estimate that agencies have imposed at least $3 billion in unauthorized burden in recent years. OMB can do more to encourage agencies that are not complying with the PRA to come into compliance, and we offer some options in that regard.

Background

Before discussing these issues in detail, it is important to recognize that some federal paperwork is necessary and can serve a useful purpose. Information collection is one way that agencies carry out their missions. For example, IRS needs to collect information from taxpayers and their employers to know the amount of taxes owed. Next spring, the Bureau of the Census will distribute census forms to millions of Americans that will be used to apportion congressional representation and for a myriad of other purposes.

[1]Paperwork Reduction: Burden Reduction Goal Unlikely To Be Met (GAO/T-GGD/RCED-98-186, June 5, 1998); Paperwork Reduction: Governmentwide Goals Unlikely To Be Met (GAO/T-GGD-97-114, June 4, 1997); Regulatory Management: Implementation of Selected OMB Responsibilities Under the Paperwork Reduction Act (GAO/GGD-98-120, July 9, 1998); and Paperwork Reduction Act: Implementation at IRS (GAO/GGD-99-4, Nov. 16, 1998).

However, federal agencies have an obligation under the PRA to keep the paperwork burden they impose as low as possible. The original PRA of 1980 established OIRA within OMB to provide central agency leadership and oversight of governmentwide efforts to reduce unnecessary paperwork and improve the management of information resources. Under the act, OIRA has overall responsibility for determining whether agencies' proposals for collecting information comply with the act.[2] Agencies must receive OIRA approval for each information collection request before it is implemented. OIRA is also required to keep Congress "fully and currently informed" of the major activities under the act and must report to Congress on agencies' progress toward reducing paperwork. To do so, OIRA develops an Information Collection Budget (ICB) by gathering data from executive branch agencies on the total number of "burden hours" OIRA approved for collections of information at the end of the fiscal year and agency estimates of the burden for the coming fiscal year. The PRA of 1995 defines the term "collection of information" as "obtaining, causing to be obtained, soliciting, or requiring the disclosure to third parties or the public, of facts or opinions by or for an agency, regardless of form or format."

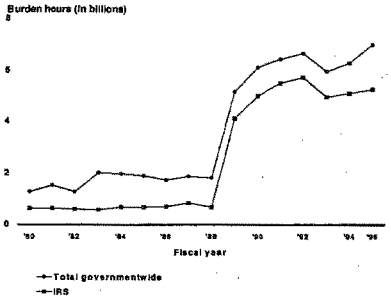
Burden hours has been the principal unit of measure of paperwork burden for more than 50 years and has been accepted by agencies and the public because it is a clear, easy-to-understand concept. However, it is important to recognize that these estimates have limitations. Estimating the amount of time it will take for an individual to collect and provide information or how many individuals an information collection will affect is not a simple matter. Therefore, the degree to which agency burden-hour estimates reflect real burden is unclear. Nevertheless, these are the best indicators of paperwork burden available, and we believe they can be useful as long as their limitations are kept in mind.

Federal Paperwork Burden Estimate Has Increased

Although referred to as a "budget," the ICB does not limit the number of burden hours an agency is permitted to impose. As figure 1 shows, federal agencies' annual paperwork burden-hour estimate rose from about 1.5 billion hours in 1980 to about 7.0 billion hours by the end of fiscal year 1995—just before the PRA of 1995 took effect. The figure also shows the degree to which IRS' paperwork estimate drives the governmentwide estimate.

[2]The act requires the Director of OMB to delegate the authority to administer all functions under the act to the Administrator of OIRA but does not relieve the OMB Director of responsibility for the administration of those functions. Approvals to collect information are made on behalf of the OMB Director. In this testimony, we generally refer to OIRA or the OIRA Administrator wherever the act assigns responsibilities to OMB or the Director.

Figure 1: Changes in IRS and Governmentwide Burden-Hour Estimates Between Fiscal Years 1980 and 1995



Note: Data are estimated as of September 30 of each year.
Sources: OMB and the Department of the Treasury.

As you can see, a large part of the increase in the governmentwide burden-hour estimate during this period occurred in 1989, when IRS changed the way it calculated its estimates. That reestimate increased the agency's paperwork estimate by 3.4 billion hours and nearly tripled the governmentwide burden-hour estimate. However, it is important to remember that the amount of paperwork actually imposed on the public did not change, only IRS' estimate of the burden that was already there.[3] In every year since 1989, IRS has accounted for nearly 80 percent of the governmentwide burden estimate.

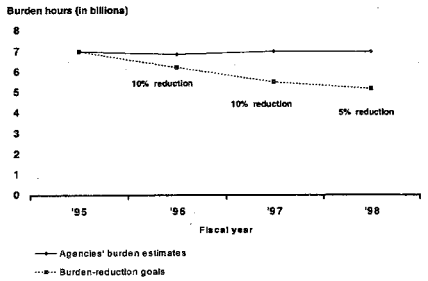
The PRA of 1995 made several changes in federal paperwork reduction requirements. For example, it required OIRA to set a goal of at least a 10-percent reduction in the governmentwide burden-hour estimate for each of fiscal years 1996 and 1997, a 5-percent governmentwide burden reduction goal in each of the next 4 fiscal years, and annual agency goals that reduce

[3]Paperwork Reduction: Burden Hour Increases Reflect New Estimates, Not Actual Changes (GAO/PEMD-94-3, Dec. 6, 1993).

burden to the "maximum practicable opportunity." Therefore, if federal agencies had been able to accomplish the reduction in burden contemplated by the PRA for the 3-year period ending on September 30, 1998, the 7.0 billion burden-hour estimate would have fallen 25 percent, or to less than 5.3 billion hours.

However, as figure 2 shows, the anticipated 25-percent reduction in burden during this 3-year period did not happen. In fact, the recently developed ICB for fiscal year 1999 shows that the governmentwide burden-hour estimate actually declined by less than one-half of 1 percent during this period.

Figure 2: Changes in Estimated Governmentwide Burden-Reduction Goals



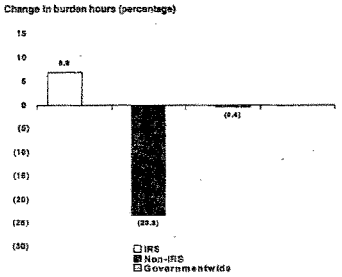
Note: Data are as of the end of each fiscal year.
Source: OMB.

IRS Paperwork Burden Estimates Have Increased

A variety of factors appear relevant in explaining why federal paperwork burden has not been reduced. However, the primary reason seems to be IRS' inability to reduce its estimated burden. As I previously noted, IRS accounts for nearly 80 percent of the governmentwide burden-hour

estimate. Therefore, as illustrated in figure 1, changes in IRS' estimate can have a highly significant—and even determinative—effect on the governmentwide total. As figure 3 shows, non-IRS departments and agencies estimated that, in the aggregate, they had reduced their paperwork burden by more than 23 percent between fiscal years 1995 and 1998—close to the 25-percent burden-reduction goal envisioned in the PRA. However, IRS' burden-hour estimate increased by 6.9 percent during this period. That increase offset the estimated reductions in the other agencies and was largely responsible for the relatively minor decline in the governmentwide paperwork burden-hour estimate. Also, as I will discuss later, the estimate for the non-IRS agencies' reductions was overstated.

Figure 3: Percentage Change in IRS, Non-IRS, and Governmentwide Burden-Hour Estimates Between Fiscal Years 1995 and 1998

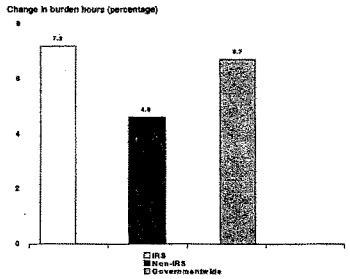


Note: The governmentwide burden-reduction goal for this 3-year period was 25 percent.
Sources: OMB and Department of the Treasury.

As figure 4 shows, the ICB for fiscal year 1999 indicates that federal agencies expect their paperwork burden to increase between the end of fiscal years 1998 and 2000 by nearly 7 percent (about 468 million hours) raising the governmentwide burden-hour estimate to more than 7.4 billion hours. Unlike the previous 3-year period in which the non-IRS agencies significantly reduced their burden-hour estimates, these agencies expect

their aggregate burden to increase by more than 4 percent between fiscal years 1998 and 2000. However, IRS will again lead the way, accounting for more than 85 percent of the governmentwide increase in estimated burden during this period.

Figure 4: Percentage Change in IRS, Non-IRS, and Governmentwide Burden-Hour Estimates Between Fiscal Years 1998 and 2000



Note: The governmentwide burden-reduction goal for this 2-year period was 10 percent.
Sources: OMB and Department of the Treasury.

IRS Burden-Reduction Efforts

The 1998 and 1999 ICBs indicate that IRS has tried to eliminate unnecessary burden and has had some successes. For example, the reports stated that IRS had

- reduced the burden associated with IRS Form 1040EZ by 3.7 million hours for tax year 1996 by encouraging taxpayers to use the 1040 TeleFile, which is IRS' telephone-based filing system;
- allowed employers to report payments to employees subject to federal income, Social Security, and Medicare taxes through the 941 Telefile program, thereby reducing the paper form's burden by nearly 14 million hours during fiscal year 1998;

- raised the threshold for which businesses had to maintain receipts to substantiate expenses for travel, entertainment, gifts, and listed property, thereby reducing burden by an estimated 12.5 million hours during fiscal year 1997; and
- required those who file 250 or more of IRS Form 1042-S (used by withholding agents to report income and tax withheld from payees) to do so on magnetic media, thereby producing an estimated burden reduction of 21.1 million hours during fiscal year 1997.

As a result of these and other actions, IRS and other parts of the Department of the Treasury said they had eliminated more than 100 million hours of paperwork burden between fiscal years 1995 and 1998. However, despite these efforts, IRS' overall burden estimate increased by about 400 million hours during this period. The ICBs that OIRA developed during this period indicated that this net increase was because of increased economic activity and new legislation that required IRS to establish new information collections. For example, the ICB for fiscal year 1999 said the Taxpayer Relief Act of 1997 (P.L. 105-34) significantly increased IRS' paperwork burden, much of which was caused by new provisions for the calculation and reporting of taxes owed on capital gains. Overall, the ICB indicated that the Taxpayer Relief Act had increased burden by more than 92 million hours as of December 1998. IRS officials told us that these factors are outside of the agency's control and have caused the recent increases in its burden-hour estimates. They also said the agency would not be able to reduce its paperwork burden if new statutes requiring information collections continue to be enacted and unless changes are made to the substantive requirements in the current tax code.

OIRA Actions Fall Short of PRA Requirements

Our July 1998 report examined the way in which OIRA has carried out some of its responsibilities under the PRA.[4] Although OIRA pointed to a number of actions it had taken in each area of its responsibilities that we examined, those actions often appeared to fall short of the act's requirements.

For example, as required by the PRA of 1995, OIRA has set both the governmentwide and agency-specific burden-reduction goals. However, OIRA did not set the governmentwide goal until January 1997—15 months after the PRA took effect. Also, OIRA established the agencies' goals for fiscal years 1996, 1997, and 1998 near the end of each of those fiscal years—too late to serve as real "goals." The PRA says OIRA should establish agency burden-reduction goals that represent the "maximum

[4]GAO/GGD-98-120.

practicable opportunity" in each agency. The act's legislative history suggests a relationship between the agency goals and the governmentwide goals, and it is logical to assume that the agency-specific goals would be the means by which the governmentwide goals would be achieved. However, OIRA says that the agency-specific goals may not total to the governmentwide goal because of the agencies' statutory and program responsibilities.

The PRA of 1995 also required OIRA to conduct pilot projects to reduce federal paperwork burden. However, as of last July, OIRA had not formally designated any such pilot projects. OIRA officials told us that other burden-reduction efforts are under way, and that pilot projects used to satisfy another statute meet the PRA's requirements. However, in most cases, those other pilots predated the act and did not appear to have been initiated in response to the act's requirements.

The PRA also required OIRA to develop and maintain a governmentwide strategic plan for information resources management (IRM), which was defined in the act as the process of managing those resources to accomplish agency missions and improve agency performance. OIRA officials said that information contained in their annual reports to Congress under the PRA, the budget, and other documents satisfy this requirement. However, those documents do not appear to contain all of the elements that the PRA requires in a govermentwide IRM strategic plan.

Similarly, the PRA requires OIRA to periodically review selected agencies' IRM activities, and OIRA officials and staff said they do so through their reviews of agencies' information collection requests, OMB's budget formulation and execution process, and other means. However, none of the mechanisms that they mentioned would allow OIRA to address all of the elements that the PRA requires in the reviews.

OIRA's lack of action in some of these areas may be a function of its resource and staffing limitations. As we reported last July, OIRA has taken between 3,000 and 5,000 actions on agencies' information collection requests in each year since the PRA of 1995 was enacted. At the same time, the 20 to 25 OIRA staff members assigned to this task were responsible for reviewing the substance of about 500 significant rules each year and carrying out other responsibilities as well. Although the number of PRA-related actions that OIRA has taken each year has been relatively constant since 1980, the number of OIRA desk officers responsible for those reviews has declined by more than 35 percent between 1989 and 1997.

Agencies Continue to Use Expired OIRA Authorizations

The second general issue you asked us to address involves data that OIRA recently sent to the Subcommittee concerning expired authorizations to collect information. The PRA prohibits an agency from conducting or sponsoring a collection of information unless (1) the agency has submitted the proposed collection and other documents to OIRA, (2) OIRA has approved the proposed collection, and (3) the agency displays an OMB control number on the collection. The act also requires agencies to establish a process to ensure that each information collection is in compliance with these clearance requirements. Finally, the PRA says no one can be penalized for failing to comply with a collection of information subject to the act if the collection does not display a valid OMB control number. OMB may not approve a collection of information for more than 3 years.

In his March 3, 1999, letter to you, Chairman McIntosh, the Acting OIRA Administrator described the results of OIRA staff's review of 91 paperwork clearance dockets that it conducted at your instigation. In one part of the letter, the Acting Administrator described the status of 52 information collections for which OIRA approval had expired. He indicated that 17 of these collections were still being carried out by the agencies after OIRA's approval had expired, which was in violation of the PRA's requirements. A table enclosed with the Acting Administrator's letter provided the details for each of these collections, including the date that OMB's authorization expired and the annual burden-hour estimate for each collection. The table indicated that some of these information collections had continued to be administered for more than 2 years after OIRA's approval had expired, and one had been out of compliance for more than 3 years. The table also indicated that at least one of these collections had been disapproved by OIRA, but the agency (the Department of Agriculture) went ahead with the information collection anyway.

Using the information in the Acting Administrator's letter, we prepared table 1, which shows, by agency and information collection, the total number of burden hours that have been imposed in violation of the PRA since OMB's authorizations expired or were disapproved. The table also shows that, for all 17 collections, the agencies have continued to impose nearly 64 million burden hours of unauthorized paperwork even though OMB's approval had expired.

Table 1: Information Collections That Were Being Implemented Without OMB Approval as of March 1999

Department	Title	OMB approval expiration date	Burden hours since expiration[a]	Estimated costs in millions ($)[b]
Agriculture	Food Stamp Program IDs	04/30/97	2,846,386	$75.4
	Annual Certs, Power of Attorney, Acreage Report	06/30/97	4,767,366	$126.3
	Civil Rights Compliance	08/31/97	799,146	$21.2
	CCC Conservation Contract Addendum	10/31/97	687,477	$18.2
	Noninsured Crop Disaster Assistance Program	05/31/98	6,081,641	$161.2
Health and Human Services	Medical Institutional Provider Bill	10/31/95	11,956,425	$316.8
	Medicare Secondary Payer Information	03/31/96	1,932,643	$51.2
	Mentally Retarded ICFs Participation Condit.	10/31/96	15,936,904	$422.3
	Medical Review of Outpatient Therapy	12/31/97	639,990	$17.0
Housing and Urban Development	Nondiscrimination Handicap Assisted Housing	03/31/97	1,356,931	$36.0
	RESPA 1991 Act Amendments	04/30/97	966,286	$25.6
	RESPA Model Disclosure	11/30/97	7,674,900	$203.4
	Compliance Inspection Mortgagee's Assurance	07/31/98	527,728	$14.0
Justice	Arrival and Departure Record	11/30/97	1,567,500	$41.5
	Supplement to Form	01/31/98	1,210,720	$32.1
	Employment Authorization	04/30/98	2,835,280	$75.1
Veterans Affairs	VA Acquisition Regulation	11/30/96	2,208,251	$58.5
Totals			63,995,574	$1,695.8

[a]The number of burden hours since expiration was calculated by multiplying the burden hour requirement by a date multiplier (number of months elapsed since approval expiration and March 1, 1999, divided by 12).

[b]The estimated cost is calculated by multiplying the burden hours since expiration by the OMB established value of $26.50 per burden hour for tax paperwork.

Sources: OMB and GAO analysis.

Another way to view paperwork burden is in monetary terms. In the ICB for fiscal year 1999, OMB noted that converting burden hours into dollar costs requires agencies to estimate a wage rate that would be applicable to

the burden hours associated with the collection, and that wage rate should be "loaded" to include overhead and fringe benefit costs. OMB also noted that the hourly cost of a technical employee might well exceed $40. In its 1997 report to Congress on the costs and benefits of federal regulations,[6] OMB estimated the "opportunity cost" associated with filling out tax forms at $26.50 per hour. Therefore, multiplying IRS' 5.3 billion burden-hour estimate times $26.50 yielded a $140 billion cost of tax compliance paperwork. As table 1 shows, multiplying the nearly 64 million burden hours of paperwork imposed in violation of the PRA times this estimate of opportunity cost yields a dollar value of nearly $1.7 billion of unauthorized paperwork burden from these 17 information collections.

The Acting Administrator's March 3 letter also indicated that OMB's authorization for another 11 collections had expired and were later reinstated, but not before they were used to collect information in violation of the PRA's requirements. The table enclosed in the letter provided the annual burden-hour estimate and the period that elapsed without OMB authorization. Although the authorizations for most of these collections had lapsed for about 6 months or less, one collection was unauthorized for nearly 2 years. Using this information, we prepared table 2, which shows, by agency and information collection, the total number of burden hours that were imposed in violation of the PRA between the date that OMB's authorizations expired and the date the authorizations were reinstated. For all 11 collections, the agencies imposed more than 47 million hours of unauthorized burden. Using the same $26.50 per hour "opportunity cost" multiplier, these agencies imposed nearly $1.3 billion in paperwork burden in violation of the PRA.

[6]Report to Congress on the Costs and Benefits of Federal Regulations, Office of Management and Budget, Office of Information and Regulatory Affairs, September 30, 1997.

Table 2: Information Collections That Were Implemented Between Expiration of OMB Approval and Reapproval

Department	Title	OMB approval expiration date	Reapproval date	Burden hours between expiration and reapproval[a]	Estimated costs in millions ($)[b]
Defense	CHAMPUS claim form	06/30/96	10/28/96	268,125	$7.1
Health and Human Services	Medicare/ Medicaid Claim	12/31/96	02/20/97	908,204	$24.1
	Premarket Approval of Medical Devices	02/28/97	12/30/97	451,022	$12.0
	Home Health Agencies Info for Medicare	05/31/97	11/18/97	3,474,925	$92.1
Housing and Urban Development	Good Faith Estimate and Special Information	05/31/97	10/14/97	216,875	$5.7
	Employment for Low and Very Low Income	07/31/97	04/06/98	357,828	$9.5
Justice	Employment Eligibility Verification	12/31/97	07/09/98	8,300,000	$220.0
Transportation	Inspection Repair and Maintenance	07/31/96	06/25/98	31,935,243	$846.3
Veterans Affairs	Eligibility Verification Report	11/30/95	09/06/96	575,100	$15.2
	Customer Survey for EO 12862	01/31/97	04/15/97	244,660	$6.5
	Application for Medical, Funeral, etc.	07/31/98	10/23/98	691,685	$18.3
Totals				47,423,667	$1,256.7

[a]The number of burden hours between expiration and reapproval was calculated by multiplying the annual burden hour requirement by an elapsed-time multiplier (number of months elapsed since approval expiration and reapproval, divided by 12).

[b]The estimated cost was calculated by multiplying the number of burden hours since expiration by the OMB established value of $26.50 per burden hour for tax paperwork. The sum of the figures does not equal the total because of rounding.

Sources: OMB and GAO analysis.

Combining the results of tables 1 and 2, the information in the Acting Administrator's letter indicates that these federal agencies have imposed more than 111 million burden hours in estimated paperwork burden in

violation of the PRA. In dollar terms, that amounts to nearly $3 billion in unauthorized burden.

However, this is clearly not the full extent of unauthorized information collections that have taken place. The ICB that OIRA recently developed identifies 800 violations of the PRA in fiscal year 1998. These violations included both other collections with expired OMB authorizations (some of which were subsequently reauthorized) and information collections that were never authorized in the first place. Some agencies (the Departments of Agriculture, Health and Human Services, and Veterans Affairs) had more than 100 PRA violations.

Expired OMB Authorizations Were Counted As Burden Reductions

As disconcerting as these violations are, even more troubling is that OIRA's ICB reflects the hours associated with unauthorized information collections ongoing at the end of the fiscal year as burden reductions. However, the public has seen no real reduction in paperwork burden associated with these information collections; although the agencies are still requiring the paperwork, OMB is no longer counting the burden because its authorization had expired. As a result, OMB credits agencies for burden-reduction accomplishments that have not been achieved, when in reality the agencies are actually violating the PRA.

When OMB's approval for an information collection expires, OMB subtracts the estimated annual number of burden hours associated with the collection from the agency's total. For example, when OMB's approval for the Department of Agriculture's (USDA) Noninsured Crop Disaster Assistance Program's information collection expired on May 31, 1998, the estimated 8.1 million burden hours imposed by this collection each year was subtracted from OMB's database. However, USDA continued to collect this information without OMB's approval. Because this violation was ongoing as of September 30, 1998, the estimate of USDA's paperwork burden at the end of fiscal year 1998 in the ICB for fiscal year 1999 was inappropriately recorded as being reduced by 8.1 million hours.

Although the precise effect of not counting any of the unauthorized information collections on the overall accuracy of the ICB is unclear, it is clear that the governmentwide and some of the agency-specific burden estimates in the ICB are less than they should be. For example, counting just the five USDA ongoing information collections that were not being counted at the end of fiscal year 1998 would have added more than 15 million hours to USDA's 72 million burden-hour estimate. In addition, OMB's recent ICB indicated that USDA had 57 other information collections that were also being administered in violation of the PRA with

an additional 3 million hours of estimated burden. Adding these 3 million hours and the 15 million hours from the five collections listed in the Acting Administrator's letter to the 72 million hours reported in the ICB indicates that USDA's burden estimate should have been about 90 million hours. Although the ICB indicated that USDA had reduced its estimated burden by 59 million hours (45 percent) since the end of fiscal year 1998, the actual reduction appears to have been about 41 million hours (31 percent). Similar adjustments appear to be needed in other agencies' estimates as well.

OIRA Has Taken Little Action to Address Agencies' PRA Violations

In his March 3 letter, the Acting Administrator said OIRA believed that compliance with the PRA is important, and that OIRA desk officers have worked closely with agency staff to stress the importance of full and timely compliance with the act. He also said that OIRA learns of agency violations from public comment and through direct monitoring of reporting from the agencies. The Acting Administrator said that OIRA's database tracks and records OIRA activities in reviewing agency submissions for clearance under the PRA. However, he said the database is not designed or able to identify what he termed "bootleg" information collections that did not obtain OMB approval, or for which its approval had expired.

Last November, Chairman McIntosh, you suggested that OIRA prepare and submit a monthly report listing expirations of OMB PRA approval. In response, the Acting Administrator said OIRA would add information about expired approvals to OMB's Internet home page. As a result, he said potential respondents would be able to inform the collecting agency, OMB, and Congress of the need for the agency to either obtain reinstatement of OMB approval or discontinue the collection.

Although we believe that notifying the public about unauthorized information collections is a step in the right direction, OIRA's approach places the burden of responsibility to detect unauthorized collections on the public. It is OIRA, not the public, that has the responsibility to review and approve agencies' collections of information and identify all PRA violations. Therefore, we believe that OIRA should not simply rely on the public to identify these violations. Although the Acting Administrator indicated that OIRA could not use its database to identify "bootleg" information collections, OIRA's actions indicate otherwise. Just as they did in response to your letter, OIRA desk officers could use the database to identify information collections for which OMB authorizations had expired, contact the collecting agency, and determine whether the agency is continuing to collect the information. The desk officers could also use

the database to identify information collections whose authorizations are about to expire, and therefore perhaps prevent violations of the act.

The PRA of 1995 requires that OIRA's annual report to Congress include a list of all violations of the act. OIRA reported 39 pages of violations in the ICB for fiscal year 1998, broken down into collections for which authorizations had expired and collections for which authorizations were never initially provided. The ICB for fiscal year 1999 contains 59 pages of these violations. However, OIRA officials and staff told us that they have no authority to do much more than publish the list of violations and inform the agencies directly that they are out of compliance with the act.

We do not agree that OIRA is as powerless as this explanation would suggest. If an agency does not respond to an OIRA notice that one of its information collections is out of compliance with the PRA, the Acting Administrator could take any number of actions to encourage compliance, including any or all of the following:

- Publicly announce that the agency is out of compliance with the PRA in meetings of the Chief Information Officer's Council and the President's Management Council.
- Notify the "budget" side of OMB that the agency is collecting information in violation of the PRA and encourage the appropriate resource management office to use its influence to bring the agency into compliance.
- Notify the Vice President of the agency's violation. (The Vice President is charged under Executive Order 12866 with coordinating the development and presentation of recommendations concerning regulatory policy, planning, and review.)
- Place a notice in the Federal Register notifying the affected public that they need not provide the agency with the information requested in the expired collection.

OIRA could also notify agencies that the PRA requires them to establish a process to ensure that each information collection is in compliance with the act's clearance requirements. Agencies that repeatedly collect information without OMB approval or after OMB approval has expired are clearly not complying with this requirement.

Although OIRA's current workload is clearly substantial, we do not believe these kinds of actions would require significant additional resources.

Primarily, the actions require a commitment to improve the operation of the current paperwork clearance process.

This completes my prepared statement. I would be pleased to answer any questions.

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CHAIRMAN MCINTOSH, CHAIRMAN HORN, AND MEMBERS OF THE SUBCOMMITTEES—

I WILL BE VERY BRIEF IN SUMMARIZING OUR RECENT WORK ON THE PAPERWORK REDUCTION ACT, WHICH required OMB to ESTABLISH GOALS FOR THE EXECUTIVE BRANCH TO REDUCE THE PAPERWORK BURDEN ON THE AMERICAN PEOPLE BY 25 PERCENT FROM THE 7 BILLION HOURS IT IMPOSED IN 1995. The bottom line is that there has barely been any reduction – less than one-half of one percent in three years. And projections in OMB's information collection budget just released show the burden going UP, not down, in fiscal years 1999 and 2000 and by hundreds of millions of hours.

There is no question that the IRS accounts for the vast majority of this burden – nearly 80 percent. And it was an **increase** in the IRS burden that offset a 23 percent reduction by all other agencies over the past three years to keep the overall burden about the same. If it were not for a 7 percent burden increase at IRS, the rest of the government would have come close to meeting the 25 percent goal in the 1995 Paperwork Reduction Act. IRS also accounts for about 85 percent of the 468 million hour increase in paperwork burden that is projected for the next two years.

It's the OMB Office of Information and Regulatory Affairs that is meant to monitor and control the paperwork load. Our reviews of their actions show they have fallen short in several respects. For each of the past three years they did not set agency goals for paperwork reduction until the year was nearly over – far too late to serve as real goals in

the sense of affecting agency behavior during the year. OMB also sees no necessary connection between the governmentwide goal, which is set in law, and the goals of the individual agencies. So even though OMB can show you in writing that it has a goal of reducing government paperwork by 5 percent this year, its information collection budget will show that the individual agency goals add up to an increase, not a decrease – led of course by IRS.

The second general issue you asked us to address was the matter of expired OMB authorizations to collect data. The Paperwork Reduction Act prohibits agencies from collecting information from the public unless OMB has approved the collection and given it a control number so the public will know it is authorized. OMB may not approve a collection for more than 3 years.

Our review of information OMB provided you, Chairman McIntosh, shows a troubling disregard by the agencies for this control mechanism. First of all, the current information budget contains a 59-page listing of more than 800 violations of the act – including continuing collections whose authorizations have expired, and collections that were never authorized in the first place. The information OMB provided focused on **the largest** of these collections – involving 500,000 burden hours or more. SEVENTEEN WERE being carried out **after** OMB's approval had expired… and another 11 had been continued for **a period of time** without a valid authorization. These added up to more than **111 million hours** of unauthorized burden. This has a real cost to the American citizen, Mr. Chairman. Using the OMB figure of $26.50 per hour for tax-related

paperwork, we estimated that these 111 million hours cost the American public more than $3 billion dollars.

As disconcerting as these violations are, **even more troubling is** that OMB treats these , unauthorized collections as **reductions in burden**. So if the authorization of a collection has expired when OMB totals up the burden at the end of the fiscal year, OMB counts it as a reduction even though in many cases the information continues to be collected.

I can use the Department of Agriculture as an example of the effect of this, Mr. Chairman, because you will be hearing from them at this hearing. USDA can be seen as one of the success stories. It reduced its REPORTED burden BY 59 MILLION hours since the end of fiscal year 1995, to a total of 72 million hours. However, this total **ignored** five large data collections whose **authorizations** were not in effect at the end of the year even though the information was still being collected. These totalled about 15 million hours. Another 3 million hours were associated with the 57 other violations of smaller scale. Thus the real Agriculture burden is about 90 million hours instead of the 72 million shown in OMB's report.

OMB is on record as taking the compliance problem seriously, Mr. Chairman, but claims that it does not have the power to do much about it other than publish the violations, as in the 59 pages listed in the current Information Collection Budget . We think that OMB could do more than that, including bringing to bear the influence of its budget examiners

-- and even the Vice President, who is charged under Executive Order 12866 with a coordinative role over regulatory policy and review.

We will be glad to explore these matters further in response to questions, Mr. Chairman.

Mr. MCINTOSH. Our next witness on this panel is the Acting Deputy Director for Management of the Office of Management and Budget, Ms. Deidre Lee. She is also a full-time position of administrator in the Office of Federal Procurement Policy [OFPP]. I appreciate the difficulty of coming in as an acting in that position, but thank you for coming and testifying today, Ms. Lee. Again, your full testimony will be put in the record and feel free to summarize and respond to anything Mr. Stevens has said.

Ms. LEE. Thank you, Mr. McIntosh. Good afternoon. You invited me here to discuss the paperwork reduction in fiscal years 1999 and 2000. I am pleased to have the opportunity to appear.

We have recently presented to you the Information Collection Budget of the United States for Fiscal Year 1999, and I know you are familiar with that rather thick document; and there are also copies available on the table in the back, and we will be discussing that today. This extensive report provides a detailed accounting of agency paperwork activities, accomplishments, and planned initiatives. However, we also recognize that we need to continue working to minimize paperwork burden to the public. We look forward to working with the Congress, the agencies, and the public to build on these successes and to address the challenges which are described in this year's budget.

The enactment of the Paperwork Reduction Act of 1995 was an important step in improving the way the Federal Government functions. In providing a framework for managing information, the Paperwork Reduction Act sets out a number of purposes that include reducing information collection burdens imposed on the public; increasing the productivity, efficiency, and effectiveness of Federal programs; and balancing the practical utility of information collection against the burden it imposes.

Under the Paperwork Reduction Act, the agencies and the OMB have specific roles intended to help achieve the purposes of the act. The Paperwork Reduction Act requires the head of each agency, supported by his or her Chief Information Officer, to be responsible for the agency's information collection activities, including the reduction of paperwork burden. Through the development of the Information Collection Budget, OIRA, Office of Information and Regulatory Affairs located in OMB, oversees agency paperwork management. OIRA, through the ICB process, reports on significant improvements in agency information collection during the previous fiscal year, identifies burden decreases or increases, and indicates areas where further improvement is needed.

This year's Information Collection Budget highlights a large number of paperwork accomplishments and improvements. The ICB details these efforts and plans agency by agency. My written testimony describes them in detail and gives some specific examples; but in the interest of time here, I would like to just summarize the initiatives.

Agencies are reducing information collection burden by revising existing regulations to eliminate unnecessary requirements. And I think we saw some examples there from the IRS. They are also raising thresholds to reduce the number of reports; making their forms simpler to read and easier to fill out and thus improving programs for the general public's application process; cutting fre-

quency of periodic reporting requirements, and trying to reduce duplicative information from one report to the next, one of the other concerns expressed by a subcommittee member; putting in place electronic systems that can speed the exchange of information between the government and the public and allow respondents to use their own information technology to ease reporting burdens. They are consolidating information collections both to simplify the collections and to avoid collecting similar information several times from the same people, and working together across agencies to share information so that people need only respond to a single collection from an agency, rather than multiple collections from multiple agencies.

The Information Collection Budget is also the management oversight mechanism through which agency CIOs and OIRA establish agency paperwork reduction targets. They establish these for the coming year; and they take into account the agency's anticipated program and statutory initiatives. And again, this was discussed in detail in the IRS presentation.

The targets for fiscal year 1999 and 2000 do not meet the cumulative government 5 percent reduction goal. The aggregate goal for 1999 is plus 2.6 percent, and for fiscal year 2000 it is plus 2.3 percent. However, some agencies have done extremely well. For example, FEMA, Veterans Affairs, Federal Energy Regulatory Commission, Energy, and Education, all have planned reductions for 1999 exceeding 10 percent; but this is offset by increases in other agencies, specifically, the IRS, as we discussed earlier, which accounts for 80 percent of the burden, and they have the new tax measures. Also, HHS has several important health programs that have upped the burden and Commerce has patents and census, which will increase the burden. I know you are going to hear from Agriculture and some of the other activities they have today.

So while the Paperwork Reduction Act acknowledges Federal agencies' legitimate need for information to perform their missions, it also requires agencies to obtain OMB approval of this information collection. In the 1999 Information Collection Budget, we list agency violations. These occur primarily when agencies continue to use collections for which OMB approval has expired. And the lists are long. They are too long, and they indicate a substantial problem that we must address and resolve; and we are taking agency violations very seriously and will be working with the agencies to improve compliance with the act.

Information is vital to the government and provides its citizens with necessary services, and although the government has always depended on accurate and timely information, in today's complex, rapid-paced, globalized world, the ability to collect information and use the information to benefit citizens and improve service delivery is more critical than ever before. The 1999 ICB, the GAO report, the GAO testimony, and communications with your committee and your staff have pointed out some of the positive steps that have been taken and also some steps that we need to be taking in order to reduce burden and ensure agency reporting accuracy. We look forward to working a partnership among OMB, the agencies, the

Congress, and the public to achieve this important goal.

I would be happy to take any questions.

Mr. MCINTOSH. Thank you. We will have questions for you along with the rest of the panel.

[The prepared statement of Ms. Lee follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Revised

STATEMENT OF DEIDRE A. LEE
ACTING DEPUTY DIRECTOR FOR MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
SUBCOMMITTEES ON
NATIONAL ECONOMIC GROWTH, NATURAL RESOURCES, AND
REGULATORY AFFAIRS &
GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES
April 15, 1999

Good afternoon, Mr. Chairmen and members of the Subcommittees. You invited me to discuss paperwork reduction accomplishments that the agencies expect to accomplish in fiscal years 1999 and 2000. I am pleased to have the opportunity to appear, and to present you with the *Information Collection Budget of the United States Government, Fiscal Year 1999.* This extensive report provides a detailed accounting of agency paperwork activities, accomplishments, and planned initiatives. However, we also recognize that we need to continue working to minimize paperwork burden on the public. To this end, we look forward to working with the Congress, the agencies, and the public to build on the successes, and address the challenges, described in this year's Information Collection Budget.

Purposes of the Paperwork Reduction Act

The enactment of the Paperwork Reduction Act of 1995 (PRA) was an important step in improving the way the Federal Government functions. In providing a framework for managing information, the PRA sets out a number of purposes that include:

- reducing information collection burdens imposed on the public;

- increasing the productivity, efficiency, and effectiveness of Federal programs; and

- balancing the practical utility of information collections against the burden they impose.

Under the PRA, the agencies and OMB have specific roles intended to help achieve the purposes of the Act.

Reducing Burden. The PRA requires the head of each agency, supported by his or her Chief Information Officer (CIO), to be responsible for the agency's information collection activities, including the reduction of paperwork burden on the public. Under the PRA, the Office of Information and Regulatory Affairs (OIRA) within OMB oversees the CIO's management of each agency's collection of information. The PRA also requires OMB to set, in consultation with the agencies, annual agency goals to reduce burden on the public.

Improving Government Programs. OIRA oversees CIO information resource management to assist agency efforts to increase the productivity, efficiency, and effectiveness of their programs. As part of this responsibility, OIRA works with the agencies to improve their management of information. For example, OIRA encourages data sharing among agencies when possible. OIRA also reviews agency information collection activities to ensure that they effectively serve agency needs and increase program efficiency.

Balance the Need for Information vs. Burden. OIRA oversees CIO paperwork management by reviewing Federal agencies' information collection activities that are covered by the PRA, weighing the burdens of each collection on the public against the practical utility it will have for agencies. Last fiscal year, for example, OIRA approved over 3,000 agency requests to collect information. Before approving each request, OIRA worked to ensure that any burden imposed was justified by the accuracy, adequacy, reliability, and timeliness of the information collected.

The Information Collection Budget

Through the development of the annual Information Collection Budget (ICB), OIRA oversees CIO paperwork management – including CIO initiatives to reduce paperwork burden, improve agency programs, and balance agencies' need for information against paperwork burden. The ICB reports on significant improvements in agency information collections during the previous fiscal year, identifies burden decreases or increases, and indicates areas where further improvement is needed.

The ICB is also the management oversight mechanism through which agency CIOs and OIRA establish agency paperwork burden targets for the coming year, taking into account agencies' anticipated program and statutory initiatives. Based upon the prior year's experience and the best estimates of "burden hours" imposed by each form, survey, and other information collection, each agency's CIO submits to OIRA a proposed budget of total burden hours and burden costs for the new fiscal year, together with a description of the changes in existing information collections that are necessary to meet its needs. In addition, agency CIOs report on paperwork management initiatives designed to improve the collection and use of information over time. OIRA reviews these reports and consults with CIOs to develop final information collection budget targets that minimize paperwork burden, consistent with the program needs and planned uses of the collected information.

Agency Efforts to Reduce Paperwork Burden

This year's Information Collection Budget highlights a large number of agency paperwork accomplishments and improvements. The ICB details these agency efforts and plans agency-by-agency. I will summarize just a few below.

Agencies are reducing information collection burden by revising existing regulations to eliminate unnecessary requirements or by completely changing the way they regulate.

- USDA's Rural Housing Service (RHS) first reengineered the regulations and associated information collections with its Single Family Housing (SFH) program. This initiative resulted in a reduction of over a million burden hours. In FY 1999, RHS expects to complete a similar reengineering project for the Multi-Family Housing (MFH) program. By consolidating collections and streamlining reporting requirements, USDA expects to reduce the burden of the MFH program by a half million hours, or one quarter the current burden.

- USDA's Food and Nutrition Service plans to issue regulations which will streamline and consolidate the *National School Lunch Program,* the *School Breakfast Program,* and the *Summer Food Service Program* into one program, significantly reducing the duplication in reporting and recordkeeping that results from the programs being administered separately and cutting burden by over two million hours.

- The Department of Health and Human Service's Food and Drug Administration (FDA) eliminated over one million hours of burden by no longer requiring reports for certain kinds of electronic equipment and requiring abbreviated reports instead of comprehensive initial reports for a number of products such as X-ray systems. FDA will further attempt to reduce burden by rewriting the underlying regulation *Medical Devices Registration and Listing* and by allowing manufacturers to enter and change their information via the Internet.

Agencies are reducing information collection burden by raising reporting thresholds to reduce the number of reports that need to be submitted.

- The Department of the Treasury's Internal Revenue Service (IRS) revised the requirements for the *IRS Form 1040-ES, Estimated Tax for Individuals,* doubling the threshold for having to file this form from $500 estimated taxes to $1,000. This change reduced burden by 3.7 million hours.

- The Federal Acquisition Regulation System (FAR) raised the threshold for maximum travel expense amount that contractor personnel may claim without providing a supporting receipt from $25 to $75. FAR also increased the contract dollar threshold for permitting *Progress Payments,* payments to contractors at specific milestones during a project. This change reduced burden by 158,000 hours.

Agencies are reducing burden by making their forms simpler to read and fill out and by making their programs easier to apply for.

- The Department of Education redesigned the *Free Application for Federal Student Aid* (FAFSA), the form by which students apply for Federal loans and aid to attend college, cutting burden by over a million hours.

- The Immigration and Naturalization Service is working to streamline up to 15 of its forms and rewrite them in plain language, reducing their burden by up to 25 percent.

Agencies are reducing burden by cutting the frequency of periodic reporting requirements and reducing duplicative information from one report to the next.

- The Department of Veterans Affairs (VA) reduced the burden of its *Eligibility Verification Reports* by requiring fewer people to verify annually that they continue to qualify for benefits. VA also reduced the burden of its *Adjacent Gravesite Set-Aside Survey* by making it biennial instead of annual. This change reduced burden by over 50,000 hours.

- The Department of Education reduced burden on the *Local Education Agency (LEA) Eligibility under Part B of the Individuals with Disabilities Education Act (IDEA)* by accepting annual updates on initial State applications instead of requiring complete submissions each year. This reduced burden by over 400,000 hours.

Agencies are reducing burden by putting in place electronic systems that can speed the exchange of information between the government and the public and allow respondents to use their own information technology to ease reporting burdens.

- HUD reduced burden its collections, *Real Estate Settlement Procedures Act (RESPA)—Section 6, Model Servicing Transfer* and *Initial Escrow Account Statement, Annual Escrow Account*, by proposing to permit lenders to use computer generated information rather than manual individual responses, reducing burden over 7.8 million hours.

- IRS continues to report increased use of its popular *e-file* system, including electronic filing and Telefile. IRS also expanded eligibility for the 941 TeleFile program, which allows employers to report employees' wage and tax information by touch-tone phone instead of on the paper Form 941, Employer's Quarterly Federal Tax Return. An additional 300,000 businesses used the 941 TeleFile program last year, reducing burden by almost 14 million hours.

- The Federal Emergency Management Agency is working with mortgage lenders to adopt an advanced information system to collect, maintain, and store data on flood zones and reduce the time needed to research and gather data on individual properties. With the information already maintained in an automated system, applicants for new or refinanced mortgages only need to review and sign a computer-generated form. This system would cut the burden of this collection by 2 million, or half its total burden

Agencies are reducing burden by consolidating information collections both to simplify the collections and avoid collecting similar information several times from the same people.

- The Department of Defense is reducing the burden of its *Acquisition Management System and Data Requirements Control List* by over 20 million hours by eliminating duplicative

data requirements on DOD contractors.

- The Department of Veterans Affairs reduced burden on its *Application for Health Benefits and Yearly Reapplication of Health Benefits* by over 2 million hours by combining five forms and eliminating the duplication that occurred when a veteran applied to multiple VA medical facilities for medical benefits and had to complete the form series each time.

- The Social Security Administration (SSA) will reduce burden by replacing state versions of the Forms SSA-3370 and SSA-3373, which states use to collect information on pain and how a claimant's disability condition affects them, for a single national form. SSA will also eliminate its form *SSA-3945, Work Activity Report—Continuing Disability* by consolidating it with another form. These changes are expected to reduce burden by almost one million hours.

Agencies are working together to share information across programs so that people only need to respond to a single collection from one agency, rather than multiple collections from many agencies.

- The Federal Communications Commission (FCC) will eliminate its *Statement Regarding the Importation of Radio Frequency Devices Capable of Harmful Interference (FCC Form 740)* and get similar information instead from the U.S. Customs Service. The FCC anticipates eliminating approximately 20,000 burden hours due to this effort.

- SSA eliminated its *Forms SSA-777 and SSA-7770, Annual Report of Earnings* and now accepts the IRS Form W-2 filed on behalf of the beneficiary or the beneficiary's Federal tax returns as the report of earnings. This reduces the burden on social security recipients by over 300,000 hours.

OMB Oversight of Agency Efforts to Reduce Paperwork Burden

OIRA also oversees CIO paperwork management by working with agency CIOs to set agency paperwork burden reduction targets for the upcoming fiscal year. Specifically, under the PRA, OIRA, in consultation with the agencies, establishes "annual agency goals" to reduce paperwork burden on the public to the "maximum practicable" extent "in each agency." To satisfy the statutory goal that the paperwork burden target is "practicable," a reduction in paperwork burden must be consistent with the agency being able to carry out its statutory and program responsibilities. These are the paperwork burden targets that OIRA publishes, each year, in the Information Collection Budget.

In addition to the PRA's burden reduction targets, the FY 1999 OMB appropriations calls on OMB to submit to Congress a report that "identifies specific paperwork reduction accomplishments expected, constituting annual five percent reductions in paperwork expected in fiscal year 1999 and fiscal year 2000." The agency targets for FY 1999 and FY 2000, however, do not meet these burden reduction goals. As reported in the Information Collection Budget, the aggregate of the individual agency goals for FY 1999 is +2.6% and for FY 2000 is +2.3%.

Factors that Influence Paperwork Burden. There are many factors that contribute to paperwork burdens going up, not down. New legislative initiatives and amendments to existing laws typically require more, not less, data collection. For example, the Taxpayer Relief Act of 1997 increased reporting burdens by over 64 million hours in FY 1998 and over 92 million hours in FY 1999 (as of December 1998). In addition, even in the absence of legislative changes, the paperwork associated with agency statutory and program responsibilities can expand over time due to a number of factors beyond the agency's direct control, such as economic growth and demographic trends. For example, as the number of businesses grows, the number of applications to the Small Business Administration for loans increases, the number of respondents to Occupational Safety and Health Administration reporting requirements increases, and the

number of reports to the IRS of payments made to employees increases.

More specifically, many existing reporting, recordkeeping, and third-party disclosure requirements are required by or necessary to implement existing statutes, and a number of increases in this ICB are required by new or recently implemented statutes. This ICB identifies over 70 recently enacted statutes, affecting more than 225 reporting, recordkeeping, and third-party disclosure requirements from FY 1998 to FY 2000, under which agencies have added or will add more than 384 million annual burden hours (making increases of more than 402 million hours to individual collections; decreases of about 18 million hours). This statutorily driven increase is more than 5% of the FY 1998 base.

Frankly, these increases are not surprising. In our Information Age, the Federal government has come to rely more and more on information to perform its most basic functions. Information is the key to an effective government that provides its citizens with necessary services -- national security; a sound financial system; health, safety and environmental protections – in the least intrusive and most efficient manner possible. With a population that is geographically dispersed, highly mobile, and diverse; with an economy that is robust, innovative, and operating on a global scale; and with a society that is living through the development of the computer as a primary personal and commercial tool – one of the American government's primary functions is that of an information collecting and management enterprise. Although the Federal government has always depended on accurate and timely information, in today's complex, rapid-pace, globalized world, the ability of the government to collect and use information is more critical than ever before.

Agency Compliance. While the PRA acknowledges Federal agencies' legitimate need for information to perform their missions, it also requires agencies to obtain OMB approval of those information collection activities that are covered by the PRA. It is very important that these information collections have OMB approval because it is the process by which agencies request and receive OMB approval that requires agencies and OMB to assess, among other things, the

trade-off between the practical utility of information collections and the burden they impose on the public.

In both the FY 1998 and FY 1999 ICBs, we list agency violations of the PRA. These occur primarily when agencies continue to use collections for which OMB approval has expired. These lists are long – much too long – and indicate a substantial problem that we must resolve. As part of our efforts in this area, and to help ensure that the public is aware of the status of specific information collections, OMB will add to the "Paperwork Reviews" report on OMB's website information about the expiration of OMB approvals. We take agency violations of the PRA very seriously, and will be working with the agencies to improve their compliance with the Act.

Conclusion

In light of the government's need for information to best serve the public, it is more critical than ever that we continue the governmentwide effort to reduce paperwork burden on the public. We look forward to a working partnership among OMB, the agencies, the Congress, and the public to achieve this important goal. We believe that this goal is shared across the government. The FY 99 ICB points out many of the positive steps that are being taken in order to reduce burden. But it is not enough. We will support this governmentwide partnership to emphasize the importance of initiating real burden reductions and building on the successes that I have outlined for you today. Of course, I welcome any suggestions you may have on how we can achieve more burden reduction, and look forward to working with you toward that end.

As I said at the start of my testimony, this year's Information Collection Budget discusses, in detail, agency paperwork activities, accomplishments, and planned initiatives. In submitting this report, we hope to improve the government's ability to achieve the important purposes of the Paperwork Reduction Act. If you have any questions, I would be happy to answer them.

Mr. MCINTOSH. Our final panelist will be Mr. James White, who is the Director of Tax Policy and Administration Issues at the General Accounting Office.

Mr. White, again, your full testimony will be put in the record. Feel free to summarize it for us today.

Mr. WHITE. Mr. Chairman, thank you. I am pleased to be here today to discuss management challenges facing the IRS. As you know, over recent years IRS has faced criticism and increased congressional scrutiny over its inability to serve taxpayers and replace its antiquated information systems. Several key IRS program areas such as accounts receivable have been on our high-risk list of government programs susceptible to waste, fraud, abuse, and mismanagement. The increased congressional scrutiny culminated in the passage of the IRS Restructuring and Reform Act of 1998.

In response, the Commissioner is leading a massive restructuring of the whole agency that focuses on business and information systems modernization. My statement makes three points, summarized in bullets beginning on page two, that illustrate the management challenges posed by this kind of modernization effort.

First, one challenge for successful business modernization, that is, modernization that results in significant improvements in the service provided to taxpayers, will be developing a balanced performance measurement system and then aligning those performance measures from the top of the organization down to the frontline staff. IRS's history shows the dangers of imbalanced performance measures that rely too heavily on enforcement statistics. IRS is seeking to develop more appropriate measures of business results, customer satisfaction, and employee satisfaction.

An example of a business results measure is voluntary compliance, but developing such a measure will be a challenge. At this time only limited data exists on voluntary compliance. Developing a reliable measure of voluntary compliance will require addressing concerns about the burden doing so places on some taxpayers. The new performance measures must also be aligned throughout IRS. This will require new employee evaluation systems and training, including orientation training for all 100,000 employees and managers, leadership courses for managers and executives, and technical training.

Second, successful systems modernization is essential to successful business modernization. IRS's systems modernization is essential because it is intended to implement IRS's modernized business practices. For example, modern systems would provide employees and taxpayers with current information about taxpayer accounts. IRS has developed a blueprint for systems modernization, but did so before the current restructuring initiative. IRS intends to validate the blueprint in light of restructuring, working as a partner, in its words, with a systems integration contractor. However, we have said in the past that using contractors for systems development is no panacea. Succeeding at systems modernization will be a challenge because it depends on whether IRS can effectively partner with, and manage, its contractors.

Third, the sheer magnitude of undertaking both business modernization and systems modernization will strain IRS's management and staff. Such an ambitious undertaking, along with the

need to stay in business, makes the restructuring initiative a high-risk venture and one that will take years to implement. While undertaking both is ambitious and risky, there is no alternative. As I said above, successful systems modernization is essential to business modernization.

In conclusion, IRS has equipped itself with a new mission statement that focuses on customer service. Business modernization holds promise for achieving this goal of improving service to taxpayers, but successful modernization will need to be sustained beyond the term of the current commissioner. That means dealing with challenges such as those that I have discussed; developing a balanced set of performance measures; aligning the organizational measures with the employee evaluation system; training 100,000 staff; validating the information systems modernization blueprint in light of restructuring; and effectively managing information systems contractors.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions.

Mr. MCINTOSH. Thank you, Mr. White.

[The prepared statement of Mr. White follows:]

United States General Accounting Office

GAO

Testimony

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IRS MANAGEMENT

Business and Systems Modernization Pose Challenges

Statement of James R. White, Director
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Mr. Chairmen and Members of the Subcommittees:

We are pleased to be here today to discuss management challenges facing the Internal Revenue Service (IRS). Over the last several years, the IRS has been the subject of much criticism and increased congressional scrutiny over its perceived inability to serve taxpayers and its failed attempts at replacing its antiquated information systems. Also, several key IRS program areas have been on our high-risk list of government programs susceptible to waste, fraud, abuse, and mismanagement for several years.[1] Increased congressional scrutiny culminated in Congress' passing the IRS Restructuring and Reform Act of 1998. The act, among other things, provides IRS clearer direction about serving taxpayers and assisting them to voluntarily comply with the tax laws.

To align its business practices with the intent of the act, the Commissioner has developed a restructuring initiative that focuses on business and information systems modernization. Business modernization is to make IRS' management and operations results oriented to better address the unique needs of specific groups of taxpayers. Systems modernization is to acquire information systems to support IRS' modernized business

[1] High Risk Series: An Update (GAO/HR-99-1, Jan. 1999).

operations, including IRS' ability to provide employees and taxpayers with up-to-date account information.

Our statement today is based on our past work on IRS' management challenges and high-risk areas as well as our ongoing work to monitor IRS' progress in implementing its new restructuring initiative.

Our statement makes the following three points:

- IRS' business modernization encompasses changing IRS' organizational structure, adopting new business practices, and managing for results. A key challenge for IRS' business modernization will be developing a balanced measurement system and incorporating that measurement system into reward and employee-evaluation systems. IRS will have little assurance that employees will be motivated to change their behavior unless its reward and evaluation systems are aligned with its new measures.
- IRS' systems modernization is intended to implement IRS' modernized business practices. IRS developed the first two levels of a four-level modernization blueprint in May 1997, which we said was a good first step in defining the level of detail and precision needed to effectively and efficiently build modernized systems.[2] However, because the blueprint was developed before the Commissioner's restructuring initiative, we said questions exist about its validity. IRS acknowledges these questions and, in addition to completing the blueprint, plans to validate it in light of the restructuring initiative. Further, IRS is working as a partner with a systems integration services contractor to complete the final aspects of the blueprint. Even so, as we have said in the past, using contractors for systems development is no panacea.[3] The success of systems modernization will depend on whether IRS can effectively partner with and manage its contractors.

[2] Tax Systems Modernization: Blueprint Is a Good Start But Not Yet Sufficiently Complete to Build or Acquire Systems (GAO/AIMD/GGD-98-54, Feb. 24, 1998).

[3] Major Management Challenges and Program Risks: Department of Treasury (GAO/OCG-99-14, Jan. 1999).

- The sheer magnitude of undertaking both business and systems modernization will strain IRS' management and staff. Such an ambitious undertaking, along with the need to "stay in business," makes the restructuring initiative a high-risk venture that will take years to fully implement. The Commissioner acknowledges that the restructuring initiative is a high-risk venture and plans to manage it accordingly.

Business Modernization Holds Promise But Faces Challenges

Equipped with a new mission statement that focuses on customer service,[4] IRS is seeking to fundamentally change the way it does business. Business modernization holds promise for improving service to taxpayers and making managers and employees more accountable in achieving IRS' mission. To be successful, IRS will need to sustain this initiative beyond the term of the current Commissioner and institutionalize managerial improvements. IRS' business modernization will also face challenges in the overlapping areas of performance management and human capital. The challenges we are describing today are not an exhaustive list but are examples to illustrate the magnitude of IRS' endeavor.

Planned Changes and Time Frames

Business modernization encompasses (1) changing IRS' organizational structure and business practices and (2) adopting a results-orientated management approach. Some of the proposed changes in these areas are significant, and could take several years to implement.

Notwithstanding a reduction in the number of field offices, IRS' organizational structure has not changed significantly in almost 50 years.

[4] IRS' new mission is to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Each of its field offices is charged with administering the tax laws for its respective geographic area. Accordingly, every taxpayer is served by at least one service center and a district office. Each of these units is organized along functional lines—for example, examination, collection, and tax return processing. The planned organizational changes include shifting from a geographically-based structure to one organized by different types of taxpayers. IRS' new organizational structure is to include four operating divisions that are to serve four groups of taxpayers: (1) 88 million wage and investment income taxpayers; (2) 40 million small business and self-employed taxpayers; (3) 170,000 large and midsize businesses; and (4) 1.9 million tax exempt organizations. Each operating division is to (1) have end-to-end responsibility for serving its cognizant taxpayer group and (2) reengineer business practices for its respective group.

IRS is completing detailed plans for the new divisions and is planning for a multiyear transition. According to IRS' preliminary time line, employees will be realigned to the new organizational structure beginning this fall and throughout calendar years 2000 and 2001. By the end of this year, IRS plans to establish the Tax Exempt Division and much of the Large and Midsize Business Division. Starting in 2000, IRS plans to begin the transition of about (1) 21,000 employees to the Wage and Investment Income Division;

and (2) 39,000 to the Small Business and Self-Employed Division. In addition to creating new management structures and aligning employees accordingly, the plans recommend business process changes, implementation of which may extend beyond 2001. For example, the Wage and Investment Income plans include new examination and collection business processes that are scheduled to begin in 2002.

Another component of business modernization is redefining management roles by defining the skills and experience required for senior executives. In the hope of broadening the perspective of IRS managers, the new operating divisions are to be managed by teams that may include a knowledgeable IRS executive teamed with managers with experience outside IRS. Once these teams are established, IRS will need to devolve responsibility to these managers so that they can identify business process changes and be held accountable for achieving results.

Revamping IRS' performance measurement system and aligning that system throughout the organization is another aspect of business modernization. The new measurement system, referred to as a balanced measurement system, is to support achievement of IRS' mission and goals.[5] The system is to encompass three types of measures—business results,

[5] IRS' three corporate goals are serving each taxpayer, serving all taxpayers, and fostering productivity through a quality work environment.

customer satisfaction, and employee satisfaction. These measures are to be aligned from the top of the organization down to IRS' frontline employees.

Challenges Are Significant

Implementing performance-based management includes, among other things, (1) adopting a results orientation, which includes defining appropriate results-oriented goals and measures and aligning them throughout the organization; and (2) building, maintaining, and marshalling the human capital needed to achieve results.[6] We identified the following challenges in performance management, especially in the area of human capital, simply to illustrate the magnitude of IRS' undertaking. These challenges are not intended to be an exhaustive list.

For example, as IRS implements its new performance-based management system, it will need some new business results measures that can be aligned throughout the entire organization. For many years, enforcement statistics were used as part of a composite measure to rank the performance of IRS' district offices. Accordingly, it was an important factor in evaluating the performance of managers of those offices. Yet IRS

[6] Implementing performance management also includes establishing financial management capabilities that support effective decisionmaking and accountability and effectively using technology to achieve program results. We testified on IRS' financial management weaknesses in before the Subcommittee on Government Management, Information and Technology, House Committee on Government Reform, in March 1999. (Internal Revenue Service: Results of Fiscal Year 1998 Financial Statement Audit (GAO/T-AIMD-99-103, Mar. 1, 1999.) Later in this statement, we discuss the effective use of technology.

is prohibited from using these measures to evaluate frontline employees. Our work showed that IRS employees perceived that enforcement statistics affected evaluations despite the prohibition.[7] According to IRS, the disconnect between using the measures for managers but not for frontline employees did, in fact, contribute to widespread violations of IRS' prohibition.

As IRS seeks to develop more appropriate business results measures, such as voluntary compliance, it faces the obstacle of having limited data for a baseline. IRS believes that it will need to develop something similar to its discontinued Taxpayer Compliance Measurement Program (TCMP) before it can develop a reliable measure for voluntary compliance. TCMP studies involved doing detailed audits of a statistically valid sample of tax returns to determine the extent of voluntary compliance among various groups of taxpayers. IRS discontinued these studies because of concerns regarding the additional burden placed on the taxpayers who were the subject of these audits. Since then, IRS has not considered TCMP studies to be a viable option for assessing voluntary compliance. We believe a modified version of the TCMP studies, that reduces burden on taxpayers, could be useful in assessing voluntary compliance.

[7] IRS Personnel Administration: Use of Enforcement Statistics in Employee Evaluations (GAO/GGD-99-11, Nov. 30, 1998).

Once IRS develops new measures, reward and employee evaluation systems for managers and frontline employees must be aligned with those measures if IRS is to use them to help accomplish its mission and achieve its three corporate goals. Instilling a results orientation throughout all levels of the organization is particularly important to the success of performance-based management. Without reward and performance evaluation systems that are in accord with IRS' new mission statement and aligned with its measures, managers and frontline employees may have inconsistent or inappropriate incentives.

Our ongoing review of IRS' current employee evaluation system raises questions about the extent to which the system focuses on rewarding customer service. Preliminary results indicate that employee evaluations tend to emphasize efficiency and revenue over customer service. IRS plans to develop a new evaluation system as one of its short term customer service improvements. Until that system is effectively implemented, IRS will be without a key tool for instilling its new values throughout the organization.

Another human capital implication of IRS' business modernization is a significant training challenge. IRS is currently assessing its ability to deliver the requisite training and the associated costs. IRS' training plan for

calendar years 1999 and 2000 associated with business modernization includes (1) orientation training for all 100,000 employees and managers; (2) leadership courses for managers and executives; and (3) technical training for employees whose job functions are to be expanded. During this same time period, IRS is to provide other training required by the Restructuring and Reform Act of 1998.

Training for employees whose jobs are to be expanded may be significant for some employees and may be critical to the success of the restructuring initiative. For example, in lieu of having a mass influx of seasonal employees for filing season activities, IRS is planning to increase the number of permanent employees and expand their job responsibilities to encompass both filing season activities and non-filing season compliance activities, such as examining returns. This expansion would require significant training so that employees who were traditionally involved in filing season activities can learn the compliance work. Our past work on IRS' challenges in consolidating its customer service functions found that attempts to expand customer service representatives' responsibilities encountered some pitfalls. The pitfalls stem from expecting too much too soon from employees.[8] The challenge lies in finding the degree of

[8] Tax Administration: IRS Faces Challenges in Reorganizing for Customer Service (GAO/GGD-98-3, Oct. 10, 1995).

generalization and specialization that IRS can reasonably expect of its employees.

Successful Systems Modernization Is Essential to Business Modernization

To achieve IRS' business modernization goals, including serving taxpayers in a coherent fashion, IRS must successfully modernize its information systems. Modernized systems would provide, for example, IRS employees and taxpayers with up-to-date account information. We have made numerous recommendations to address the serious managerial and technical weaknesses in IRS' past systems modernization efforts. IRS is committed to addressing these recommendations but has not fully implemented them. For IRS' systems modernization to be successful, it must do so.

In July 1995, we reported that IRS (1) did not have a comprehensive business strategy to reduce paper tax return filings in a cost-effective manner; and (2) had not fully developed and put in place the requisite management, software development, and technical infrastructure necessary to successfully implement its ambitious systems modernization. We also reported that IRS lacked an overall systems architecture to guide the modernization's development and evolution. At that time, we made over a dozen recommendations to address these weaknesses, including calling for IRS to (1) implement processes for investment management;

(2) implement disciplined procedures for software development; and (3) complete and enforce an integrated systems architecture, including data and security subarchitectures.[9] IRS agreed with our recommendations.

IRS has made progress in addressing the managerial and technical weaknesses in its systems modernization effort that we identified in 1995. However, to minimize the risk of IRS' investing in systems before our recommendations were implemented, Congress directed IRS, among other things to (1) establish a schedule for implementing our recommendations and (2) submit an information systems architecture for modernization by May 15, 1997. IRS completed a modernization blueprint in May 1997 that included the first two levels of a four-level modernization architecture or blueprint. In February 1998, we reported that IRS' modernization blueprint was a good first step in defining the precision needed to build a modernized set of interrelated systems effectively and efficiently.[10] However, IRS' blueprint was completed 8 months before the Commissioner announced his business modernization plans. Because business modernization may change the very business processes and requirements on which the modernization blueprint was based, it raises

[9] Tax Systems Modernization: Management and Technical Weaknesses Must Be Corrected If Modernization Is To Succeed (GAO/AIMD-95-156, July 26, 1995).

[10] Tax Systems Modernization: Blueprint Is a Good Start But Not Yet Sufficiently Complete to Build or Acquire Systems (GAO/AIMD/GGD-98-54, Feb. 24, 1998).

questions about the modernization blueprint's validity. IRS acknowledges that these questions exist and plans to validate the blueprint in light of business modernization.

In March 1998, a little less than a year after completing the first two levels of the blueprint, IRS issued a request for proposal for a prime systems integration services contractor (PRIME). In December 1998, IRS awarded its PRIME contract for systems modernization. IRS is working as a "partner" with the PRIME contractor to complete the modernization blueprint as we recommended. For the PRIME contractor and partner strategy to be successful, IRS will need to effectively manage its contractors. Our past work has found that IRS has had difficulties in managing contractors.[11]

IRS is also working with the PRIME contractor to account for (1) changes in system requirements and priorities caused by IRS' organizational restructuring and (2) changes to accommodate new technology and to implement the requirements in the IRS Restructuring and Reform Act of 1998. Additionally, IRS is in the process of establishing disciplined life-cycle management processes and structures and mature software

[11] High Risk Series: Information Management and Technology (GAO/HR-97-9, Feb. 1997).

development and acquisition capabilities, including the capability to manage contractors, before it begins building modernized systems.

Scope of Restructuring Initiative Makes it a High-Risk Venture that IRS Acknowledges

IRS' restructuring initiative focuses on both business modernization, including organizational changes, and systems modernization. However, the sheer magnitude of the changes will strain IRS' management and staff. This major restructuring initiative, with its focus on customer service, also entails a cultural change for IRS. Such an ambitious undertaking, along with the need to "stay-in-business," makes this initiative a high-risk venture that will take years to fully implement.

The Commissioner has concluded, and we agree, that the business and systems modernization components of IRS' restructuring initiative must be addressed in an integrated fashion. The Commissioner acknowledges that the restructuring initiative is a high-risk venture and plans to manage it accordingly.

We plan to continue to monitor IRS' progress in implementing the business and information systems aspects of its restructuring initiative. This concludes my prepared statement, and I would be happy to answer any questions.

Mr. MCINTOSH. Let me ask unanimous consent to keep the record open for 10 days, because I think Mr. Horn, who is not able to be with us for the conclusion, may have some specific questions for you. But if any of the other members of the two committees do, we will get those to you in writing as well as the other panels.

Let me ask very quickly, Mr. Stevens, you estimated, I think, that for 28 of the 872 violations of law on failing to get the paperwork approved before it was required of American citizens, that it cost about $3 billion.

Were you able to get information from OMB on the cost of the others, either in the man-hours that are associated with them, or otherwise make an estimate of the costs for all of those violations?

Mr. STEVENS. The Information Collection Budget does not include the hours that are associated with each of the violations, so it is not readily apparent from their publication. We did go back to OMB and ask for the hours of burden that were associated with the Department of Agriculture's information collection violations, and they provided that readily. We made some extrapolations from that.

In general, the ones that the 28 were drawn from were the largest collections of government. If you make some assumptions that the Department of Agriculture is similar to other agencies, and that the volume that we had there would be similar across government, we figure there are about 50,000 hours for each of those collections. It would add about another $1 billion if we extrapolated that to the rest of the government. It was something of a stretch—it wasn't easy to do—but it would make it about $4 billion instead of $3 billion.

Mr. MCINTOSH. Additional to the—so three to four, not an additional four on top of the three?

Mr. STEVENS. Yes, because the additional ones were from smaller collections than the ones we looked at first.

Mr. MCINTOSH. So we are looking at $4 billion of additional costs.

Mr. STEVENS. That would be a reasonable assumption, based on our calculations.

Mr. MCINTOSH. Let me ask you, Ms. Lee, to respond to some of the comments that Mr. Stevens had made. Actually, just to start it off, has Vice President Gore been involved in the paperwork reduction activities of OMB in a supervisory role?

Ms. LEE. In a day-to-day role, no.

Mr. MCINTOSH. But in terms of reviewing the final outcomes and the general supervision?

Ms. LEE. To the best of my knowledge he is not familiar with this level of detail.

Mr. MCINTOSH. OK. So that—well, we can come back to the recommendation.

How do you respond and how does OMB respond to the criticism that they counted the hours for the illegal forms as reductions when, in fact, the forms were continuing to be used by the agencies and $4 billion of cost was imposed?

Ms. LEE. With great concern. We don't want that to happen. The Information Collection Budget is a good planning tool, and what we have realized by collecting this rather detailed report is that it has

made agencies more aware of their commitments and more aware of the process; but it is not perfect, and we recognize we have a long way to go.

What we do want to do is accomplish the goals and——

Mr. MCINTOSH. So does OMB have any plan to change its own operations so that those aren't double-counted? I mean it appears as if they reduce more paperwork than actually is reduced, if the form is no longer valid and OMB says that is not a valid form any more, so we are going to count it as a savings, but the agencies continue to use it.

Ms. LEE. We did make corrections in the Information Collection Budget. We tried to correct for the collections that had expired. And I know this is a discussion of programs and adjustments, but there is corrected information in the budget. We have tried to capture those violations, and we are looking for ways in the future to prevent that from happening and then to act quickly should it happen and consider all of these recommendations.

Mr. MCINTOSH. Good. Because I think it would be important to have the bottom line number be accurate there.

How about in response to what Mr. Stevens said was perhaps even more troubling, the failure to be proactive in getting the agencies to implement the paperwork reduction initiatives?

Ms. LEE. Certainly we have desk officers who are each involved with agencies, and they do review the activities on a regular basis. We have even discussed how we can improve that and are looking at some of the recommendations that are before us here to see which ones of those are readily implementable.

Mr. MCINTOSH. Well, let's look at some of the specifics that were in the written testimony. Do you think it is a good idea that OIRA would, in advance of the expiration, notify the agency it is about to expire and seek their action to correct that?

Ms. LEE. They currently send out on a quarterly basis, a list of regulations that are about to expire, and I think what we are talking about here is a little bit more aggressive followup.

Mr. MCINTOSH. OK. And then some of the others, when they find that one has expired, will they—do they list publicly, announce the agency is out of compliance, notify the budget side of OMB, notify the Vice President and notify the Federal Register? Are those four good suggestions?

Ms. LEE. Those are suggestions that we are looking at: how do we put these into the system? How and when and at what phase?

Mr. MCINTOSH. Let me ask you today, is that something that will be done?

Ms. LEE. I expect it will be.

Mr. MCINTOSH. Because they seem like very good common sense suggestions to me.

How about the comment that perhaps OIRA needs more employees, that there has been a reduction in the work force not only under President Clinton's watch but prior to that, and perhaps we actually need to give you some additional staffing and resources to do all of these things?

Ms. LEE. I was not at OIRA previously with the higher head count; and I know that the office is relatively small—it is about 40 people—and they do turn out a tremendous amount of regulatory

review, et cetera and I know there is an ongoing discussion with other committees as to what is the appropriate staffing.

Mr. MCINTOSH. Well, just for our record today, is that a good suggestion for GAO that Congress should look at?

Ms. LEE. I am in kind of the same boat as Mr. Rossotti. I don't specifically have an individual comment on that. I think we need to look at the agency as a whole and see if we can do some of this reduction. We can look at other ways to simplify our processes and then align the appropriate personnel to that approach.

Mr. MCINTOSH. The other thing that this committee has recommended, and when the agency hasn't wanted to increase personnel, is to fence off some of the budget and say, unless these things get done, you can't spend it in other places.

So let me ask you to go back—and we are holding the record open for 10 days—and see if there is an official response from OMB on that question of whether we should increase the staffing.

Ms. LEE. I would be happy to.

[The information referred to follows:]

The President's FY 2000 Budget request for the Office of Management and Budget maintains the OIRA staffing level at the FY 1999 level. OMB is committed to maintaining budgetary restraint, even though recent Congressional action has created numerous additional responsibilities and significantly added to the organization's workload.

Mr. MCINTOSH. Thank you.

The final question—and then I am going to go and vote and Mr. Ryan will come and continue this part of the hearing—what about this idea of encouraging the Vice President to take a more active day-to-day or at least supervisory role under his authority under the Executive order? I will share with you, I did work for a former Vice President who was very active in that, and so it seems to me like a good idea. I think you can have different views coming from the Vice President's office, but the institutional structure struck me as a good one where you had someone close to the President paying attention to these questions on paperwork and regulation.

Ms. LEE. Mr. McIntosh, that is certainly a possibility, but I think as you pointed out at this hearing, we have some more staff work to do and I think we need to do some of that and ensure that we have done the best we can before we present this issue to the Vice President for his action.

Mr. MCINTOSH. OK. And certainly anybody who is as busy as the Vice President—and there are many things on his plate—we need to make sure he is well staffed in doing that, and OIRA did that for us when we were in the Office of the Vice President.

Let me ask one other quick question: should Congress consider sanctions for even the agency or policy officials in an agency who, once they had gotten the notice that the paperwork is about to expire, knowingly violate the act and let it expire and then continue to collect those paperwork requirements from the public, so that there is some teeth behind the requirement there?

Ms. LEE. The sanction activity, again I am going to leave that to the Congress for their decision. I think as the administrative side of the house, we need to do a better job of aggressively following up on those activities and then present you with accurate results so you can properly make that decision.

Mr. MCINTOSH. Mr. Stevens, let me ask you that question. Would GAO feel that that would be one way to strengthen the provisions of the act?

Mr. STEVENS. Well, it is certainly true there is no consequence of a violation now. You just get your collection published in a book; your name is not attached to it. There are really no adverse consequences at all. And I would think it would be reasonable to have that be a performance element in the SES contract of the Chief Information Officer, for example. But I also think that it is too early to give up on OIRA and its role and its policing, its ability to use the pressures of the budget and the overall controls they have over agencies. We do have a mechanism in place; I think we should try to make that work before we impose a new one on top of it.

Mr. MCINTOSH. Or maybe strengthen it that way and provide the incentive at the agency to cooperate with OIRA.

Let me now have the committee stand in recess. Mr. Ryan told me he would be coming right back after the vote, so he is, as the vice chairman, will continue. He may have some questions for you all on this panel. If not, he will move on to the next panel.

Thank you very much. I do appreciate you coming today.

[Recess.]

Mr. RYAN [presiding]. We will reconvene the hearing.

I would like to start by asking Mr. Stevens a couple of questions.

Mr. Stevens, can you tell me what OMB's or—excuse me, what GAO's recommendations are for improvements in OMB's management of the paperwork burden imposed on the public?

Mr. STEVENS. One perhaps, Mr. Ryan, would be to take a larger, more systemic view of the problem of information collection. Typically right now, within the Office of Information and Regulatory Affairs, the individual desk officers are inundated with individual information collections. One of them we talked to said she had 20 or 30 of them on her desk at the time we spoke to her. And it is not hard to understand that they deal with these serially, one by one, and that it is hard to take an overview of the impact of that on the clientele of the agency, on the government, on the overall burden. It seems to us that somehow, taking a larger view of that problem, dealing with these in larger aggregates could be a step forward.

Mr. McIntosh also recounted some of the specifics in our statement, but those have to do with dealing with individual violations of the act, and we do make those suggestions there. Part of the problem is that it is just not very prominent, no real penalty or adverse consequences flow from violating the act, and some higher level of attention to that could presumably be effective.

Mr. RYAN. If you had to rewrite the system, how would you bring a higher level of attention to that?

Mr. STEVENS. One of the basic reasons the Office of Information and Regulatory Affairs is in the Office of Management and Budget is because that is where the clout resides. The perception and the argument is that OMB can bring pressure to bear on agencies through its control of the budget process, through its control of legislative clearance, and to our knowledge, that is not used very systematically within OMB. We think that closer relationships be-

tween OIRA and those budget examiners can make a difference, particularly for agencies that are endemically in violation.

Mr. RYAN. Have you looked at OIRA in prior administrations and witnessed that OIRA had had a strengthened role, say, in past administrations in the 1980's versus the role OIRA plays now? Does OIRA seem to be playing second fiddle versus its role in prior administrations? Are there models that we have employed within OMB that have strengthened OIRA that you think we ought to go back and take a look at, or what are some structural things we should do with OIRA to elevate their importance, their involvement within OMB? Have you taken a look at that in the past?

Mr. STEVENS. Well, we have looked at OIRA since it was first put together, and we have done many studies over the years. It used to be a larger organization than it is now in terms of staff. And we have not recommended directly, but pointed out in our testimonies the effects of the attrition that they have suffered there.

It is also true that OIRA has been more dictatorial with regard to agencies in the past. It controlled more. And they took some negative press—they got some negative reaction to that. I think Congress at one point has had the point of view that OIRA should not be so active as it has been before.

So they have a balancing role. I think it is not as strong as it used to be, but perhaps——

Mr. RYAN. Was that more style or structure? I mean the old OIRA was one that was just how you described. Was that because of the style of the leadership within OIRA, or was that a difference in structure within the agency; and was the attrition that we have seen within OMB with respect to OIRA much more significant than the rest of the attrition within the agency? Was OIRA singled out, do you believe, in the last 6 years over other cutbacks within the agency?

Mr. STEVENS. Well, actually, since OIRA is a statutory-based agency, I think it was protected somewhat from the restructuring that the rest of the management functions in OMB have gone through. So I don't think it has been differentially affected, but it certainly is smaller. It is certainly our perception there that people are not sitting around with spare time on their hands. They are extremely busy, they work very hard, and we respect that.

Mr. RYAN. Well, thank you, Mr. Stevens.

Ms. Lee, I would like to ask you a couple of questions. Given that the IRS accounts for nearly 80 percent of the total governmentwide paperwork burden on the American public, given that fact, what change did OMB make in IRS's proposed Information Collection Budget?

Ms. LEE. Mr. Ryan, I don't have the specifics on IRS, but I would be glad to get them for you for the record.

Mr. RYAN. That would be great. If you would do that, I would appreciate it.

It is my understanding the IRS did not identify any specific paperwork reduction accomplishments in fiscal year 2000. Can you comment on that? Can you comment on why OMB accepted that?

Ms. LEE. Well, I think Mr. Rossotti discussed it in detail and committed to look at whether they make additional reductions and

try to balance the burden and the benefit for the changes in the Tax Code.

Mr. RYAN. OK. In your role, though, wouldn't it—what I am trying to get at is, we heard Mr. Rossotti's testimony with respect to paperwork reduction. OMB—it is OMB's role to find other recommendations, maybe to check on the work. Why hadn't OMB come up with a separate recommendation for the IRS, or is there a history there that you can shed some light on to this, why there was no recommendation?

Ms. LEE. I don't believe there is a specific history, but I would be glad to get the details for you.

[The information referred to follows:]

With reference to your two questions about the Internal Revenue Service, OMB works with the agencies, including Treasury, to ensure that there is a continued focus on reducing information collection burdens, increasing the productivity, efficiency, and effectiveness of Federal programs, and balancing the practical utility of information collections against the burden imposed.

Federal agencies face difficult challenges in reducing burden – data collection is critical to agencies meeting their program responsibilities and new statutes require additional information collection. The Taxpayer Relief Act of 1997, for example, increased reporting burdens by over 64 million hours in FY 1998 and over 92 million hours in FY 1999 (as of December 1998). Moreover, there are factors outside the control of agencies that increase burden. OMB has worked with the agencies to meet these challenges, but more work needs to be done.

Fortunately, Treasury has undertaken a number of burden reduction initiatives that we can build on. IRS, for example, revised the requirements for the *IRS Form 1040-ES, Estimated Tax for Individuals,* doubling the threshold for having to file this form from $500 estimated taxes to $1,000. This change reduced burden by 3.7 million hours. IRS also continues to report increased use of its popular *e-file* system, including electronic filing and Telefile. IRS expanded eligibility for the 941 TeleFile program, which allows employers to report employees' wage and tax information by touch-tone phone instead of on the paper Form 941, Employer's Quarterly Federal Tax Return. An additional 300,000 businesses used the 941 TeleFile program last year, reducing burden by almost 14 million hours.

IRS also plans to replace its current burden estimation methodology with a new measure of compliance burden that will achieve a number of important goals. These goals include (1) measuring compliance burden more comprehensively and accurately by, for example, accounting for electronic filing methods; (2) providing a tool to reduce compliance burden during the development and analysis of legislative and administrative proposals; and (3) providing a tool to explain current levels of taxpayer burdens and the changes in those burdens due to administrative or statutory changes. We plan to work closely with Treasury, in its planning for FY 2000 and beyond, to build on this and other important initiatives so that more burden reduction can be achieved.

Mr. RYAN. OK. One thing I did want to quickly ask you, since the HHS is expected to levy the third largest paperwork burden on the American public, why did OMB accept the Department of Health and Human Services, the act of not identifying any specific paperwork reduction accomplishments in 1999?

Ms. LEE. We are working with HHS. They have some increases. In many cases, that is because they have some key legislative initiatives: they have the Prescription Drug Marketing Act; they have the Health Insurance Portability and Accountability Act; they have the Personal Responsibility and Work Opportunity Reconciliation Act; and the Medicare reform initiatives. So those added burden, and now we are trying to again balance that burden and responsibility and find out what reductions can be made to offset the increased burden.

Mr. RYAN. So we shouldn't pass so many laws, you are saying.

Ms. LEE. I will leave that up to you to decide.

Mr. RYAN. Ms. Lee, I have a question from Chairman Horn. Chairman Horn asked Commissioner Rossotti about the President's failure to submit nominations for the IRS oversight board. Mr. Rossotti did not know why no names had been submitted. Do you?

Ms. LEE. No, sir, I don't; but I, again, would be glad to look into that and tell you if we have any knowledge.

Mr. RYAN. If you could, and if you could give that to Chairman Horn, I sure would appreciate that.

Ms. LEE. I will do that.

[The information referred to follows:]

The President is firmly committed to making the strongest possible appointments to the Internal Revenue Service Oversight Board. The individuals who serve on this Board will have access to sensitive tax information and play an important role with respect to the Internal Revenue Service. The background review, which includes a review of financial information and tax history, is thorough and takes time. The Administration is moving as expeditiously as possible and intends to make these appointments soon.

Mr. RYAN. I would like to ask Mr. White another question from Chairman Horn. Could you touch on why the IRS has failed in its efforts in the past, and if you feel this effort is proceeding in a way that is different?

Mr. WHITE. In terms of its efforts to modernize?

Mr. RYAN. Yes, I am sorry, in terms of modernization.

Mr. WHITE. I think that what IRS is doing right now is a much larger effort than it has attempted in the past. One of the points that we made repeatedly in our past work is that, systems modernization, which is an area in which IRS has had a number of problems over the past years and wasted a lot of money, needs to be done in an integrated fashion with business process modernization; and the current commissioner is operating that way. They are in a planning phase right now where they are trying to do both. It is ambitious and it increases the risks, but I am not sure that there is an alternative to it.

Mr. RYAN. You do think it does increase the risk for failure?

Mr. WHITE. It is a huge undertaking; and therefore, it is risky. But I don't think there is an alternative. If you are going to change IRS and the way they do business, the way they operate with the American taxpayer, you have to modernize both their business processes and their information systems.

Mr. RYAN. OK. Well, thank you very much. I appreciate the panel attending.

We will now call our next panel. We will begin with Sydney Hoff Hay from Phoenix, AZ; Kay Whitehead from Muncie, IN; William Lindsay, who is the president of the Benefit Management and Design, Inc. of Denver, CO; and John Nicholson, owner of Company Flowers in Arlington, VA.

Ms. Hoff Hay, we would love to hear from you first.

STATEMENTS OF SYDNEY HOFF HAY, PHOENIX, AZ; KAYE WHITEHEAD, FARMER, MUNCIE, IN; WILLIAM N. LINDSAY, PRESIDENT, BENEFIT MANAGEMENT & DESIGN, INC., DENVER, CO; JOHN NICHOLSON, OWNER, COMPANY FLOWERS, ARLINGTON, VA

Ms. HOFF HAY. Mr. Chairman, thank you for asking me to testify before this subcommittee. I am here because I am a patriotic American. I don't really want to be here, but when a staff Member of the U.S. Congress calls and asks you to appear in these august halls and participate in this process, you feel it is your duty as an American to respond. So I am here to tell you my story.

May I first express to you that I am not a tax protester, not by any stretch of the imagination. This is not even about paying taxes. Now, I have been a tax activist at the State level. I have a history of that. I organized an initiative at the State level to require a two-thirds majority for tax increases in Arizona. I worked on that with Congressman John Shadegg. It was successful. I have other of those types of successes to my credit. But this is not even about that. This is about the fact that I am a taxpayer.

I am self-employed. Now, I have two assets which enable me to make a living as a self-employed consultant. No. 1 is my knowledge and my abilities. No. 2 is time. The IRS has zapped a whole lot of my time over the recent past. There is a third thing: it is my creative energies and my enthusiasm for what I do, and that may be an even greater loss to the IRS.

Now, this past weekend, upon returning home from a grueling business trip, a very difficult trip indeed, the latest communication appeared in our mailbox from the Internal Revenue Service. Now, when you see that envelope, you immediately panic, your blood pressure goes up. You go, oh, my gosh, what now, you have this heavy sigh, and then the "what now" was an unexpected bill from the IRS. It was a bill when I opened it for 16 cents.

Now, can you imagine that? They sent this bill with a 33 cent stamp at a cost of how much time and computer time and staff time, and I don't even know how you write a 16 cent check; and I have to respond and take my time and my 33 cent stamp in order to comply. This is just another invasion of my valuable time. But more than that, what is so annoying is this invasion of my precious few moments in my home with my family to deal with this after a long and grueling business trip.

Now, how did this come to happen? Well, a few weeks ago I received a bill, an unexpected bill from the IRS for about $54 which they said I owed from an underpayment of my daughter's 1996 taxes when she was 18 years old and still living at home. Now, when you get a bill for $54 from the IRS, you do what any normal

person would do. You pay it, because you don't have time to take out of your life to even look into why you are getting the $54 bill. I still don't know why, but I paid it. Now, you know, it would have cost me hundreds of dollars in time, let alone my enthusiasm and energies in order to even look into it, so I just paid it. Now, that latest example, the $54 and the 16 cents may seem very trivial. But it came to me at a time that came after a very grueling experience that I had over the last year with the IRS. Here is what happened.

After an examination of my husband's and my 1996 tax return, which took about 4 months, an amount we owed as a result was agreed upon. It was settled upon. A large portion of that amount was agreed that it was deductible. It is just that I paid those expenses in December 1996, and the IRS said they really belonged deducted in 1997, so they were deductible; but what I needed to do was write a very large check to the IRS and then get my accountant to refile 1997 and a large portion of that check would come back to me. So December 3 of that last year I wrote a large check to the IRS for the precise amount. We hand-delivered it, date-stamped it in at the IRS Phoenix office. Then our accountant redid the 1997 return, as had been suggested; and it requested a refund.

Now, a month or so later we received a bill from the IRS. It was for the amount of the check that we had written in December. Now, it said in there, if you have already paid your tax, you can ignore this notice. Well, we had already paid it, date-stamped it in. We had the proof. We ignored the notice. A couple of weeks later comes a certified letter from the IRS with the words, we may seize your paycheck, bank account, auto, other property. We can file a notice of Federal tax lien, plus there was $200 in penalty and interest for a check we had written. We proved it. We showed them the date stamp. Uh-uh. The burden was on us. We had to prove it to them by going to our bank, getting a copy of both sides of the check, and then, so that they could find out where they had applied our money, to whose account. More time lost, more creative energy spent. Eventually they were satisfied, I think up to this point, I understand, but then came the next blow. That certified letter, another one, came in the mail, denying the refund for 1997.

So now I realize I am just about out of time, but I would like to go into—I had one employee up until about a month ago. I had one employee. I don't have any employees right now, so I hope that you will give me an opportunity to talk a little bit about the payroll tax burden for one employee. Thank you.

Mr. McINTOSH. Thank you, Ms. Hoff Hay. Certainly in the questioning I will make sure that we get that into the record.

[The prepared statement of Ms. Hoff Hay follows:]

TESTIMONY OF SYDNEY HOFF HAY

BEFORE THE HOUSE GOVERNMENT REFORM SUBCOMMITTEES ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY & NATIONAL ECONOMIC GROWTH, NATURAL RESOURCES AND REGULATORY AFFAIRS

APRIL 15, 1999

Thank you for asking me to testify before this subcommittee. I am here because I am a patriotic American. I do not want to be here. But when a staff of a member of the United States Congress calls and asks you to appear in these august halls and participate in this process you feel it is your duty as an American to respond. So I am here to tell you my story. May I first express to you that I am not a tax protester. This is not about paying taxes. I have been a tax activist at the state level. This is not about that even.

I am a taxpayer. I am self-employed. I have two assets which enable me to make a living as a self-employed consultant. Number one is my knowledge and abilities. Number two is time. The IRS has zapped a whole lot of my time over the recent past. And there's a third thing – my creative energy and enthusiasm. That may be an even greater loss to the IRS.

This past weekend upon returning from a business trip, the latest communication appeared in our mailbox from the IRS. You see the envelope. A pit forms in your stomach and you breath a heavy sigh, "What now?" This "what now" was an unexpected bill – a bill for 16 cents. Can you imagine that? They sent this bill with a 33 cent stamp at a cost of how much staff and computer time? How much will it cost them to process payment for 16 cents? How do you even write a 16 cent check? So now, I have to take the time to pay this bill with my own 33 cent stamp. This is just another taking of valuable time – but more than that -- what is so annoying is the invasion of my precious few moments at home between work hours and business trips for something so incredibly stupid.

How did this bill come to happen? A few weeks ago, I received a bill for about $54 which the IRS said I owed from an underpayment of my daughter's 1996 taxes when she was 18 years old. When you are self-employed and you receive a tax bill for $54, you do not have the time to even look into why you received it – you just pay it. The time it would take to figure it out would cost me far more than $54 in lost time – again all I have is my abilities and the time I have to use them to serve my clients. It would have cost me hundreds of dollars to check this bill out. So, I just paid it.

This example may seem trivial but it came after what I consider a grueling experience with the IRS. After an examination of my husband's and my 1996 tax return by the IRS which took about 4 months, an amount we owed as a result was settled upon. A large portion of that amount was determined to be allocated to the wrong year. So we were told to file an amended return for 1997 and that amount would be refunded for 1997. The date was December 3rd or 4th of last year. We wrote a check for the precise amount that day and had it hand delivered and date-stamped at the IRS office in Phoenix. Within a few weeks, our accountant redid the 1997 return as suggested and filed it requesting a refund.

A month or so later, we received a bill for the full amount for 1996 that we had already paid. On it were the words, "If you have already paid your tax in full...please disregard this notice." We had already paid it. So, we disregarded the notice. Less than two weeks later, the certified letter arrived. "...we may seize your paycheck, bank account, auto or other property. We can also file a notice of Federal Tax Lien." Plus an addition of nearly $200 in penalties and interest since the last notice.

My husband and I immediately notified the IRS. We had paid the bill. We proved it by the date-stamped copy. But the burden was on us. It was not enough to prove to them that we had paid them. We were told it was up to us to get a copy from the bank of both sides of the check so they could determine to whose account the IRS had mistakenly applied our money. More time lost. More creative energy spent. Eventually they were satisfied. At this point, I think the matter is cleared up.

Then comes the next blow. Another certified letter arrives. This time, the IRS is denying the refund for 1997!!! This matter is still hanging out there unresolved. You can imagine my outrage over this.

Now, all told, so far, the accounting bill for this totals around $10,000. We haven't even begun to fight over the refund we have coming. But, who knows? We may have to just drop it because at a certain point an additional accounting bill could wipe out most of the refund anyway. This is not fair.

Now, on to the payroll tax burden. Up until a couple of months ago, I had one employee. She left to have a baby. The filing of the payroll tax is required on a monthly basis – I used to be able to do it quarterly. This is onerous. Now it's monthly deposits, with quarterly returns and it is a nightmare. In the last few weeks on the same account with only one employee I have received the following notices:

On March 15 – Credit balance of $571. How do you want us to handle it?

March 22 – You owe $28.25.

March 22 – You owe $548.56

April 5 – You owe $431.60

I have not had time to sort it all out. Another time loss on the horizon. Are these my mistakes or the IRS' mistakes? I don't know, but with recent past experience, I am not encouraged. The bottom line for me and I think for our nation's future is this question:
"Why would anyone want to grow their business to the point where they could hire more employees?"

This is my story. There are thousands more people like me in this country who believe that government is the great robber of time, of energy, of enthusiasm. It feels like government is just waiting in the wings ready to pounce and say, "How dare you try to be successful? How dare you try to be self-employed?" And that is really sad.

Mr. MCINTOSH. Our second witness for this panel is Ms. Kaye Whitehead. Ms. Whitehead, who is familiar to this committee, she has testified before this committee before in a field hearing and here in Washington. I appreciate your coming from Indiana. It is a pleasure to have you here once again. Your entire testimony will be submitted for the record. Feel free to summarize it today before us.

Ms. WHITEHEAD. Thank you. I am a farmer from Delaware County, IN, and on our third-generation family farm we grow corn, soybeans, wheat, hay, and hogs. I would like to thank the subcommittee for this opportunity, but let me say that I am very concerned that our family will have the opportunity to be a fourth-generation farm.

There is no question that American agriculture will enter the next millennium as the world's leader in food production, but will we occupy this same position in another 10 years? If we don't want American agriculture to slip—and I really don't think that is the intent—we need to change thinking in government. We have got to quit tying farmers in knots with ill-conceived, costly regulation. We have got to stop imposing sanctions on U.S. agricultural trade. We can't give developing nations a pass on restrictions that would be imposed by a global climate treaty.

I bring all of this to your attention in order that you may better understand the frustration of producers out there in rural America as we attempt to abide by the law, but it keeps changing and growing before the ink is dry on the paper. Between EPA and IDEM, which is Indiana's version of EPA—and every State has one—agriculture is being driven from this country at an alarming pace. Is this the true intent of Congress and this administration?

Just as an example, Indiana has had, since 1971, statutes for confined-feeding operations. In the 1998 inspections completed by IDEM, still utilizing that old guideline process of 1991, the results show that only 2.4 percent of the inspections conducted revealed significant and/or repeated problems. These results prove that Indiana producers are doing a very good job of protection of water resource and, thus, public health. In Indiana we have a zero-discharge requirement. It is a strong performance standard, but it is working. But recent actions show me that agencies and government are more worried about developing regulatory procedures and paperwork than accomplishing results.

On March 9, 1999, EPA and USDA presented their unified national strategy for animal feeding operations. I was present at the meeting in March 1999 in which an official from EPA presented this document to an IDEM rulemaking meeting. This official stated that this program was 95 percent voluntary and only 5 percent mandatory. However, after listening to what he actually said, the fact is, if a producer does not develop a CNMP, which is a comprehensive nutrient management plan, and obtain an NPDES, non point discharge elimination system, which is a permit to discharge, but agriculture would not be allowed to do so, the storm water exemption currently provided for in the Clean Water Act would not be honored.

Indiana producers, as do producers in many other States, currently must provide by-law documentation to obtain an approval

before they can build a confined-feeding facility. Part of that documentation is a manure management plan, which is an MMP. The question was specifically asked by this rulemaking meeting of that official of whether the current approval process that producers must go through in Indiana, and the current MMPs that we must provide would meet EPA's needs. The answer was an emphatic no. So producers will now be required to complete another level of bureaucratic paperwork, and this will not only be applied to new facilities, but existing ones as well. Existing operations that already have approvals will now have to meet the new improved government regulations at two levels.

Then, to add more fuel to the fire, I as a producer cannot provide my own CNMP. The EPA/USDA document specifically states that it must be completed by a public official or a certified private party, another cost that makes no sense. I will be the user, I will implement the plan, and yet I will have no ownership of that plan; and it will cost me to obtain this plan, which is probably a standard prescribed document that will not consider any of the assets of my current practices on our farm. My current manure management plan was developed by me and is flexible to allow our farm to incorporate new technology into our management procedure. The new plans are very prescriptive and imprisons our management into today's technology. It is an enforceable, immovable plan.

USDA will require me to do additional recordkeeping, records to indicate the quantity of manure produced, how the manure is utilized, including where, when, and so forth of the amount supplied. We have no way to pass this cost along. Farmers are price takers, not price makers. Although not a solution to the additional cost of this requirement, the first things that farmers are going to be forced to do is to increase in size, and that is to spread the cost out over more units. I am not opposed to recordkeeping. I think records make good sense. We do that on our farm. It is part of good business practice. But mandates by the government to regulate management is unacceptable.

In the essence of time, I am going to come to a conclusion here. There is just one thing I want to know from this committee and from Congress, and its administration. As a farmer, I want to know—I would like an answer as to the intent and the direction of this administration. If everyone's intent on providing more jobs in the regulatory arena by continuing to create more costly regulatory burdens for agriculture, I need to know that. My family needs to know that. So that we can get out of this business while there is still some equity left in our farm, and before the fourth generation becomes too involved. Perhaps we could all get jobs in the regulatory arena. It does seem that is quickly becoming the future of this country. Thank you.

Mr. MCINTOSH. Thank you, Ms. Whitehead. Let me say it will be the intention of this committee to make sure we hold back the regulators so that you all can continue farming. The same thing for small businesses such as Ms. Hay's. We are up against a large regulatory entity here in Washington. EPA is only one of many, but we are doing the best here in Congress to hold them in check.

[The prepared statement of Ms. Whitehead follows:]

TESTIMONY OF KAYE WHITEHEAD

BEFORE THE HOUSE GOVERNMENT REFORM SUBCOMMITTEES ON NATIONAL ECONOMIC GROWTH, NATURAL RESOURCES AND REGULATORY AFFAIRS & GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

APRIL 15, 1999

I am a farmer from Delaware County, Indiana. On our third generation farm, we grow corn, soybeans, wheat, hay and hogs. I would like to thank the subcommittee for this opportunity. But let me say that I am very concerned that our family will have the opportunity to be a fourth generation farm.

There is no question that American agriculture will enter the next millennium as the world's leader in food production. But will we occupy this same position in another ten years?

"American agriculture is heading for the last roundup," according to Dr. Steven C. Blank. "It is startling to think that the country will not need farmers or ranchers for much longer, but it is true," says Blank. His comments are more startling when you realize he is an agricultural economist at the University of California, and not a kook.

Blank is the author of a book, "The End of Agriculture in the American Portfolio." His main argument is that America cannot maintain a competitive advantage for much longer. Developing nations are catching up. As we lose our edge, agriculture will shrink and consumers will rely on imported food.

"After 20 years as an agricultural economist, I was dismayed by what my research increasingly indicated: the profit squeeze is getting worse," says Blank He sums up the problem by saying, "Prices are global, costs are local." Basically, the costs of producing food in the U.S. and other developed nations are increasing at a much higher pace than they are in developing nations.

Blank's scenario raises many questions. Do we want to rely on developing nations for our food? Will we suffer through a food embargo like we did when OPEC shut off our supply of oil? What about the price, quality and safety of imported food? What about the rural landscape? Who will afford to own the land: the government or developers? Agriculture, by its very nature provides open space, wildlife habitat and economic activity.

If we don't want American agriculture to slip, and I don't really think we want it to, we need to change thinking in government. We've got to quit tying farmers in knots with ill-conceived, costly regulation. We've got to stop imposing sanctions on U.S. agricultural trade. We've got to put more dollars in agricultural research. We've got to help farmers deal with risk management. We have to eliminate estate taxes. We can't give developing nations a pass on restrictions that would be imposed by a global climate treaty.

I bring all of this to your attention in order that you may better understand the frustration of producers out here in rural American as we attempt to abide by the law, but it keeps changing before the ink is dry on the paper. Between EPA and IDEM (Indiana's EPA), agriculture is being driven from this country at an alarming pace. Is that the true intent of Congress?

An example, Indiana has had since 1971 statutes for Confined Feeding Operations. In addition, the state has utilized guidelines to help them implement these statutes. IDEM has always had full authority to enact **rules, but did not do** so because the guidelines were working very well. In fact, in the 1998 inspections completed by IDEM (still utilizing the guideline process), the results show that only 2.4% of the inspections conducted revealed significant and/or repeated discharge problems. These results prove that Indiana producers are doing a very good job of protecting water resources, and thus public health. In Indiana, we have a zero discharge requirement, it is a strong performance standard but it is working. But recent actions show me that we are more worried about developing regulatory procedures than accomplishing results.

In 1997, the Indiana legislature passed a bill that incorporated some of the guidelines into law. Agriculture worked with the legislature to help ensure that we were providing legislation that made sense and was workable, but before the ink was dry IDEM stated that they were going into RULEMAKING. That is where we are today. Agriculture has spent a considerable amount of time and dollars attending these meetings. We have been meeting since January of 1998 and we are still doing so. I have volunteered my time to attend on various occasions, because I have seen and heard the type of thoughts coming from the mouths of environmental rulemakers.

On March 9, 1999, EPA and USDA presented their Unified National Strategy for Animal Feeding Operations. In the introduction of this document provided by the agencies, the last paragraph reads: This Strategy is not a new regulation nor is it a substitute for existing Federal regulation and it does not impose any binding requirements on USDA, EPA, the States, Tribes, localities, or the regulated community.

However, I was present at the meeting in March 1999, in which an official from EPA presented this document to an IDEM rulemaking meeting. The official stated that this program was 95% voluntary and 5% mandatory. The fact is, if a producer does not develop a CNMP (Comprehensive Nutrient Management Plan) and obtain a NPDES (Non Point Discharge Elimination System), the storm water exemption currently provided in the Clean Water Act will not be honored.

Indiana producers, as do producers in many other states, currently must provide, by law, documentation to obtain an approval before they can build a confined feeding facility. Part of that documentation is a manure management plan (MMP). At a rulemaking meeting, EPA officials were specifically asked whether the current approvals and MMP's would meet EPA's needs. The answer was an emphatic no. So producers will be required to complete another level of bureaucratic paperwork. And, this will not be applied to only new facilities, but existing ones as well. Existing operations with approvals will now have to meet new, government-improved regulations at 2 levels.

And, to add more fuel to the fire, 1, as a producer cannot provide my own CNMP. The EPA/USDA document specifically states that it must be completed by a public official or certified private party. Another cost that makes no sense. I will be the user. I will implement the

plan and yet I have no ownership of the plan. And, the plan will cost me a lot of money even though it will probably be a standard prescribed document that will not consider any of the assets of practices on my farm. My current MW was developed by me and is flexible to allow our farm to incorporate new technology into our management procedure, the new plans are very prescriptive and imprisons our management into today's technology - it is an enforceable, immovable plan.

EPA/USDA will require me, as a producer to keep additional records. Records to indicate the quantity of manure produced and how the manure was utilized, including where, when and amount of nutrients applied. Soil and manure testing should be incorporated into the record keeping system. Farmers have no way to pass along the cost of this additional burden, we are price takers not price givers. Although not a solution to the additional cost of this requirement, the first thing that farmers will look at is an increase in size to spread the cost out over more animals. I am not opposed to keeping records that make sense, we do that on our farm, and it is part of good business practices. But, mandates by the government to regulate management are unacceptable.

The EPA official made it very clear at the meeting that EPA was going to enforce point source definitions on agriculture and they were greatly expanding the non-point source definition to do it. In other words, we aren't forcing you to comply, but if it meets our definition, you must comply.

The EPA and USDA have drafted a grand plan to protect public health and the environment. Many states are in the process of or have recently completed rewriting confined feeding regulations to protect water quality. EPA and USDA should be proposing this strategy for those states without confined feeding rules. Indiana's state performance standard is already set - zero discharge - and producers have and are going to operate to meet the standard.

Each level of additional regulations takes family farmers out of existence at a faster pace.

Does EPA/USDA have the authority to implement a set of GUIDELINES that are presented as voluntary, but implemented as mandatory without input from Congress or the public?

Even the U.S. Geological Survey has stated that the National Water Quality Inventory data is so severely flawed and scientifically invalid that the inventory could not be used to summarize water quality conditions and trends. It is like determining the safety of automobile drivers by collecting data from police accident reports; the result would be recognition of an enormous traffic safety problem requiring more regulation and an ongoing education program for all drivers. If you analyze a tainted pool of data, the results will also be tainted. Yet, that is exactly where we are. Is that where we should be?

Thousands of pages of regulations will ultimately be required to implement the plan. The unknowns are an obvious reason for concern. We could be witnessing the birth of a new federal bureaucracy that will impose a huge burden on livestock producers. Or in fact, the program could require a little more common sense approach that recognizes the successes that are working in current programs, give recognition to practices currently being utilized by farmers and base any new regulations on science.

In conclusion, EPA/USDA need to:

1. collect data on water resources to determine if, where and to what extent water quality problems exists, before establishing policies and procedures;

2. set attainable and reasonable performance standards for livestock operations in conjunction with state regulators and then let producers address them individually; and

3. if we have a problem, develop an incentive-only and purely voluntary program for producers;

As a producer, I sure would like some answers as to the intent and direction of Congress and EPA/USDA. If everyone is intent on providing more jobs in the regulatory arena by continuing to create more costly regulatory burdens for agriculture, I really need to know. I need to know so my family can get out while there is still some equity left, and before the upcoming fourth generation becomes too involved. Perhaps we could all get jobs in the regulatory arena -- it does seem that this is quickly becoming the future of our country.

Thank you again for the opportunity to speak before you today.

Mr. MCINTOSH. Let me now turn to our third witness, Mr. William Lindsay, who is the president of Benefit Management and Design, Inc. of Denver, CO. Mr. Lindsay.

Mr. LINDSAY. Thank you, Mr. Chairman and members of the Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs and the Government Management, Information, and Technology Subcommittee. Thank you for allowing me to appear before you.

My firm is an insurance broker and an employee benefit consultant. I am also a board member of the National Small Business Association, the Nation's oldest small business advocacy organization.

Foremost I want to thank Representative McIntosh and Representative Horn as well as others for their leadership and understanding of the serious dilemma that paperwork represents for America's 23.3 million-plus small businesses. I applaud you and support you in this effort to bring sanity to the paperwork requirements we face.

By their very nature, unnecessary Federal regulation and paperwork burden discriminates against small businesses. Without large staffs of accountants, benefits coordinators, attorneys, personnel administrators, et cetera, small businesses are often at a loss to implement or even keep up with the overwhelming paperwork demands of the Federal Government.

Big corporations have already built these staffs into their operations and can absorb new requirements that could be very costly and expensive for a small business owner. If you ask any small business owner anywhere their opinion of their required paperwork, the responses overwhelmingly will indicate that there's redundancy and excessiveness in the filing process; duplication is also a serious concern.

Agencies must seek ways to eliminate the duplication of paperwork. We have two national public policy issues that are very important to this Congress; and that is, first, to provide more insured workers in the work force, and second of all, to increase retirement savings among America's workers.

My experience with paperwork dealing with pensions and health care is, as you might expect, extensive. And I will share with you a couple of personal examples of how Federal paperwork impedes these two national priorities.

At the top of my list is the unnecessary paperwork and burdensome requirements critical to health insurance requirements. In small businesses, virtually every health plan requires some degree of employee contribution toward premium costs. The law allows employers to establish so-called flexible benefit plan or section 125 plan so that employees can make their contribution on a pretax basis.

This tax saving feature reduces the net cost to the employee and enables the employer to increase employee enrollment as a result. It's an obvious positive, on both sides. In my experience, virtually all small businesses structure their plans to operate on this basis. There's no reason not to.

The IRS requires that employers have a plan document and a summary plan description, along with filing IRS Form 5500 at year end in order for such premium payments to qualify on a tax-pre-

ferred status. Failure to file form 5500 can result in a penalty of up to $1,000 a day, without a limit. The form 5500 was designed for pension tax reporting. It is over 6 pages long with 10 schedules and, according to the IRS, takes 11 hours to complete. I don't think I even have to comment on how shortsighted their time estimates are.

Yet the form is not intended for this purpose, and the IRS does virtually nothing with the forms that are filed. As a result, this may be the single greatest abuse by small businesses in America. They simply don't file the form, but by so doing, expose themselves to significant penalties by the IRS.

Another example is the very complicated area of IRS Notice 9852. And this is a brand new requirement recently published by the IRS. It requires that all 401(k) plans and other forms of retirement plans with employee contributions provide employees with an annual notice of their rights under the plan. This notice duplicates virtually every point in the summary plan description that the Department of Labor requires plan trustees to provide eligible participants.

Employers who fail to provide this annual notification stand the risk of being fined and possibly having their plan disqualified. If the summary plan description is a valid summary of employee rights, then I would ask: Why is another notice, which is completely duplicative, required to repeat what employees have already been given?

This poses a real threat for small businesses attempting to establish retirement plans. It is more work and also lays a trap to catch them if they fail to provide this annual notice. As Congress and the administration work toward increasing the abysmal savings rate in this country and making it easier for small businesses to provide retirement plans to their employees, doesn't this paperwork requirement run completely counter to that?

I would suggest that IRS Notice 9852, only adds another layer of "gotcha" in the process and serves as a barrier and a disincentive for small business owners. There are two very important pieces of legislation that the House passed earlier this year: H.R. 439, the Paperwork Elimination Act of 1999, and H.R. 391, the Paperwork Reduction Amendments, sponsored by Chairman McIntosh, that would be significant in our efforts to improve compliance and reduce the requirements that are fostered on small businesses.

Another critical step is to increase the dialog among the agencies, to get them to be more understanding and more responsive to the concerns of small businesses. And if we have time during the questions, Mr. Chairman, I have an idea in that area. And the message I finally want to leave with you is that paperwork burdens are excessive, and they are dragging our small businesses down.

It is imperative that the Federal Government reduces in a tangible fashion the paperwork that requires of America's 23.3 million small businesses—legislation and agency initiatives are good starts, but a real, credible, governmentwide drive to make this process more workable is needed and needed now. Thank you for your time.

[The prepared statement of Mr. Lindsay follows:]

Testimony of William N. Lindsay, III

President of Benefit Management & Design, Inc.
Denver, Colorado

Before a joint hearing of
the House National Economic Growth, Natural Resources and Regulatory Affairs and
the Government Management, Information, and Technology Subcommittees

April 15, 1999

Mr. Chairman, and members of the House Subcommittee on Natural Resources, and Regulatory Affairs and the Government Management, Information, and Technology Subcommittee, thank you for allowing me to appear before you. My name William N. (Bill) Lindsay, III, I am the President of Benefit Management and Design, Inc., located in Denver, Colorado. I am very active with a number of leading national small business organization's. I am also past Chair or Co-Chair of a number of organizations, including the: Colorado Children's Basic Health Policy Board; Colorado Small Employer Reinsurance Program; Denver Metro Chamber of Commerce; and the Colorado Group Insurance Association.

Foremost I want to thank Representatives McIntosh and Horn, as well as Representatives Kucinich and Turner, for their leadership and understanding of the serious dilemma that paperwork presents for America's 23.3 million plus small businesses. I applaud you and support this effort to bring sanity to the paperwork requirements we face.

Small business owners have long been supporters of a strong and viable Paperwork Reduction Act (PRA), which was passed in 1980. The Act authorizes the Office of Management and Budget (OMB)—through its Office of Information and Regulatory Affairs (OIRA)—to review all regulations being promulgated by executive branch agencies. This review is designed to centralize the regulatory process, end redundancy in data collection, simplify and reduce paperwork requirements, and ensure that small business is not inadvertently harmed by unreasonable federal regulations and paperwork.

The Act and the OIRA review process are invaluable tools to harness bureaucratic excess. Left to their own devices and whims, agencies will be ignorant of requirements other agencies are placing on businesses, and will tend to require redundant and unnecessary information. Even though a given regulation or paperwork requirement may seem reasonable on the surface, taken together with all other burdens placed on businesses by the federal government, that requirement could be seen as excessive. Without the centralized review process at OIRA, that holistic view could not be realized.

Yet, despite the best intentions of the PRA, small business has been fighting for years to fill the holes that federal regulatory agencies have punched into this law. Before one can assess the current bill, one must look back at the history of small businesses fight for paperwork reduction and reform.

A Brief History

By their very nature, unnecessary federal regulation and paperwork burdens discriminate against small businesses. Without large staffs of accountants, benefits coordinators, attorneys, or personnel administrators, small businesses are often at a loss to implement or even keep up with the overwhelming paperwork demands of the federal government. Big corporations have already built these staffs into their operations and can often absorb a new requirement that could be very costly and expensive for a small business owner.

Most federal officials who develop and promulgate regulations are largely unaware of the many activities and requirements of their fellow agencies. Information could be combined, and redundancies could be eliminated. In order to accomplish this goal, however, it is absolutely necessary that there be a centralized authority to examine the overall regulatory scheme of the federal government. The Paperwork Reduction Act simply intends to bring small business reality and a sense of regulatory necessity into the thinking of the federal bureaucracy--and eliminate a bit of redundancy at the same time.

In order to accomplish these goals, the PRA established OIRA within OMB. OIRA was given the authority and duty of preventing needless and redundant information requests from being imposed on the public. While the agencies are required to demonstrate the necessity of the data request and to publish it in the Federal Register for public comment, a strong OIRA is necessary to provide an adequate check for these agencies. They can hardly be expected to police themselves.

But the original intent of the PRA and the work that OIRA was doing didn't accomplish the overall goal. Over the last decade there have been numerous attempts to

amend and improve the Paperwork Reduction Act of 1980. Just in the 1990's alone, leading small business volunteers have testified numerous times in support of legislation that would bolster the PRA. We were here fighting the battle over the Nunn/Bumpers/Danforth bill and the Clinger-Sisisky bill, or even efforts through the Contract with America for small business on paperwork reduction. Even this year we have been working with Rep. Jim Talent's office on H.R. 439, the Paperwork Elimination Act, which has passed the House, but is still awaiting action in the Senate as well as the Chairman's bill, H.R. 391 which currently has the same fate as H.R. 439.

The State Of Paperwork Today

If you ask any small business owner their opinion of the required paperwork, the responses overwhelmingly will indicate there is redundancy and excessiveness in the filing process. Let us take, for example, the pool and spa industry. If a dealer services a pool, they must comply with the OSHA Hazard Communication Standard. If they have more than 100 pounds of chlorine on site (which all pool and spa dealers do), they must also comply with SARA Title III. Added to this, there is the Department of Transportation's shipping papers and the Department of Agriculture's specialized documentation requirements. In sum, the government requires similar and duplicate information from the same company in a different format to several regulatory agencies, which is a headache for small business. Nevertheless, the fines for noncompliance with any of the above could exceed the company's income for the year. Plus, the IRS, the EEOC and various state and local governing bodies add to above requirements and create a paperwork nightmare.

Duplication is another serious concern. Agencies must seek ways to eliminate duplication of paperwork. The paperwork requirements for filing mandatory emergency plans is an excellent example. As you know, many agencies require emergency plans, such as a plan for hazardous waste, a fire report, a leak report or a stormwater plan. As one small business owner recently informed me, he must maintain nine notebooks each containing a different emergency plan. From these notebooks, he has to scramble to find the booklet that covers a particular area when agency's regulating that area come to inspect or paperwork is due. Inevitably, the paperwork due dates are all different and require him to keep a separate

calendar simply dedicated to these dates. This is not uncommon, and it would be useful if the various agencies came together with small businesses and agreed to file less paperwork and work harder to eliminate duplication or contradictory requirements.

Another serious problem with an complicated and duplicative layers of paperwork is that it is easy for a well-meaning small business to overlook a requirement or a deadline because they don't have dedicated compliance staffs to research the vast federal (and state) regulatory paperwork quagmire.

My experience with paperwork, dealing with pensions and health care plans is, as you might suspect, extensive – I will share a few professional examples. Atop my list of unnecessary and burdensome paperwork comes from the critical group health insurance requirements. We know that many employer group plans are contributory to some degree. In small businesses, virtually every plan requires some degree of employee contribution toward premiums.

The tax law allows employers to establish so-called "flexible benefit plans" or "section 125" plans so employees can make their contribution on a pre-tax basis. This tax savings feature reduces the net cost to the employee and enables the employer to increase employee enrollment as a result – an obvious plus for both sides. In my experience, virtually all small employers structure their plans to operate on this basis. There is no reason not to.

The IRS requires that employers have a plan document and summary plan description and that they file a Form 5500 at year-end in order for such premium payments to qualify for the tax preferred status. Failure to fill a 5500 Form can result in a penalty of up to $1,000 a day, without limit!

The 5500 Form was designed for pension tax reporting. It is over six pages long (10 with the schedules) and, according to the IRS, it takes over 11 hours to complete – I don't think I have to even comment on how short-sighted their time estimates are. Yet, the form is not intended for this purpose and the IRS does virtually nothing with the form when they receive it for this purpose. As a result this may be the single greatest abuse by business

taxpayers in America. Very few employers file their required forms, but by so doing they are exposing themselves to significant penalties if they are caught.

A final example is the very complicated area is IRS Notice 98-52. IRS Notice 98-52 requires 401(k) and other plans with employee contributions to provide employees with an *annual* notice of their rights under the plan. This notice duplicates virtually every point in the "Summary Plan Description" that the DOL requires that plan Trustees provide to eligible plan participants. Employers who fail to provide this annual notification stand the risk of being fined and possibly having their plan disqualified. If the Summary Plan Description is a valid summary of employee rights then why is another notice required to repeat what they have already been given?

This poses a real threat for small businesses attempting to establish retirement plans. It is more work and it also lays a trap to catch them up if they fail to provide the annual notice. As Congress and the Administration work towards increasing the abysmal savings rate in this country and making it easier for small businesses to provide retirement plans for their employees, doesn't the paperwork requirement run completely counter to that? I would suggest that it all IRS Notice 98-52 does is add another layer of "gotcha" to the process and another barrier and disincentive for small business owners.

There is a great deal of proof on this point. Every year National Small Business United conducts a survey with the Arthur Andersen Enterprise Group, conduct a survey of the small business community to assess its attitudes, concerns, and needs. Repeatedly, small business owners have been asked to identify the "most significant challenges" to their business' growth and survival. Some issues come and go from the top ranks, but "regulatory burdens" and "paperwork requirements" are consistently in the top three challenges. There is a serious message here which we must continue to address. These issues go hand-in-hand and small business owners, and the groups that represent them, will continue to work with Congress to ensure that small businesses do not see an unfair number of regulations and paperwork come out of this town and bury them in their hometowns.

What are the solutions for small business?

Small business owners are on the front-line in a perpetual battle to stay in compliance and up to date with the myriad of mandates and paperwork that agencies like the IRS, OSHA and EPA place upon them. There are two pieces of legislation that the House passed earlier this year, H.R. 439 , The Paperwork Elimination Act of 1999 and H.R. 391, the Paperwork Reduction Act Amendments, that will be a significant aid in our efforts to stay in compliance. As you know, often times the hardest part about staying in compliance is knowing what you have to comply with and what the paperwork requirements are for a particular agency. If we make this more apparent and then give small businesses the ability to voluntarily submit the paperwork via electronic means, we are taking some important steps.

Another critical step in this process is continued open dialogue and initiatives by the Agencies themselves. Washington trade associations and small business groups are involved with EPA in their efforts to provide multimedia one-stop paperwork shops and to eliminate unnecessary paperwork. While these efforts are in the beginning stages, and the EPA has much to prove to the small business community on this front, these are important and encouraging steps. Congress must give the Agencies the carrot -- or the stick, whichever works best -- to work with small business across the board to eliminate and simplify paperwork.

The message I want to leave you with is that paperwork burdens are extensive and they are dragging our nation's small businesses down. It is imperative that the Federal Government reduces, in a real and tangible fashion, the paperwork that it requires of America's 23.3 million small businesses. Legislation and Agency initiatives are good starts, but a real and credible government-wide drive to make this process more workable is needed and needed now.

Mr. Chairmen, members of the subcommittees, thank you for allowing me to be a witness before you today.

Mr. MCINTOSH. Thank you very much, Mr. Lindsay, and certainly I couldn't agree with you more about the needed reforms and legislation. I look forward to talking with you about those other costs and disincentives that are included in there.

Our final witness on this panel is Mr. John Nicholson who is the owner of Company Flowers, from Arlington, VA. Thank you Mr. Nicholson for coming today.

Mr. NICHOLSON. My pleasure, and thank you for inviting us. You're pursuing a very important but a rather dry or a drab topic of paperwork and procedures and taxes, and so I brought along some flowers to try to brighten up the scene a bit.

Mr. MCINTOSH. Thank you.

Mr. NICHOLSON. Our shop, called Company Flowers, which is known around here as the best little flower shop in Washington—to do a little advertisement—is like many other mom-and-pop shops, family run. My wife is the chief designer and flower purchaser who goes down to the wholesale markets at 5 a.m., to hand pick the very finest blossoms. My daughter runs our shop and is constantly arranging our giftware, and the finest in customer service. And I handle the books, the promotion, and other tasks that most of our people in our shop care not to do, such as testifying before Congress.

The task before us today is to explain how the burdens of tax collection, which is of course never a happy process, have multiplied and become especially burdensome. And let me point out three general areas that I wanted to bring to your attention: No. 1 is the attitude of the enforcers. No. 2 is the difference among the different business filers, between small and large corporations. And, No. 3, the congressional responsiveness to special pleaders, which I think has been mentioned earlier.

Regarding the attitude of the enforcers, our business grosses less than $1 million a year, but we spend close to $9,000 on CPA costs alone. That doesn't include the major costs of collecting the accounting data that leads to the numbers that the CPA uses. But if I make a mistake or I decide not to pounce on each and every little detail during any one month, it can affect my pocketbook or it can affect my bank's pocketbook.

But the greatest fear I have is that the IRS is going to come after me for some simple mistake. That's why I've interposed my CPA between me and the IRS filings. I respect his interpretation of the IRS rules, which I have difficulty understanding; and while there are times that I'm less than thrilled by what he asks or says must be done, at least I'm able to deal with someone who doesn't possess that police mentality. The presumption of guilt until proven otherwise is not the case, except with the IRS.

The second topic, difference among business filers, arises because I compile my own employee income tax reports each month. If the business were larger, I would ask for people more skilled than I to do so, but the reality is I can't afford it. Bigger businesses can afford their own bean counters, and they can plead their cases before Congress more readily as well.

Because the big company managers are comfortable with procedures necessary for nationwide operations, they are at peace generally with IRS objectives or activities reflecting its large-scale na-

tionwide activities. But what's sensible for the big guys doesn't often make sense for us little "do it at home" types.

The third major topic I wanted to bring to you is the congressional responsiveness to special pleaders. It may be not a very popular topic up here, but the reality is that our Tax Code is riddled with loopholes. While we may laugh at the Tax Lawyers Relief Act that often arises whenever there's a change in the code, the fact is those tax lawyer fees create business costs that must be passed along to consumers.

Small business owners like myself can't afford those special pleadings, and I'm not sure that I would be comfortable asking for any anyway. But what's the solution? Well, while some changes in law might result from some beneficial tinkering here and there, I think what's ultimately required is a major change, if not indeed scrapping the Tax Code.

I'm a member of the National Federation of Independent Business, and NFIB has taken the lead, calling for an end to the Tax Code as we know it today. I'm also a member of my florist association, FTD, and it's a leading group of florists who provide your $8 billion in flowers from neighborhood flower shops. They too have suggested let's scrap the code and get on with something better, more equitable and, most importantly, most simple.

We need to dump the Tax Code and find a better way. Exemptions aren't the answer; revision is. Thank you and good luck.

[The prepared statement of Mr. Nicholson follows:]

STATEMENT OF

JOHN B. NICHOLSON

Owner of
Company Flowers!
Arlington, VA

Subject:	Regulatory and Paperwork Burden
Before:	Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs; House Committee on Government Reform
Date:	April 15, 1999

Mr. Chairman and distinguished legislators. I am pleased to appear before you as a small business owner and operator of what's been described as "the best 'lil' flower shop in all of Washington" – our family-run business called Company Flowers! in North Arlington.

Our shop is like most other flower shops throughout our nation. We are certainly a family-run business. My wife is the chief designer/artist and flower purchaser who visits the wholesale markets at least twice weekly at 5 o'clock in the morning to handpick the very finest blossoms for our customers. My daughter, Wendy Bailey, runs our shop, and is constantly arranging our extensive giftware and providing the finest in customer service. I handle the books and promotion and other tasks that the others care not to do. We have a weekly payroll of eight to fifteen people, depending on the hectic nature of the season. We are open to the public 9-6 every day but Sunday, and we stay open later on Friday nights so spouses can pick up some flowers for the weekend on the way home – a practice we heartily recommend to all spouses!

The task before us today is to explain how we feel the burdens of tax collection – never a happy process – have multiplied and become especially burdensome on small businesses.

There are three topics of note for the Subcommittee's attention: (1) attitude of the enforcers, (2) differences among business filers, and (3) Congressional responsiveness to special pleaders.

Attitude of the enforcers. I have no desire to subject myself to another IRS audit (I had several, many years ago before we owned the flower shop.). While I try to be careful, I'm not emotionally inclined to enjoy fastidious attention to detail, as my CPA can attest. Therefore, I prefer to rely on someone who seeks solace in detail. My experience in trying to handle our own taxes led very quickly to my hiring of a CPA to cope with such issues as how best to provide a pension plan or select depreciation alternatives.

Our business grosses less than a million dollars each year, and yet we spent $8,950 last year on CPA costs alone. This does not include the major costs of collecting accounting data that lead to the numbers used for taxation purposes. Admittedly, the CPA expense

covers more than just federal taxes for our Sub S corporation – as residents of DC who do business in Virginia, we have two different sets of state income taxation, sales taxation and employee wage taxation to worry about.

Is our paperwork burden especially onerous because of federal taxation? If we run our business correctly, I suppose most of the data should be collected anyway for me to keep proper track of our progress. But there's a big difference in the process of collecting the data. If I make a mistake, or decide not to pounce on each and every detail during a month, it can affect my pocketbook or the bank may notify me of the mistake. However, the greatest fear I have is that the IRS will come after me over my simple mistake.

That's why I've interposed my CPA between me and any IRS filings. I respect his interpretation of the IRS rules. While there are times when I'm less than thrilled by what he asks or needs or says must be done, at least I'm able to deal with someone who doesn't possess the police mentality.

If ever you've had an error in filing taxes, there are penalties and interest of substantial size – which IRS policemen will politely offer to waive, perhaps, but only at their discretion, i.e. the power is all theirs. I realize there are crooks among our citizens, and that the IRS must be wary about cheaters – but I fail to understand why this police mentality must apply to every citizen. This seems to be a presumption of guilt until proven otherwise.

Differences among business filers. Small business owners have paperwork problems substantially different from larger businesses. I compile and file the employee income tax reports each month by myself. If our business were larger, I'd ask for people more skilled than I to do so. If I could afford it, I'd ask my CPA or his lower-level assistant to prepare monthly and quarterly tax reports – but I can barely afford the annual tax preparation and reconciliation services which I don't believe I can do myself. Sadly, none of the money spent on CPAs or tax compliance helps to build a better business for my family and myself.

Bigger businesses can afford their own bean-counters. Further, they can plead their cases before Congress more readily; I (and most small business owners) fail to understand the strange world of depreciable items, for example. And because the big company managers are comfortable with procedures necessary for nationwide operations, they are at peace with IRS objectives or activities reflecting its nationwide predilections. What's sensible for the big guys often doesn't make sense for us do-it-at-home types.

Thus, figuring out before or after-tax deductions on a payroll process and the nitty-gritty of how to adjust the payroll software to do so - isn't a concern for a CEO of a major company like it is for me. For corporate accountants, IRS fellows, CPAs or others whose primary focus is on such matters, the rules may seem simple ... but not to someone like me who worries more about the time taken by our workers to wire the gerbera daisies to keep their heads from nodding.

Congressional responsiveness to special pleaders. One topic that might not be popular with our congressional representatives is the sad fact that special pleaders have riddled our tax code with "loopholes." Undoubtedly when each one passed it was valid and worthy, however, the net result of these "loopholes" benefits the special pleader at the expense of the average business person trying to cope with the complexities of the Code.

While we all may laugh at the "Tax Lawyers Relief Act" each time changes are added to the Code, the "Tax Lawyer" fees create business costs which get passed along to consumers ... successfully masked, over time, so the consumers continue to vote for those who have been responsive to the special pleaders. Small business owners, like myself, cannot afford the "Tax Lawyer" special pleadings, and I'm not sure I'd be comfortable asking for special pleadings anyway.

What's objectionable is that I must suffer, and cannot comply easily with the tax Code, because special pleaders have been successful in their lobbying efforts.

What is the solution? While some changes in law might result from beneficial tinkering, what's ultimately required is a major change

in the tax Code. This must be accompanied by a change in attitude by businesses, by the public, and by legislators who follow public opinion. I like the idea of dumping the tax code for a whole new effort. I am convinced that a fresh start is needed.

Exemptions and tinkering aren't the answers. Real revision is. Thank you and good luck!

Mr. MCINTOSH. Thank you. And the momentum for that sentiment, I think, builds every year as the code becomes more and more complex. Certainly I share it with you.

Let me ask each of you some basic questions for the record. What are your estimates for the total number of hours and dollars you spend annually, either as individuals or in your small businesses to comply with government paperwork requirements? If you've got a ballpark estimate of how many days out of your year it takes or how many hours a week, that's helpful for us to get an idea of the magnitude.

Mr. Nicholson, I will just start with you and go down the line.

Mr. NICHOLSON. I was just thinking it probably is at least a day and a half a month, so figure that out. You know, maybe some more, but that's about right.

Mr. MCINTOSH. Then on top, you mentioned an accountant's bill for about?

Mr. NICHOLSON. An accountant's bill, right.

Mr. MCINTOSH. Mr. Lindsay.

Mr. LINDSAY. Mr. Chairman, I would estimate—I was just doing the same calculation in my head—our bill for our CPA and our tax attorney is going to be about $9,500 this year. And the amount of time, I would say, we have a bookkeeper who spends time doing this, but I would guess that it's probably closer to 2 days a month just in terms of paperwork and filing and other related requirements.

But I forget a payroll service that we also hire to be able to do the tax reporting and all of the tax filing from employees in the deductions on their wages.

Mr. MCINTOSH. So that would be 2 days of your time and then a full-time employee?

Mr. LINDSAY. A full-time employee and an outside service in addition to the accountant and the attorney. And we're only a firm of 9 people.

Mr. MCINTOSH. Ms. Hoff Hay. And, in fact, share with us your story about the employee you had also.

Ms. HOFF HAY. OK. Mr. Chairman, I couldn't even estimate, but I would like to make the point of one of the aspects of time that isn't even reflected when you're talking about how much time to do the paperwork, is the time spent worrying about the paperwork, that wakes you up at 3 a.m., and makes you lie there for 2 hours worrying about it.

That's a part of the time that's not reflected in any government report, and it's real. And it's a burden on our whole way of life, our whole economy.

But anyway, I will just give you a thumbnail sketch about the payroll tax burden to have one employee, which I had up until a couple of months ago; and believe me, I'm rethinking if I ever want to do that again. The filing of a payroll tax on a monthly basis—now I used to have to do it on a quarterly basis, and I was very interested to see—to hear the Commissioner of the IRS say that now for many small businesses, it's back to filing on a quarterly basis.

This I did not know. Of course, when I used to file it on a quarterly basis and they changed the rules and made me change over

to a monthly basis, they informed me of this fact. So I don't know that I'm going to be—I will ask, do I get to switch over to quarterly now or not? But I will just give you an example of the notices, because of my monthly reports, that I've received in the last month.

On March 15th, I got an IRS notice saying I had a credit balance in this one employee payroll account of $571, asking me, "How do you want us to handle it?" On March 22, about a week later, I got a notice saying, "Actually, you owe us $28.25 in this employee account." Same day, March 22, another notice, same mail, "Actually you owe us $548.56 on this same employee's payroll account." On April 5th, I got a notice saying, "No, you owe us $431.60."

None of these notices seem to match up with one another in any way. I have to take the time to sort it out. Another time loss is totally on the horizon for me as I try to figure out are these my mistakes, are these the IRS mistakes? Perhaps they're just a result of the fact that the Tax Code is such a mess even they can't figure it out; I don't know. But that's the result for a person that has had one employee.

Mr. MCINTOSH. Did you get those notices after you no longer had the employee, or was the employee still with you?

Ms. HOFF HAY. Yes, afterwards.

Mr. MCINTOSH. Afterwards. So you weren't obligated to make any payments at that point?

Ms. HOFF HAY. These were for, you know, a month or two—when you mess something up, it takes them several months to go back to it, and then you get the notice about something that maybe is not 90 days or 100 days old. So the paperwork from them takes a long time to get to you.

Mr. MCINTOSH. Back to you.

Ms. HOFF HAY. To respond quickly though——

Mr. MCINTOSH. Mrs. Whitehead.

Ms. WHITEHEAD. Yes. I estimated—I had an economist from Purdue work with me, and we estimated the additional costs to our operation just for the regulatory paperwork—this doesn't include any bookkeeping or IRS, and that would be as high as $2 a head—that doesn't mean anything to you—$2 a head per animal we produce.

Let me give it to you in these terms. In a normal year, pork producers receive anywhere from $2 to $8 per head profit on that animal. So if you took an average of $6 a head, I'm looking at spending up to 30 percent of my profits just for the regulatory burdens that are implemented to me by both the State government and national government.

When you look—when you ask specifically for time committed—and I tried to do a little bit of background on this—in our operation, we spend anywhere from 20 to 25 hours a week on the total burden of paperwork. Now that does include both IRS and—I've tried to include everything. Now some weeks it's much higher than that. It almost doubles, but——

Mr. MCINTOSH. How many are there in your family working on the farming operation?

Ms. WHITEHEAD. We have a farming operation. There's my husband and myself right now. My son is a junior at Purdue, hoping to come back to the farm, but he's involved in part of that. And then we do have 5 employees besides. So we——

Mr. MCINTOSH. So 25 hours out of essentially a 7-person full-time operation goes toward filling out paperwork each week——

Ms. WHITEHEAD. That's right.

Mr. MCINTOSH [continuing]. Almost more than a half time of employee?

Ms. WHITEHEAD. On the farm we work——

Mr. MCINTOSH. More than 40 hours a week.

Ms. WHITEHEAD [continuing]. Longer than 40, yes. But I hope that answers your question.

Mr. MCINTOSH. It does. It's especially striking on the $2 a head when you think about current prices or prices the way they have been in the last 6 months, where you're much below the cost of production. I think it reached as low as $16, $17 a head, wasn't it?

Ms. WHITEHEAD. Some were down to $8. Some markets were recorded at $8.

Mr. MCINTOSH. If $2 cost goes just to the government paperwork for environmental and other social regulation, it tells you exactly how much burden there is for the farmer.

Ms. WHITEHEAD. What's so frustrating is when they do inspections, they find there's very little problem, and yet the burden increases.

Mr. MCINTOSH. Right. Let me turn now to my colleague, Mr. Ryan, who is the vice chairman of the subcommittee, and ask him if he has any questions for this panel.

Mr. RYAN. Yes. Mrs. Whitehead, I would like to ask you a couple of questions. You said you do hogs, corn, soybeans, and what else?

Ms. WHITEHEAD. Wheat.

Mr. RYAN. I'm sorry. I'm sure you're having a tough year. Commodity prices are at an all-time low. So your hog prices, you're saying on your hogs, $2 a head. Are those contract hogs?

Ms. WHITEHEAD. No, sir. We're an independent producer.

Mr. RYAN. You must be well below break-even with that. That's $2 of an additional cost that is probably not taken out of your profit from this past year; is that correct?

Ms. WHITEHEAD. There was no profit this last year in hogs.

Mr. RYAN. That was $2 of additional costs on the losses you incurred on your hogs today from the paperwork burden?

Ms. WHITEHEAD. That's correct. Just the regulatory arena, yes.

Mr. RYAN. Some of the things—and I will digress just for a second. I have a strong concern about rural America. I hope one day your son who is a junior at Purdue can come back to the family farm. But it's my concern that what we're doing here at the Federal Government is pushing the next generation of farmers into the cities to work at banks, to work at businesses—great, wonderful traits, wonderful professions—but we are pushing the next generation of farmers out of farming. And I think specifically you can point at the regulatory burden and the tax burden.

We've talked about the regulatory burden in your testimony. I would like to ask you a couple of questions about the tax burden that is pushing the family farmer out of business, that is consolidating farms, and that is pushing the next generation of children who grow up on farms away from being able to run their family farms.

What specifically are the tax provisions in the Federal Tax Code that you think are the most onerous ones facing your farm?

Ms. WHITEHEAD. The first one that is going to jump to my mind—and I don't profess to be an expert about all the provisions, because we spend about $10,000 a year on an accountant like most of the others mentioned here—that is the inheritance tax burden. It is very difficult for farmers to pass along anything to the next generation because they have to sell it to pay the taxes. And like I say, we are price takers, not price makers.

So the cost of our production has nothing to do with what we receive for our product. But that would be the No. 1 tax that stands out for me as far as attempting to provide for the next generation.

Mr. RYAN. So when you hear people say that we have to keep the estate tax in place, it must exist in law because it gets after rich people, you just reject that notion?

Ms. WHITEHEAD. Absolutely.

Mr. RYAN. One thing that we did do in the Congress here is to try and get income averaging back on a permanent basis. Is income averaging something that is helping you with this burden a little bit? Especially when you had such a bad year in the hogs, looking at a bad year in soybeans, does income averaging help you?

Ms. WHITEHEAD. Yes, that was a vital tool. And I'm sure that you've seen or will get the results of having implemented a great deal of those this year. One thing I was surprised about, though, because we were going to utilize that tool this year, is that it doesn't automatically happen with the filing. You have to utilize your accountant for more procedures so that you can attain the form to income average. It's a whole new procedure, it——

Mr. RYAN. That's exactly what I was getting at. So income averaging which allows you to write your losses off over a longer period of time, how is that compliance? Are you saying that you have to get more paperwork burdens involved, you have to get more fees to your accountant to try and get income averaging on your books so you can try and release the pressure that you're hitting this year? Is this adding a tremendous amount of costs? Do you know quantitatively how much more you have to pay for an accountant to help you get your income averaging lined up?

Ms. WHITEHEAD. Well, don't misunderstand me, I appreciate the tool. It's good for agriculture, because we have to deal with the weather and a lot of other factors that many other businesses do not have to deal with. However, I was very surprised when my filing was completed—and in agriculture, March 1 is our filing date instead of April 15th—when there was no attachment about income averaging.

And I specifically asked my accountant and he said, "Oh, well, that has to be done totally separately. It's a whole new document. I will get that done when April 15th passes." So that's a—that will be another set of costs to go about providing or applying for a tool that I thought should have come with the—been provided for in the original filing.

Why does it have to be so complicated? It's a good tool. But why does it have to be so complicated?

Mr. RYAN. Thank you, Mrs. Whitehead.

Mr. Nicholson, I wanted to ask you, you touched a little bit on scrapping the code. And I think—Mr. McIntosh and I are both cosponsors of legislation to have a date certain in law, whereby we would sunset the Tax Code, so Congress and the administration would know when the Tax Code expires, and we would have to replace it or extend the existing Tax Code of that date certain.

Let's suppose we do pass this bill that does set a date certain in the future. What are some ideas that you have? What do you think would be the best way to replace the current existing Tax Code?

Mr. NICHOLSON. Well, there are several proposals that have been kicked around, and you're more familiar with them than I am. I can say one principle that I think is overriding and more important than anything else is simplicity. You're not going to get general public support for—whether it's a flat tax or a value-added tax or whatever variations come down the pike, you're not going to get public support unless it's simple. And that is, you know, the cardinal rule, No. 1. Whatever one is best, you know a lot better than I do.

Mr. RYAN. But simplicity ought to be a guiding doctrine, no matter what.

Mr. NICHOLSON. Absolutely.

Mr. RYAN. Going on that point, Ms. Hoff Hay, I would like to ask you an additional question. Were you here when Mr. Rossotti gave his testimony——

Ms. HOFF HAY. Yes, sir.

Mr. RYAN [continuing]. Commenting on the issues of simplicity. It sounds like your dealings with the IRS are anything but simplicity. What were your impressions of his testimony? Did you feel as a taxpayer adequately assured that the IRS is doing everything within their means to make sure that we have a simpler tax collection system; that the IRS is responding to the problems that we have out here, problems such as yours? What was your reaction to his testimony? Were your concerns allayed and could you just comment on that?

Ms. HOFF HAY. Mr. Ryan, I think my concerns could best be expressed by his comment about the fact that he sends out a survey to a representative sample of people who have encountered the IRS over the past year. I was the recipient of one of those independent surveys from an independent survey research company.

Mr. RYAN. More paperwork.

Ms. HOFF HAY. I was pleased to get it. I filled it out. I vented on that paperwork. I told the paperwork exactly—you know, it says information—you know, put your comments here after you filled in all the little boxes?

Mr. RYAN. Did they give you enough space on the comment form?

Ms. HOFF HAY. About this big. Boy, I wrote big and then extended it on another piece of paper. Then, when I was finished, Mr. Ryan, I looked at it and I tore it up and I threw it in the trash. I did not mail it back in, because for me, Mr. Ryan, the Internal Revenue Service seems to be such a police force. It makes us feel that they're the Secret Service and they're all out to get us. I thought, I don't want to send this in and make myself a target, and that's what I felt.

Mr. RYAN. You were concerned about retribution?

Ms. HOFF HAY. That's what I feel about being here today. I don't know if the other panelists feel the same, but I certainly do. That's why I said I'm here because it's my American duty to be here, not because I want to be here. So I did not even fill in that survey. I threw it away.

Mr. RYAN. I hope that you won't have any problems associated with your testimony today. If you do, you'll make an excellent witness another time around.

Mr. MCINTOSH. Rest assured it is the policy of this committee—and we have had witnesses who appeared before us that feel as if they have been harassed by an agency—and let me put it to the record that this committee then is very vigorous in pursuing that, and I will take it to the highest levels of this administration, if it is your feeling that there's been any retribution, any of you, for coming forward today, because Congress needs this information in order to do our job.

So we will definitely take steps, and have in the past, and gotten the problems corrected. So thank you.

Let me mention one other thing, if I may, Mr. Ryan. Beside you there is the stack of paper with the beautiful red ribbon around it. It is a stack of paper that the committee put together when we took forward the bill that Mr. Lindsay mentioned, the amendments to the Small Business Paperwork Reduction Act. That is the compilation of all the forms that we were aware of that the small business has to fill out when they hire a new employee over the first year of employment.

And, I will put into the record the list of the 22 different forms that are there. They were provided to me by a small businessman in Muncie, who asked his human resources person to just compile all of the different forms that she has to fill out every time they hire somebody. It is not—not incredible to me, sadly, that people like you, Ms. Hoff Hay, make the decision every day not to hire people because of that burden.

[The information referred to follows:]

Paperwork Required for a New Hire

1) insurance information for COBRA
2) EEO1 form, listing race and gender of all employees (EEOC)
3) employee evaluation (to document for EEOC)
4) disciplinary notice (to document for EEOC)
5) IRS tax payment form -- for automatic withdraw of funds -- weekly
6) Federal IRS withholding form
7) directory of new hires -- to comply with Federal "dead beat dad" law
8) form for federal loans -- for mortgages
9) FHA loan form -- Fannie Mae
10) COBRA notification -- explain coverage options available when employee quits
11) FMLA (Family and Medical Leave Act) forms
12) W-2 forms -- one to employee, one must be kept on file for 8 years
13) employment application -- to comply with Federal standards for criminal and drug checks
14) receipt for safety glasses
15) form for badge/time card -- must be tracked to comply with Fair Labor Standards Act
16) INS I-9 form -- must be kept active for each employee and kept on fiel for 3 years after they leave
17) W-4 form for new hires to comply with "dead beat dad" law
18) health insurance form -- to keep track for COBRA
19) OSHA injury and illness report form
20) employee handbook for exempt employees (EEOC)
21) employee handbook for non-exempt employees (EEOC)
22) employee's copy of COBRA -- must be signed and kept on file

Mr. MCINTOSH. And, so it is one of the goals of this subcommittee to figure out which of those are duplicative, which we can get rid of, which are not providing any benefit for the costs associated with it.

And, then a second point that you addressed, which is also in that bill, is to relieve some of that worry factor by saying to a small businessman or a small businesswoman, if you happen to make a mistake in filling out all of that paperwork, we're going to allow you a chance to go back and correct it, rather than come in and slap you with a fine.

You mentioned, Ms. Hoff Hay, that there was a penalty for one of the filings that the IRS had received or claimed they didn't receive when you had made the payment. Similarly, many of the agencies also have penalties that they associate with not filling out the paperwork correctly or not keeping the logs correctly on your place of employment. Very simple, and it seemed to me straightforward, that we would allow small businessmen an opportunity to correct it. So you put the government on the side of the business coming in and pointing out errors and then giving them a chance to correct it.

My experience is that the vast majority of small businessmen and farmers in this country want to comply with all of these rules and regulations. They find them to be a headache, but in the same way you expressed, Ms. Hoff Hay, they view it as a duty essentially, and they're law-abiding citizens.

I was shocked when some of my colleagues on the House floor came in and said, but if you do that, you allow people, criminals, to get off the hook. Their view of America's small businessman and small businesswoman is that they're potential criminals. Our view is that they're decent people, trying to get a job done, trying to hire people and putting up with an enormous burden of paperwork put out by the Federal Government to do that.

So we are now working with the Senate to try to move that legislation forward, but I wanted to give you an update, and show for those of us here exactly the magnitude of the paperwork that goes with each new employee that a small business hires in America.

So I appreciate all of you coming today and sharing your testimony with us. I have no further questions for this panel. Mr. Ryan, do you?

Mr. RYAN. No, Mr. Chairman.

Mr. MCINTOSH. And I truly do appreciate your willingness to come here. Some of the things that you pointed out will lead to questions directly to the IRS Commissioner that the committee will be sending forward. I want to find out exactly what their policy is on some of the examples that you've brought forward and to some of the other agencies. And, we will keep you informed on the further information that we gather in that process. Thank you.

Ms. HOFF HAY. Thank you.

Ms. WHITEHEAD. Thank you.

Mr. MCINTOSH. We have one more panel today. And I would ask Ms. Anne Thomson Reed to come forward. She is representing the U.S. Department of Agriculture and is the Chief of the Office of the Chief Information Officer. So I guess you are the Chief Information Officer.

And let the record show that Ms. Reed was sworn in along with the other witnesses at the beginning of the session. Share with us your testimony. The entire written testimony will be put into the record, so feel free to summarize key points for us today.

STATEMENT OF ANNE F. THOMSON REED, CHIEF INFORMATION OFFICER, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY KEITH KELLY, ADMINISTRATOR, FARM SERVICE AGENCY

Ms. REED. Thank you. Chairman McIntosh, Mr. Ryan, I want to thank you for inviting me here to share with you actions that are underway at the U.S. Department of Agriculture to reduce the paperwork burden on America's citizens and particularly on farmers. With me today is Mr. Keith Kelly who is the Administrator of the Farm Service Agency. And with your permission, in addition to my formal statement, I would like to submit for the record a statement by Mr. Kelly as well.

Mr. MCINTOSH. Seeing no objection, that statement will also be included in the record.

Ms. REED. Thank you. USDA's diverse programs include food safety and inspection, food nutrition programs, programs to create jobs and support the infrastructure of rural America, natural resources and conservation, research and education, and of course programs to support America's farmers.

We are committed to streamlining program delivery while preserving fiscal integrity and preventing fraud, waste, and abuse. In fiscal year 1998, citizens spent approximately 84 million hours—and that does include the hours associated with the expired collections—providing information to USDA and fulfilling recordkeeping requirements.

By the close of fiscal year 2000, we estimate that we will reduce the actual paperwork burden to the public by approximately 6.2 million hours, which should bring the total to about 77.8 million hours. A key aspect of USDA's mission is to provide financial and technical assistance to farmers.

This year with the supplemental passed by Congress, USDA will provide about $31 billion in farm assistance. While we are deeply committed to helping farmers through this farm crisis, as with any financial institution, there are necessary requirements for assuring eligibility and for meeting our fiduciary responsibilities to prevent fraud, waste, and abuse.

In short, we want to be sure that the money goes where it's supposed to, to help farmers in need. The agencies which deliver programs through USDA's county-based Service Centers, the Farm Service Agency, the Natural Resource Conservation Service and the three Rural Development Agencies have a number of initiatives underway to reduce the paperwork burden on farmers and rural citizens.

Projects underway include developing common geospatial maps and data that will allow greater sharing of land and crop information between partner agencies as well as external entities; an initiative to eliminate the need for customers to provide the same information more than one time by sharing it among agencies; and

providing electronic on-line information services to customers, employees, and partners of USDA.

In fiscal year 1998, the Farm Service Administration's Farm Loan Program area initiated a comprehensive regulatory and program reengineering effort which will conclude in September 2002. FSA's loan making and servicing processes as well as documents associated with both the direct and guaranteed loan programs are being reviewed to eliminate redundant and unnecessary processes.

This year the application form for the Guaranteed Loan Program was cut from 12 pages to 6, and the amount of supporting documentation was reduced. Before the change, applicants spent an estimated 2 hours on the form; today it should take about 30 minutes. Recently implemented programs such as the Small Hog Operation Payment Program, the Dairy Market Loss Assistance Program, which began this week, and the Crop Loss Disaster Assistance Program have been deliberately structured to minimize paperwork requirements.

In each of these recent programs, the forms should take about 15 minutes to complete and are available over the Internet as well as through the county office.

In fiscal year 1997, the Rural Housing Service streamlined the regulations for the Single Family Housing Program. By developing one consolidated regulation and revising the associated information collected, the agency collectively reduced participants' paperwork burden by over a million hours. To obtain the full benefit from any of these projects, USDA must continue to invest in new technology.

The current computer systems used by the agencies and the Service Centers are not interoperable, and therefore present a real barrier to information sharing. The President's fiscal year 2000 budget proposal contains funds for accelerating the acquisition of the needed technology and continuing support for developing common business operations.

Other significant accomplishments have been made in the food stamp program and programs administered by the Grain Inspection, Packers and Stockyards Administration and the by the Rural Housing Service.

In conclusion, the Department will continue to work toward full compliance under the Paperwork Reduction Act and toward achieving the goals set by the act and by the Office of Management and Budget. With your assistance, we will continue to move forward in delivering better customer service with minimal paperwork burden.

Thank you, Mr. Chairman.

Mr. MCINTOSH. Thank you, Ms. Reed. And, we will include the full testimony into the record.

Ms. REED. Thank you.

[The prepared statement of Ms. Reed follows:]

April 15, 1999

Office of the Chief Information Officer
United States Department of Agriculture
Statement of Anne F. Thomson, Reed, CIO
Before the Sub Committee on National Economic Growth,
Natural Resources and Regulatory Affairs

INTRODUCTION:

Mr. Chairman, members of the Subcommittee, thank you for inviting me here today to talk about actions underway at the United States Department of Agriculture (USDA) to reduce the paperwork burden on American citizens, and particularly on farmers. With your permission I will submit my written testimony for the record.

The U.S. Department of Agriculture delivers programs which daily affect the lives of every American, as well as millions of people all over the world. They include food safety and inspection; food and nutrition programs; programs to create jobs and support the infrastructure of rural America; natural resources and conservation; research and education; and, or course, programs to support America's farmers. USDA is committed to streamlining program delivery, while preserving fiscal integrity and preventing fraud, waste and abuse.

The Paperwork Reduction Act of 1995 directs the Federal government to minimize the paperwork burden for the public from the collection of information and to maximize the utility and public benefit of the information. The Act further directs Federal departments to reduce the

paperwork burden annually by 5% in fiscal years 1999 and 2000.

USDA INFORMATION COLLECTION HIGHLIGHTS

USDA uses information collected from the public to ascertain what services customers require, determine eligibility for programs and services, monitor compliance with statutory and regulatory requirements, monitor market conditions and develop statistics for the agriculture sector, prepare economic projects, foster research and improvements in agriculture and rural topics, provide risk management tools, identify and prevent plant and animal diseases, provide credit and technical assistance to farmers and rural communities, and evaluate customer satisfaction and program performance.

In Fiscal Year 1998 citizens spent approximately 84 million hours [1] providing information to USDA and fulfilling record keeping requirements. By FY 2000, USDA estimates that it will reduce the actual paperwork burden to the public by approximately 6.9 percent which will bring the total hours to 77.8 million.

FARMERS AND RURAL AMERICANS

USDA has a number of initiatives underway to reduce the paperwork burden on farmers

[1] In 1998, USDA had received OMB approval for 72 million hours. An additional 11.5 million hours of effort were required of the public for collections that were expired and had not yet been reinstated.

and rural Americans.

The agencies which deliver programs through USDA's county-based Service Centers - the Farm Services Agency (FSA), the Natural Resources Conservation Service (NRCS), and three Rural Development agencies - are working collaboratively to develop common forms and to share information to reduce requirements for redundant information. Examples of projects underway include developing common geospatial maps and data that will enable greater sharing of land and crop information between partner agencies as well as external entities; an initiative to eliminate the need for customers to provide the same information more than one time by sharing it among agencies; and providing electronic, on-line information services to customers, employees, and partners of USDA.

In FY 1998 the FSA's Farm Loan Program area initiated a comprehensive regulatory and program reengineering effort. During the effort, which began in September 1998 and will conclude in September 2002, FSA's loan making and servicing processes, as well as documents associated with both the direct and guaranteed loan programs, are being reviewed to eliminate redundant and unnecessary processes.

As a part of this effort, the Guaranteed Loan Program was streamlined this year. The application form was cut from 12 pages to six and the amount of supporting documentation required was reduced. This resulted in 110,600 fewer hours spent by applicants on paperwork to apply for or be serviced in this program.

Recently implemented programs, such as the Small Hog Operation Program, the Dairy Market Loss Assistance Program, and the Crop Loss Disaster Assistance Program, have also been deliberately structured to minimize paperwork requirements.

In FY 1997, the Rural Housing Service streamlined the regulations for the Single Family Housing (SFH) program. By developing one consolidated regulation and revising the associated information collected, the agency reduced participants' paperwork burden by over a million hours.

To obtain the full benefit from many of these projects, USDA must invest in new technology. The current computer systems used by the agencies in the Service Centers are not interoperable and therefore present a real barrier to information sharing. The President's FY 2000 budget proposal contains funds for accelerating the acquisition of the needed technology and continuing support for developing common business operations.

ADDITIONAL ACCOMPLISHMENTS

The food stamp program, administered by the Food and Nutrition Service (FNS), requires 20 million hours of paperwork effort on the part of states and others who administer or participate in the program. The Food and Nutrition Service (FNS) transition to electronic benefits transfer technology is targeted for complete implementation in all states by FY 2002. During FY 1997 and 1998, over 1.5 million hours of reduced paperwork was realized as a result of this initiative. Continued work by the Food and Nutrition Service in FY 1999 and FY 2000 will achieve an

additional reduction of 108,500 hours.

In FY 2000, FNS plans to consolidate the information collection requirements associated with the National School Lunch Program, the School Breakfast Program and the Summer Food Service Program. These program changes will reduce the duplicate reporting and recordkeeping burden resulting from the separate administration of the programs by eighteen percent.

In FY 1998, the Grain Inspection, Packers and Stockyards Administration (GIPSA) streamlined paperwork requirements associated with the national weighing system under the U.S. Grain Standards Act and the Agricultural Marketing Act. A decrease of 449,000 hours resulted from allowing one request for services for multiple shipments, changing to a permissive program for domestic grain inspection certificates, allowing a qualifying certification statement, and removing unnecessary testing requirements.

In FY 1999, Rural Housing Service (RHS) will streamline and consolidate reporting requirements for the Multi-Family Housing program and implement electronic transmittal procedures for tenant information. RHS estimates reductions of a half million hours or 25 percent of the current paperwork burden. In FY 2000 and FY 2001, plans are in place to make similar changes to other RHS program areas, such as Guaranteed Single Family Housing, Single Family Housing- Mutual Self-Help Housing, and Planning and Performing Construction.

CONCLUSION

USDA has made progress in reducing paperwork. The Department will continue to work toward full compliance under the Paperwork Reduction Act and toward achieving the goals set by the Act and OMB. We request your support for our requested FY 2000 budget increase which will allow the USDA Service Centers to continue to invest in modern technology so that appropriate information can be shared. With your assistance we will continue to move forward in delivering better customer service with minimal paperwork burden.

Mr. MCINTOSH. Let me ask you about these unauthorized paperwork information collections. And, I take it there are 110 from the Department of Agriculture that have been revealed. You mentioned the 84 million hours reduced down to 77.8 million. Are any of those reductions accounted for in collections that have expired but continue to be used by the agencies?

Ms. REED. The numbers that I gave you in my testimony reflect the full amount of the burden, which includes both the approved and the expired collections. So what I've reflected in terms of a decrease is the true decrease in burden. We anticipate making good on those expired collections. I think we ought to focus on the real burden. We will commit to taking care of the administrative problem that we have, but what you see is the real burden reduction.

Mr. MCINTOSH. Is it the agency's intention to have those expired ones reapproved? I mean, are there forms the agency wants to continue using?

Ms. REED. Absolutely. And in the case——

Mr. MCINTOSH. Is that in all cases or in most cases?

Ms. REED. No. It is our intention to move forward. Now, there have been some forms that we have made a determination that we do not require. The number, by the way, that I have is I'm not sure where the 110 number comes from is, I will have to go back and understand the GAO's figures. In fact, there are several things in there that aren't consistent with the information that I have.

I will say that as of April 15th, we have 5 actions that are at OMB now pending their review. We have about 18 that are within my office, in various stages of review and discussion with the agencies. And 28 that are yet to be filed with my office by the agencies.

I have required every agency within USDA to submit a remediation plan for their expired collections. It is our intention to do everything we can to make good on those by the end of this fiscal year.

Mr. MCINTOSH. OK, good. I think the 110 are listed in the OMB report. But if you could go back and get ahold of that annex and the staff will provide what we've got.

Ms. REED. I will do what I can to reconcile those numbers.

Mr. MCINTOSH. Talk to OMB and talk to GAO. We're holding the record open for 10 days, so if you could get us back something in writing on the reconciliation of that, that would be helpful.

Ms. REED. Surely.

[The information referred to follows:]

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Agricultural Research Service							
0518-0020	Supplemental Children's Survey to the Continuing Survey of Food Intakes by Individuals	01/31/97	6,500	11/03/97	6,500	N	**This was a violation that has been resolved.**
Cooperative State Research, Education, and Extension Service							
0524-0030	Grant Application Kit for Higher Education Programs	09/30/97	23,100	12/22/97	22,400	N	**This was a violation that has been resolved.**
National Agricultural Statistical Service							
0535-0217	Wildlife Damage	01/31/98	2,500	11/23/98	2,253	N	**This expiration and subsequent reinstatement did not represent a violation. Rather an intentional gap in the conduct of this data collection.**
0535-0220	Cotton Ginnings	11/30/97	1,316	01/26/98	1,168	N	**This was a violation that has been resolved.**
Foreign Agricultural Service							
0551-0001	Administering the Dairy Import Licensing System	06/30/97	270	10/03/97	270	N	**This was a violation that has been resolved.**
0551-0008	Request for Vessel Approval	09/30/98	81	04/12/99	25	N	**This was a violation that has been resolved.**
0551-0014	Certificate of Quota Eligibility	07/31/97	333	11/12/97	333	N	**This was a violation that has been resolved.**
0551-0024	Buyer Alert	11/30/97	306	--	--	Y	**This remains an outstanding violation.**

FY 1998 Violations of the Paperwork Reduction Act: Expiration Of Existing Collections

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Farm Service Agency							
0560-0004	Report of Acreage	06/30/97	479,255	--	--	Y	**Negotiations between USDA and OMB continue with respect to the terms of reinstatement. This remains an outstanding violation.**
0560-0006	Peanut Quota Regulations for the 1996-2002 Crops	08/31/97	354,687	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
0560-0025	Farm Reconstitutions	10/31/97	269,941	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
0560-0058	Tobacco Marketing Quota and Price Support Programs	09/30/97	145,849	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Farm Service Agency *(continued)*							
0560-0074	Cotton Loan Program	01/31/98	162,875	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
0560-0082	Conservation and Environmental Programs	07/31/97	217,500	03/30/99	217,500	N	**This was a violation that has been resolved.**
0560-0116	Indemnity Payment Programs, Dairy Indemnity Payment Program	06/30/97	280	11/20/97	140	N	**This was a violation that has been resolved.**
0560-0121	Payer's Request for Identifying Number	06/30/97	250	10/03/97	250	N	**This was a violation that has been resolved.**
0560-0134	Marketing Assessment - Sugar	06/30/97	1,134	--	--	Y	**This remains an outstanding violation.**
0560-0148	Importer Assessments	12/31/96	11,300	12/29/98	540	N	**This was a violation that has been resolved.**
0560-0155	Implementation of Preferred Lender Program and Streamlining of Guaranteed Regulations	07/31/98	193,343	02/08/99	197,752	N	**This was a violation that has been resolved.**
0560-0157	Insured Farm Ownership Loan Policies, Procedures, and Authorizations	05/31/98	130	02/11/99	53	N	**This was a violation that has been resolved.**
0560-0159	Emergency Loan Policies, Procedures, and Authorizations	08/31/97	10,707	--	--	Y	Reinstatement package submitted to OMB on 03/15/99. **This remains an outstanding violation.**

FY 1998 Violations of the Paperwork Reduction Act: Expiration Of Existing Collections

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Farm Service Agency *(continued)*							
0560-0161	Farmer Program Account Servicing Policies	09/30/97	8,588	01/06/98	14,309	N	**This was a violation that has been resolved.**
0560-0164	Disaster Set-Aside Program	08/31/98	1,970	03/22/99	33,399	N	**This was a violation that has been resolved.**
0560-0165	Agricultural Loan Mediation Program	03/31/98	816	--	--	Y	**This remains an outstanding violation.**
0560-0174	CCC Conservation Contract, Addendum	10/31/97	516,900	05/13/98	383,830	N	**This was a violation that has been resolved.**
0560-0175	Noninsured Crop Disaster Assistance Program	05/31/98	8,108,855	--	--	Y	**This remains an outstanding violation.**
0560-0176	Request for Aerial Photography	10/31/97	8,000	03/24/99	8,000	N	**This was a violation that has been resolved.**
0560-0179	Livestock Indemnity Program	01/31/98	120,000	retired	--	N	**This was not a violation.**
0560-0181	Request for FSA County Committee Ballot and Declaration of Eligibility to Vote	07/31/98	400	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
0560-0182	Tobacco Marketing Quota Referenda	09/30/98	4,300	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Rural Business-Cooperative Service							
0570-0015	Rural Development Loan Fund Servicing	04/30/98	20,033	03/30/99	12,675	N	**This was a violation that has been resolved.**
Rural Utilities Service							
0572-0002	Accounting Requirements for Electric Borrowers	09/30/97	247,000	–	–	Y	Agency plans to merge this collection into 0572-0003; however, reinstatement of 0572-0003 has not yet occurred. **This remains an outstanding violation.**
0572-0012	Manual for Preservation of Borrower's Records, Electric	10/31/97	19,000	–	–	Y	Agency plans to merge this collection into 0572-0003; however, reinstatement of 0572-0003 has not yet occurred. **This remains an outstanding violation.**[1]
0572-0014	Report of Progress of Construction and Engineering Services & Engineer's Monthly Report of Substation Progress	04/30/96	803	–	–	Y	**This remains an outstanding violation.**
0572-0015	Financial Requirements & Expenditure Statement, Electric	09/30/97	29,700	–	–	Y	**This remains an outstanding violation.**

[1] This collection was not listed in the OMB report submitted for the Subcommittee record, but listed in the final published OMB report.

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Rural Utilities Service (*continued*)							
0572-0020	Request for Approval to Sell Capital Assets	06/30/97	780	–	–	Y	**This remains an outstanding violation.**
0572-0023	Advance and Disbursement of Funds - Telephone Loan Program	08/31/97	2,496	–	–	Y	**This remains an outstanding violation.**
0572-0031	Financial and Statistical Report for Telephone Borrowers	09/30/98	7,740	–	–	Y	**This remains an outstanding violation.**
0572-0041	Request for Release of Lien and/or Approval of Sale	05/31/96	213	–	–	Y	**This remains an outstanding violation.**
0572-0051	Request for Mail List Data	11/30/97	241	–	–	Y	**This remains an outstanding violation.**
0572-0059	Electric and Telephone Standards/ Specifications Acceptance, Telephone Field Trials & Telephone Contract Forms	09/30/97	8,387	–	–	Y	**This remains an outstanding violation.**
0572-0076	REA Specification for Quality Control & Inspection of Timber	09/30/97	39,166	–	–	Y	Agency plans to merge this collection with 0572-0059. **This remains an outstanding violation.**
0572-0079	Preloan Procedures & Requirements for Telephone Borrowers	12/31/96	7,177	–	–	Y	**This remains an outstanding violation.**
0572-0089	Wholesale Contracts for the Purchase and Sale of Electric Power	10/31/97	990	–	–	Y	**This remains an outstanding violation.**

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Rural Utilities Service *(continued)*							
0572-0095	RUS Policy on Audits for Electric and Telephone Borrowers	09/30/98	20,330	--	--	Y	**This remains an outstanding violation.**
0572-0097	Deferments of REA Loan Payments for RD Projects	08/31/97	421	--	--	Y	**This remains an outstanding violation.**
0572-0100	Lien Accommodations and Subordinates	05/31/96	1	--	--	Y	**This remains an outstanding violation.**
0572-0104	State Telecommunications Modernization Plan	01/31/98	21,000	--	--	Y	**This remains an outstanding violation.**
0572-0105	Demand Side Management Plan and Integrated Resource Plan	06/30/97	2,920	--	--	Y	**This remains an outstanding violation.**
0572-0107	Electric System Construction Policies and Procedures	11/30/97	629	--	--	Y	**This remains an outstanding violation.**
Rural Housing Service							
0575-0018	Civil Rights Compliance Requirements	08/31/97	532,764	02/01/99	533,017	N	**This was a violation that has been resolved.**
0575-0045	Farm Labor Housing Loan and Grant Policies, Procedures, and Authorizations	07/31/98	8,762	01/29/99	8,610	N	**This was a violation that has been resolved.**
0575-0064	Certification of Beneficial Ownership and Insured Notes	11/30/97	80	04/30/99	62	N	**This was a violation that has been resolved.**
0575-0109	Liquidation of Loans Secured by Real Estate and Acquisition of Real and Chattel Property	08/31/97	5,917	10/28/97	1,797	N	**This was a violation that has been resolved.**

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Rural Housing Service, *continued*							
0575-0127	Application Certification, Federal Collection Policies for Consumer or Commercial Debts	11/30/97	22,545	03/24/99	392	N	**This was a violation that has been resolved.**
0575-0158	Supervised Bank Accounts	11/30/96	26,260	10/28/97	26,260	N	**This was a violation that has been resolved.**
Natural Resources Conservation Service							
0578-0007	Agricultural and Urban Flood Damage Surveys	06/30/97	2,850	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
0578-0013	Long-Term Contracting Conservation Plan of Operations	08/31/98	271,253	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
0578-0018	Application for Payment	07/31/97	9,684	12/09/97	8,062	N	**This was a violation that has been resolved.**
0578-0019	Rural Abandoned Mine Program	06/30/97	223	12/08/97	223	N	**This was a violation that has been resolved.**

FY 1998 VIOLATIONS OF THE . .PERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*VIOLATION OF THE PRA (Y/N)*	*COMMENTS*
Animal and Plant Health Inspection Service							
0579-0007	National Poultry Improvement Plan	11/30/97	7,444	02/20/98	7,449	N	**This was a violation that has been resolved.**
0579-0015	Prohibited and Restricted Importation of Meats, Animal byproducts, Poultry, Organisms and Vectors into the U.S.	11/30/97	47,118	04/30/98	31,256	N	**This was a violation that has been resolved.**
0579-0020	U.S. Origin Health Certificate	06/30/97	21,029	10/24/97	21,009	N	**This was a violation that has been resolved.**
0579-0049	Foreign Quarantine Notices	04/30/97	106,862	09/13/98	88,232	N	**This was a violation that has been resolved.**
0579-0088	Domestic Quarantines	12/31/96	98,910	–	–	Y	Reinstatement package submitted to OMB on 10/30/98. **This remains an outstanding violation.**
0579-0122	Asian Long-Horned Beetle	05/31/97	132	10/03/97	132	N	**This was a violation that has been resolved.**
0579-0125	Porcine Reproductive and Respiratory Syndrome	12/31/97	449	08/10/98	449	N	**This was a violation that has been resolved.**
Agricultural Marketing Service							
0581-0033[2]	Poultry Market News Report	01/31/98	17,657	07/27/98	17,657	N	**This was a violation that has been resolved.**

[2] The number 0581-0032 listed in the OMB report submitted for the Subcommitte record was incorrect. The number listed in the published report is 0581-0033.

FY 1998 VIOLATIONS OF THE PERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Food Safety and Inspection Service *(continued)*							
0583-0089	Processing Procedures and Quality Control Systems	10/31/97	799,697	01/22/98	743,906	N	**This was a violation that has been resolved.**
0583-0090	Ante-Mortem and Post-Mortem Inspection	11/30/97	20,028	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
0583-0092	Official Marking Devices, Labeling, and Packaging Material	12/31/97	308,933	--	--	Y	**This remains an outstanding violation.**
0583-0094	Exportation, Transportation, and Importation of Meat	12/31/97	168,711	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
Food and Nutrition Service							
0584-0009	Food Stamp Accountability Report	10/31/97	57,132	06/10/98	57,132	N	**This was a violation that has been resolved.**
0584-0010	PRS, ME, Data Analysis, and Corrective Action	10/31/97	593,215	retired	--	N	**This was not a violation.**
0584-0037	Report of Coupon Issuance and Commodity Distribution for Disaster Relief	09/30/97	97	12/03/98	97	N	**This was a violation that has been resolved.**
0584-0052	Affidavit of Returned or Exchange of Food Coupons	11/30/97	17,859	11/18/98	17,859	N	**This was a violation that has been resolved.**

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Food and Nutrition Service *(continued)*							
0584-0062	Annual Report for the Nutrition Education and Training Program	09/30/97	896	01/21/98	896	N	**This was a violation that has been resolved.**
0584-0064	Food Stamp Forms: Periodic Reporting, Notice of Late/Incomplete Report, Etc.	04/30/97	20,027,943	10/03/97	20,027,943	N	**This was a violation that has been resolved.**
0584-0067	State Administrative Expense Funds	09/30/98	34,461	–	–	Y	The agency has submitted a package to the CIO for review and processing. **This remains an out-standing violation.**
0584-0080	Issuance Reconciliation Report	11/30/97	42,720	07/08/98	37,248	N	**This was a violation that has been resolved.**
0584-0124	Food Stamp Program Identification Cards	04/30/97	61,480	10/06/97	61,480	N	**This was a violation that has been resolved.**
0584-0293	Food Distribution Regulations and Forms	09/30/97	1,190,971	01/21/98	1,157,508	N	**This was a violation that has been resolved.**
0584-0314	Food Coupon Deposit Document	09/30/97	4,865	01/05/98	3,675	N	**This was a violation that has been resolved.**
0584-0339	Employment and Training Program Report	10/31/97	224,587	02/19/98	195,363	N	**This was a violation that has been resolved.**
0584-0479	Waiver Guidance for Food Stamp Time Limits	06/30/97	2,000	02/05/99	2,000	N	**This was a violation that has been resolved.**

FY 1998 VIOLATIONS OF THE .PERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Forest Service							
0596-0016	Application for Permit, Non-Federal Commercial Use of Roads Restricted by Order	09/30/98	500	--	--	Y	**This remains an outstanding violation.**
0596-0078	Statewide Survey of Forest-Land Ownership	10/31/97	1,200	--	--	Y	**This remains an outstanding violation.**
0596-0084	Youth Conservation Corps (YCC) Application and Medical History	10/31/97	2,150	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
0596-0085	Free Use Permit, Timber	08/31/97	10,000	01/04/99	41,366	N	**This was a violation that has been resolved.**
0596-0097	Interpretive Association Annual Report	06/30/97	60	--	--	Y	The agency has submitted a package to the CIO for review and processing. **This remains an outstanding violation.**
0596-0099	Application for the Senior Community Service Employment Program	06/30/97	1,083	05/26/99	1,083	N	**This was a violation that has been resolved.**
0596-0105	Land Ownership Adjustments, Land Exchanges	08/31/98	596	--	--	Y	**This remains an outstanding violation.**
0596-0106	Recreation Fee Permit Envelope	08/31/98	60,000	--	--	Y	**This remains an outstanding violation.**
0596-0118	Employment Interest Survey	10/31/98	1,250	--	--	Y	**This remains an outstanding violation.**

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: EXPIRATION OF EXISTING COLLECTIONS[3]

OMB CONTROL NUMBER	*COLLECTION TITLE*	*DATE OF EXPIRATION*	*PREVIOUSLY APPROVED BURDEN HOURS*	*DATE OF REINSTATEMENT*	*CURRENTLY APPROVED BURDEN HOURS*	*CURRENT VIOLATIONS OF THE PRA (Y/N)*	*COMMENTS*
Forest Service ***(continued)***							
0596-0120	State & Private Forestry Assistance	06/30/98	52,100	--	--	Y	Reinstatement package submitted to OMB on 04/21/99. **This remains an outstanding violation.**
0596-0121	Baseline and Trend Information on National Forest Communication Use	08/31/98	650	retired	--	N	**This was not a violation.**
0596-0127	National Survey on Outdoor Recreation	09/30/98	9,900	05/20/99	13,333	N	**This was a violation that has been resolved.**
0596-0136	National Private Landowners Survey	10/31/97	5,040	--	--	Y	**This remains an outstanding violation.**

[3] Three collections 0563-0014, 0563-0032, and 0563-0049 were listed in the OMB report submitted to the Subcommittee for the record, but not in the published OMB report.

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: COLLECTIONS WITHOUT OMB APPROVAL OR MODIFIED WITHOUT OMB APPROVAL

OMB CONTROL NUMBER	COLLECTION TITLE	DESCRIPTION OF VIOLATIONS	HOW DISCOVERED AND REMEDIED	CURRENT VIOLATIONS OF THE PRA (Y/N)	COMMENTS
Farm Service Agency					
–	Hay Net Register	Unapproved collection	OMB discovered the violation through media bulletins and alerted the Department. OCIO notified staff in FSA who indicated that they felt the collection was exempt because it collected identifying information. However, one additional piece of information, hay variety, was also being collected which triggered the need for PRA approval. FSA resolved the violation by removing the requirement for customers to specify hay variety.	N	**This was a violation that has been resolved.**
–	Mississippi State Customer Survey	Unapproved collection	An article published in the USDA News quarterly newsletter was brought to OCIO's attention by the agency. The collection was a one time effort; therefore, OMB approval was not sought. Instructions were issued to information field offices regarding requirements of the PRA.	N	**This was a violation that has been resolved.**

FY 1998 VIOLATIONS OF THE PAPERWORK REDUCTION ACT: COLLECTIONS WITHOUT OMB APPROVAL OR MODIFIED WITHOUT OMB APPROVAL

OMB CONTROL NUMBER	COLLECTION TITLE	DESCRIPTION OF VIOLATIONS	HOW DISCOVERED AND REMEDIED	CURRENT VIOLATIONS OF THE PRA (Y/N)	COMMENTS
Farm Service Agency *(continued)*					
0560-0004	Report of Acreage	Expiration and disapproval of ongoing collection	OMB sent a Notice of Action on 11/26/1997 disapprove the reinstatement of this collection as lacking need and practical utility. The agency continues to conduct this collection without a currently valid OMB control number.	Y	During FY 1998, the agency worked closely with the OIRA Desk Officer for Agriculture to prepare a new approval request package. The approval request, which was submitted on July 17, 1998, was subsequently disapproved by OMB on September 18, 1998. Negotiations between USDA and OMB continue with respect to the terms of reinstatement. **This remains an outstanding violation.**
0560-0182	Tobacco Marketing Quota Referenda	Unapproved collection	The agency discovered the violation through an internal review and submitted a package to OMB. OMB approved this collection on 1/5/1998.	Y	After receiving emergency approval for the collection, the agency allowed the information collection to expire.

FY 1998 Violations of the Paperwork Reduction Act: Collections Without OMB Approval or Modified Without OMB Approval

OMB CONTROL NUMBER	COLLECTION TITLE	DESCRIPTION OF VIOLATIONS	HOW DISCOVERED AND REMEDIED	CURRENT VIOLATIONS OF THE PRA (Y/N)	COMMENTS
Natural Resources Conservation Service					
0578-0007	Agriculture and Urban Drainage Survey	Modification of an approved collection without prior OMB approval	OCIO discovered the violation in preparing the Information Collection Budget. In addition, the collection expired on 6/30/1997 and has yet to be reinstated.	Y	The agency has submitted a package to the CIO for review and processing. This approval request incorporates information collection changes implemented without OMB approval. **This remains an outstanding violation.**
Animal and Plant Health Inspection Service					
--	Customer Satisfaction Survey	Unapproved collection	APHIS discovered the violation upon learning that there was no longer a generic approval for the Department for customer service collections. A new information collection approval request package is in development.	N	The agency is not currently collecting information in conjunction with customer satisfaction. **This was a violation that has been resolved.**

FY 1998 Violations of the Paperwork Reduction Act: Collections Without OMB Approval or Modified Without OMB Approval

OMB CONTROL NUMBER	COLLECTION TITLE	DESCRIPTION OF VIOLATIONS	HOW DISCOVERED AND REMEDIED	CURRENT VIOLATIONS OF THE PRA (Y/N)	COMMENTS
Agricultural Research Service					
0518-0022	Agroecosystem Use Survey	Unapproved collection	OMB discovered the violation while reviewing the ARS home page on the Internet and alerted the Department. Upon investigation by the agency, it was determined that the survey had expired but was no longer in use and due to an oversight was not removed from the website. ARS removed the survey.	N	**This was a violation that has been resolved.**
Risk Management Agency					
--	Survey for Defining New Crop Insurance Programs	Unapproved collection	OMB discovered the violation through a directive published on the USDA web site and alerted the Department. OCIO notified staff in RMA who confirmed the violation. An information collection approval request is being developed to address this violation.	Y	**This remains an outstanding violation.**

FY 1998 Violations of the Paperwork Reduction Act: Collections Without OMB Approval or Modified Without OMB Approval

OMB CONTROL NUMBER	COLLECTION TITLE	DESCRIPTION OF VIOLATIONS	HOW DISCOVERED AND REMEDIED	CURRENT VIOLATIONS OF THE PRA (Y/N)	COMMENTS
Forest Service					
–	Customer Service Comment Card	Unapproved collection	Forest Service discovered the violation upon learning that there was no longer a generic approval for the Department for customer service collections. A new information collection approval request package is in development.	N	The agency received approval from OMB for this collection on 4/28/1999. **This was a violation that has been resolved.**
0596-0082	Special Use Application, Permitting, and Administration	Modification of an approved collection without prior OMB approval	The Salida Ranger District substantially increased the reporting burden beyond the approved collection. L&L, Inc. of Orem, Utah, wrote to OMB and USDA to complain about the burden. The Forest Service reviewed his complaint and informed him that he was not obligated to provide the information not previously approved by OMB.	Y	**This remains an outstanding violation.**

Mr. MCINTOSH. Let me ask you one other question. Then I'm going to turn it over to Mr. Ryan to finish chairing the hearing.

We talked briefly in one of the previous panels about perhaps putting in some teeth to the bill. And, I guess I've got a two-part question. Do you see some of the problems that have occurred arising essentially from the subunits at the Department not being responsive, or would you attribute some of the problems being the interaction between you and OMB? I guess, where in the link do you—because it strikes me you're in the middle there.

Ms. REED. Let me just share with you some of my experience with OMB. I will not forget one of the very first meetings when I came to the Department. This was well before I was the Chief Information Officer. But I was summoned into the office of Sally Katzen, who at the time was the head of OIRA, and she absolutely read the Department the riot act. I mean, this was a good many years ago.

We came back and we thought we had taken sufficient action to correct that problem. I will tell you in the subcabinet meetings that I've attended with the Secretary of Agriculture, the subject of paperwork reduction and the importance of this to the administration came up time and again. And it was my understanding that, in fact, it has been the subject of discussion in the President's Management Council, which is chaired by the Vice President.

I don't have personal knowledge of that in having attended those meetings, but I will tell you that those things rolled downhill, and they rolled right into our subcabinet meetings. So I know there has been administration attention to this.

Looking at it from the perspective of our agencies, it is a challenge to get them to focus on paperwork reduction. There are so many things on their plate right now. The Department has gone through extensive downsizing over the last 5, 6 years, really extraordinary downsizing. And we are faced with delivering increasing numbers of programs. The legislative mandates just keep coming.

Right now we're in the midst of a very serious farm crisis. I think that Keith Kelly can share with you, if he has to choose between getting a paperwork requirement in and serving the customer, he's going to serve the farmer. But I will let him speak about his commitment to paperwork reduction even in the face of that.

Mr. KELLY. Mr. Chairman, Keith Kelly, Administrator, Farm Service Agency. And to the example that the lady that was here testifying, the hog operator that had hogs here, we implemented almost overnight a $50 million hog program. And we're doing all of these emergency programs, the Dairy Assistance Program, a Livestock Assistance Program, a Major Disaster Program, and we're doing it with the same staff resources as in fiscal year 1998. At headquarters its about a 33 percent cut of staff resources in the last several years and about a 28 percent cut in the field.

But the dollar outlays have increased significantly. The decision comes down to making sure she gets her payment, as was intended

by Congress when you passed the disaster legislation at the end of Congress last year, or to get to these other things. And, regrettably, the Paperwork Reduction Act, that went down the priority scale, that's the logical place we went.

[The prepared statement of Mr. Kelly follows:]

STATEMENT OF KEITH KELLY
ADMINISTRATOR
FARM SERVICE AGENCY
BEFORE THE
SUBCOMMITTEE ON NATIONAL ECONOMIC GROWTH,
NATURAL RESOURCES, AND REGULATORY AFFAIRS
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES
April 15, 1999

Mr. Chairman and members of the Subcommittee. I appreciate the opportunity to meet with you today and discuss the services provided by the Farm Service Agency (FSA) and the actions that we are taking to minimize the information collection burden on our customers.

FSA supports the economic stability of agriculture and the environment through: commodity programs; farm ownership, operating, and emergency loans; conservation programs; domestic and overseas food assistance programs; and disaster programs. These programs provide a safety net to help farmers maintain viable operations, compete for export sales of commodities in the world marketplace, and contribute to the year-round availability of a variety of affordable, safe, and nutritious foods. FSA considers environmental impacts in the development and implementation of program operations to ensure adequate protection of natural, cultural, and historic resources.

FSA is transforming its operations in response to historic shifts in the Federal Government's role in production agriculture, mandates to streamline the delivery of services to farmers and ranchers, and the unpredictable nature of agriculture which has led to multiple legislative and policy changes annually to address new challenges in the industry.

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) resulted in a new approach to supporting production agriculture. The intent of the 1996 Act was to create an environment where farm commodity prices will be largely determined by market factors, rather than government subsidies and production controls. This legislation was developed to encourage a thriving export business for American farmers and use of risk management tools such as crop insurance, the commodities futures market, and revenue insurance programs. This approach has

placed a greater dependency by farmers and the Agency on information because the Department has much less day-to-day involvement in individual farming operations than it did under past farm legislation.

The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (1994 Act) also presented new challenges by providing the Secretary the authority to streamline and reorganize the Department to achieve greater efficiencies in the management of USDA programs. Farm loan program functions formerly assigned to the Farmers Home Administration were transferred to FSA as a result of the 1994 Act. Further, the 1994 Act states, "where practicable and to the extent consistent with efficient, effective, and improved service, the Secretary shall combine field offices of agencies within the Department to reduce personnel and duplicative overhead expenses." Given this mandate, the Secretary charged the newly formed FSA, Natural Resources Conservation Service (NRCS), and Rural Development (RD) with providing USDA customers the best possible service at the least possible cost through "one-stop" USDA Service Centers. In response, FSA, NRCS, and RD developed partnership agreements and engaged the National Food and Agricultural Council (NFAC), to facilitate implementation of USDA Service Centers. The NFAC also includes the Cooperative State Research Education and Extension Service (CSREES), Forest Service (FS), and Risk Management Agency (RMA). Likewise, State and local Food and Agricultural Councils have been used to promote timely and effective implementation of USDA Service Centers.

Considerable effort has been expended by FSA to meet these legislative mandates and much work is yet to be done. In aggregate, these mandates have created the need for a thorough review of the service center agencies' information collection management processes from a collaborative perspective.

FSA administers a number of programs. The programs that most directly affect farmers and ranchers are the commodity, conservation, and farm loan programs. The delivery of products and services in each category is dependent upon the exchange of information between our Agency and our customer. In some cases, the exchange occurs between FSA and a partner that assists in the delivering the product or service.

The 1996 Act reduced the need for FSA to collect acreage reports. However, the delivery of farm program services is based on information about market conditions, land use, crops, and business operations. For example, a participant's eligibility for benefits under the Noninsured Crop Disaster Assistance Program or loan deficiency payment is based on average or actual crop planting and production calculations; the participant's share or interest in the operation or crop; and the participant's commitments to financial institutions, such as liens or payment guarantees. Financial integrity is maintained by independent determinations to verify the accuracy of information provided by participants. These records serve as the basis for determining eligibility, calculating payment amounts, and preventing fraud and abuse for over $18 billion in Commodity Credit Corporation outlays expected in Fiscal Year (FY) 1999.

Improvements in our information collection processes have reduced burden on FSA customers and USDA service center employees. For example, beginning with the 1996 crop, producers were no longer required to provide information and re-certify that their farms are in compliance with USDA's eligibility requirements related to highly erodible land and wetlands. In addition, we no longer require producers to submit annual reports for payment limitation determinations. Now we only require producers to update the records when there has been a change in the farming operation. This change represents a substantial overall reduction considering that over 98 percent of producers on eligible farms participate in one or more of the Agency's farm programs. We have also begun posting program applications and other information on our Internet sites to allow producers to complete program documents at home and mail or fax them to our offices. Our recent implementation of the Small Hog Operation Program is a good example. The process used to collect information from program applicants was significantly streamlined by placing applications on the Internet, giving producers the options of submitting the applications by fax, mail, or e-mail, and issuing payments electronically. In many cases, applicants did not have to visit our office to receive a benefit. Paperwork burden for this program was further streamlined by requiring documentation supporting application data only from those producers selected for audit. A virtually identical process is being used to support the new Dairy Market Loss Assistance Program. Similarly, FSA's implementation of the Livestock Assistance Program earlier this fiscal year was based on certifications of grazing land, feed purchased, and number of livestock rather than requiring producers to provide actual evidence supporting these claims. Forms used to request marketing assistance loans and loan deficiency payments have also been

posted on our Internet sites. USDA experienced a 725-percent increase in the number of applications for benefits under these programs for 1998 crops and expect similar volumes for 1999 crops. The process for making payments under the new Crop Loss Disaster Assistance Program was also designed to minimize paperwork burden. Program applications are essentially pre-completed using information already on file in USDA service centers requiring applicants only to review the information for accuracy and sign the document. These improvements are helping our offices support an increasing workload with decreasing staff resources.

Through FSA's farm loan programs, FSA makes and guarantees loans to family farmers and ranchers to purchase land and finance agricultural production. Farm loan programs are designed to help farmers who are temporarily unable to obtain private, commercial credit, such as beginning farmers, or those that have suffered financial setbacks from natural disasters, or who have limited resources with which to establish and maintain profitable farming operations. Delivery of these programs is also based on information regarding the farming operation. Information collections are similar to those required by private, commercial lenders and include documentation of the applicant's inability to obtain commercial credit. Specific collections include obtaining and verifying financial data, and income and production records. The Agency must collect financial and business information in order to make the determinations required by the Consolidated Farm and Rural Development Act. Loans and guarantees of almost $3 billion are made each year under these programs. FSA's current outstanding loan portfolio is $17.5 billion. Once again, the collection of information from our customers is necessary to provide these services while maintaining integrity in the transactions.

As a result of the transfer of the farm loan programs to FSA, we initiated a business process reengineering (BPR) project in April, 1998 to update our loan program regulations and directives, and to support the USDA paperwork reduction goals and objectives. Loan making and servicing processes, as well as documents associated with both the direct and guaranteed loan programs are included in this project. Approximately 60 agency instruction manuals providing guidance to field offices will be consolidated into 6 agency handbooks. The 45 existing CFR parts which support the existing instruction manuals will be consolidated into 9 CFR parts. Administrative provisions and internal procedure will be removed from the CFR. Current processes contained in both the CFR and agency handbooks will be reviewed to eliminate redundant and unnecessary processes.

Forms associated with loan making and servicing procedures will be reviewed for possible elimination, streamlining and consolidation. Regulations are being streamlined along with handbooks and forms. The new processes will reduce burden not only on our customers but on our own staff as well. The first regulation rewrite completed was the Guaranteed Preferred and Certified Lending Program, which was published as a final rule on February 12, 1999. There were several burden reductions associated with this final rule. By reducing the application form from 12 pages to 6 and reducing the amount of supporting documentation, the time required for working up an application will be reduced at a minimum of 1 hour. In addition, at the insistence of lenders that they cannot justify putting the same effort into small loans as they do larger loans, a "lo-doc" application was developed for requests under $50.000.00. By reducing the burden associated with a normal loan application, lenders are no longer indicating they will avoid making the smaller loans, since the lo-doc process makes these loans cost efficient to process.

Reductions have also been realized in the Direct Loan Program, where automated forms are now being used to calculate losses and the eligible loan amount for Emergency Loans (EM). This automated format reduced the amount of time required to determine EM eligibility from 2 hours to 20 minutes. It is anticipated that as the streamlining process continues on the remaining CFR parts, the same types of time savings and reduced paper burdens will be realized in all Farm Loan Programs. The Agency has also placed loan applications, related forms, and a lender handbook on the Internet so that farmers and guaranteed lenders may access these documents without a physical visit to the USDA service center.

Still, we recognize that quantum leaps in reducing paperwork burden require us to look beyond our own Agency boundaries to all of the USDA agencies that serve our common farmer and rancher customer as well as those entities beyond the Department. From the customer's perspective, the most annoying issue is repetitive submissions of the same information to different USDA and State entities. Accordingly, two of the goals in our Strategic Plan for Information Management reflect our commitment to facilitate information sharing with USDA's service center partners and with non-USDA entities.

FSA is one of the major participants in USDA's Service Center Initiative (SCI) along with NRCS and RD mission area. Information collections at the service center level represent the

majority of FSA's total collection burden. FSA believes that SCI provides a unique opportunity to achieve new levels of information collection efficiency because collections across organizational boundaries can be consolidated as common service center business processes are reengineered. Projects underway through the SCI that will help reduce paperwork burden include:

- developing common geospatial maps and data and prototyping and testing common software tools and procedures for managing and sharing the information;
- prototyping and testing a common customer information management business process;
- developing data management standards and a common information architecture;
- prototyping and testing common customer eligibility and compliance business processes; and
- prototyping and testing Internet-based tools to share information with customers electronically.

FSA is taking full advantage of this opportunity by sponsoring a companion initiative—the Paperwork Reduction Implementation Team (PRIT)—that brings a paperwork reduction focus to the BPR initiatives under SCI. This effort was initiated by Secretary Glickman who directed NFAC to establish a team specifically focused on reducing paperwork on farmers. The vision statement for this initiative is "information is collected once and shared many times by USDA Service Center employees and, as appropriate, with other public and private entities." Another focus of PRIT is to develop standard methodologies for information collection management and to standardize burden calculation and reporting processes.

Beyond USDA, the production agriculture industry and State and local governments are increasing use of automated tools to manage various agricultural enterprises. Producers are using global positioning systems and mobile computers to support precision farming operations, such as, planting and fertilizer and pesticide applications in the field and collection of real-time yield information during harvest. These tools organize their business management information in a manner that facilitates easier information sharing that will reduce reporting burden in contrast to

manual methods of managing the data. Several State and local government entities are using digital geographic imagery and geographical information systems to manage land and crop-based information, such as, pesticide regulation, land valuation, water management, and resource conservation. Dependency upon fundamental land and crop data is a common element to all of these activities as well as to many of USDA's programs and services. The collection of this information is duplicated many times resulting in additional burden on agricultural producers. Expenses for managing the information are also duplicated by each of the entities. Further, non-standard information formats inhibit sharing and reuse of the information among entities.

FSA believes that information sharing partnerships with these State and local entities is critical to achieving our overall burden reduction potential. Accordingly, FSA initiated dialog in 1998 with a variety of State government entities in Arizona and California about opportunities to consolidate and share basic land and crop information. Discussions have since expanded to State and local entities in Idaho. The entities include the departments of agriculture, environmental protection agencies, and water management commissions. We believe that these discussions will lead to incremental information sharing projects and ultimately result in substantial reductions in aggregate information collection burden on our common customer.

Implementation of our one-stop shopping concept faces many challenges. One of the most significant is the need to overcome different standards that govern program development and implementation in a USDA multi-agency environment. Potential efficiencies of consolidated operations cannot be realized if we fail to operate in a consistent or collaborative manner. Standardization is needed in many areas ranging from simple administrative routines to the information technology and telecommunications architecture that supports the delivery of services. Development of standard information architectures and common business processes requires time, commitment, and Congress' continued support. This support of the overall SCI effort is key to realizing potential improvements.

Summary

The collection of information from farmers and ranchers is critical to the Agency's and Department's ability to determine eligibility for USDA programs and calculate program benefits

and loan amounts. We must consider many issues when developing a new program or revising an existing one. These include legislative requirements and intent, maintaining financial integrity, information needed to calculate benefits, burden on the customer, burden on FSA employees, and information technology capability. We have a responsibility to protect the taxpayer's interests when delivering these services and that often times mandates collection of additional information. Material improvements in burden reduction will come from consolidating collections across USDA service center agencies and with State and local entities, improving information sharing, and implementing revised information collection processes that support contemporary business techniques, such as providing electronic access capability. FSA recognizes these opportunities and has committed to take full advantage of them through the SCI and PRIT. Continued funding for staffing and technical infrastructure are needed to turn these opportunities into realities.

In these times of extreme market volatility when farmers and ranchers are shouldering more and more of the responsibility for their own risk management, they require reliable and timely information on weather, markets, and programs. Good information is the mothers-milk of risk management. FSA and USDA are committed to providing this essential component to the nation's farmers and ranchers.

Mr. MCINTOSH. I appreciate your candor there. And, I understand the bind that puts you in. So perhaps we need to then look at whether to make that a more important priority is including that in some of the performance standards, not only for Ms. Reed but others throughout the Department. And, recognize—frankly, I'm a big believer in using incentives—so you can recognize in the bonus that's paid at the end, rather than necessarily on a punishment side. If you're taking on extra jobs, maybe people are staying extra hours and making sure they get the paper done, have that reflected there.

Mr. KELLY. Mr. Chairman, I would like to raise another issue along this line as well. You know, sometimes in some of these Paperwork Reduction Act projects, we've got a major one I know we're at odds with OMB and it's that's been out for quite some time. We should be following their rules and we should be taking it seriously, which we are trying to do. However, while we have been working with the Office of Management and Budget in this process, and there's been good people in these different agencies with different approaches, sometimes it's just differences of opinions.

And part of the thing is that sometimes—what I think I would raise a question with is if you don't get it in in time and you are in violation of the law, that there's another law that is to be violated if you don't collect some of this information somehow, and that leads to a dilemma: Which law do I break today? And that needs to be put into consideration of any incentive program. Otherwise——

Mr. MCINTOSH. Is there an appeals process if the agency and OMB are at loggerheads on a paperwork collection item? Does the administration have a mechanism where they bump it up into the Cabinet? We used to have the Competitiveness Council when I was in the administration, I know they don't anymore, but is there a process there where you can do that?

Ms. REED. I would have to say that it is very much the exception and not the rule that we have this kind of discussion. We work it at the staff level, and we work it at the senior policy level. In this particular instance, the Secretary himself is prepared to get engaged. So you do move through a process of ratcheting up and trying to get closer.

Mr. MCINTOSH. And, the Director of OMB, if they can't work it out, then I guess you go to the President at that point?

Ms. REED. Hopefully it will not get there.

Mr. MCINTOSH. Hopefully you don't have to take those things to him. I know what you mean. You want to try to solve what appear to be smaller questions. Sometimes there are larger questions reflected in there. So I appreciate that.

And let me now turn it over to Mr. Ryan to finish out this hearing. Thank you both for coming and thank you for your candor and sort of getting a feel for the dynamics of how this is working. And I appreciate it.

Mr. RYAN [presiding]. Thank you for coming by, Mrs. Reed. I appreciate both of—and thank you for your candor. That's refreshing sometimes. It wasn't what you want to hear, but at least it's an honest answer. I really appreciate that.

I wanted to ask you a quick question. Since OMB's standard form for agencies to request Paperwork Reduction Act approval includes the question, Are farmers going to be burdened? Have you done a cross-cutting analysis with other agencies that affect farmers with respect to paperwork burdens?

We just heard testimony from Miss Whitfield, hog farmer from Indiana, I think she was from Muncie, where she had a paperwork burden placed upon her from other agencies.

Have you taken a look at it from the farmer end and taken a look at some of the paperwork burdens imposed on them, and have you coordinated with these agencies to try and reduce that burden?

Ms. REED. Let me answer that in several ways. First, with respect to the issue that she addressed: The Department of Agriculture did engage in discussions with EPA in developing the strategy for animal feeding operations. We did what we could, I think, to try and represent, to get a balance in that strategy.

Mr. RYAN. At the other agencies?

Ms. REED. With, in this case, EPA. I believe that we will, in fact, be able—the final strategy does, in fact, address some of the issues that she raised. We can go into that later for the record. In other respects, I have looked—well, I will not say I spent a lot of time at this, I will be very honest about that, but I have looked at the information that OMB provides on other agencies and how they affect farms.

Quite frankly, from the data that is there, it's really very difficult to get a handle on what the actual extent of that is. To do that, we would need to do further study, and it really may be something that we should do. But when I look at that, the other major players are: Internal Revenue Service, very clear; EPA, we've talked about that; the Department of Transportation, that was one that I sort of scratched my head a little bit over, and when I looked at that in more detail, there are things like aircraft operations that many of the farms have. So there are things that are in that arena.

But given the data that is available to me today, it's very difficult to parse out exactly what the level of burden is on a farmer, because the way in which OMB collects it—those forms are filled out by anybody. They say it affects some farmers but I don't know how many, so——

Mr. RYAN. As the USDA, as the ombudsman for the farmer, I understand it's a fairly complicated burden, what I'm hearing. What you're essentially saying, it's just not as high on the priority list, given the fact that you're structuring and you're trying to do other things. It doesn't sound like it's very high on the priority list, I understand. I appreciate your candor.

Do you see the eventuality of this getting knocked up on the priority list of doing sort of an assessment of the nature that we were just talking about here?

Ms. REED. Let me say that reducing paperwork and doing what we can to support the farmers is a priority for us. We juggle the priorities in how best we can support farmers, but it is very much a Department priority to do what we can and get it engaged when we see that there's a regulation that's going—whatever department it is—that is going to affect farmers.

Have we done a specific study on paperwork reduction across the board for farmers? No. Are we engaged with other agencies in efforts for paperwork reduction? Yes. In the geospatial area, we see so much potential advantage in shared information. We are active participants, not just across the agencies within USDA, but across the Federal Government. There's a group that's working to assure that we have common standards for how we collect that information so that we can use it jointly, not even just within the Federal Government, but also working very closely in tandem with the States and the counties and the other levels of government, so that we can collectively reduce the burden. So we do have a commitment in this arena.

Mr. RYAN. Acknowledging your commitment, when will that commitment be honored, in your opinion? It's my understanding that OMB's draft report identifies no planned USDA paperwork reduction initiatives to benefit farmers in fiscal year 2000. Since that—I understand your commitment is there. When should we expect that commitment?

Ms. REED. Well, there are several sections to the OMB report. There is a section that from which I believe you note 5 initiatives where we show the burden of reduction. But in a second section of the report, we do address a series of initiatives that are underway at the Farm Service Agency. We have not yet pieced out exactly what the burden reduction will be. But there are some very serious initiatives.

Mr. RYAN. That's what comes to the farmers, I think.

Ms. REED. But they will result in a burden reduction. We just haven't quantified it. So, Keith, if you could share something.

Mr. KELLY. Yes, Mr. Chairman. Our agency is sponsoring a companion initiative with the other primary agencies that deliver services in the field: the Natural Resources, the Rural Development and ourselves. And that whole effort is just to get to a common reduced paperwork process—I don't want to be misunderstood, because it is a priority—it is to let farmers farm, not fill out papers. That is a goal at the agency.

And I would like just to reference the statement that Secretary Glickman gave to us on this whole initiative, which is being shared by our agency, but shared by all of the agencies, that information is collected once and shared many times by USDA Service Center employees and, where appropriate, with other public and private entities.

Part of the things we feel are going on out there, is that we're going out and collecting information, they're going out and collecting it, somebody else is collecting it, and a third of the information is all overlapping each other. We are given the appropriate computer technology resources to go with the initiative, we have great confidence that the one Ms. Reed referred to in there, geospatial and that whole technology, that we can make significant savings to ourselves as well as to the farmers.

With our employment situation we have now, very selfishly, we're trying to get what we can off our plates for ourselves as well as to our customers. I think that's our goal. It is a priority here. I don't want to downplay it wasn't.

It's when you get in a crunch, you set priorities on a day-to-day basis, or sometimes week to week because of the crisis.

Mr. RYAN. I am sure we can see some additional actions soon. I want to ask you one more quick question. You briefly talked about the hog situation, the comprehensive nutrient management plans. Could you give us some more details on that, how that paperwork burden will be alleviated? I hear from hog farmers throughout Wisconsin—we have a lot of independent producers—this is going to cost them about $300 to $1,500 to comply.

It sounds like you're in the midst of fulfilling the national strategy. I understand you may not have the answer right now, but could you please provide us with the answer or with the efforts to reduce the paperwork burden with the new management plans?

Ms. REED. I would be happy to provide that for the record.

[The information referred to follows:]

The Natural Resources Conservation Service (NRCS), in coordination with the Environmental Protection Agency (EPA), is currently developing guidance for implementing the Joint Strategy on Animal Feeding Operations. One aspect of the strategy is collaboration between NRCS and producers in establishing Comprehensive Nutrient Management Plans (CNMP). The purpose of the CMNP is to reduce or minimize the adverse environmental and public health impacts associated with confined animal production.

In developing the guidance, every effort is being made to minimize reporting and recordkeeping requirements by sharing information between federal and state organizations and using previously collected information. Currently, NRCS offers producers the service of developing nutrient plans similar to CNMPs as a component of the standard conservation plan. As NRCS formalizes the procedures for developing a CNMP, it is envisioned that the agency will leverage off of existing information collection activities related to the development of conservation plans. This would prevent duplicative information collections and reduce the number of responses to a request for information from NRCS.

As part of the CNMP development and implementation process, NRCS does require that producers maintain records on issues such as quantity of manure production, nutrient content of the manure, and where/when applied. By only requiring producers to maintain this information, rather than report it, NRCS is trying to minimize the overall burden on the producer. These recordkeeping requirements are not new. NRCS currently requires recordkeeping of this type of information even when a nutrient management plan is being prepared in conjunction with a conservation plan.

Finally, NRCS does have plans in the future for further facilitating the preparation of CNMPs. The Service Center Initiative Customer Service Toolkit project will enable service center employees to make site visits to producers to offer technical assistance including the preparation of CNMPs. This capability will expedite the plan development process and maximize use of existing customer information.

Mr. RYAN. All right. Thank you very much. Since there are no more questions, this hearing is adjourned. Thank you for coming.

Ms. REED. Thank you.

[Whereupon, at 5:22 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Jim Turner and additional information submitted for the hearing record follow:]

OPENING STATEMENT OF THE HONORABLE JIM TURNER
"Clinton-Gore v. The American Taxpayer"

April 15,1999

I would like to thank both Chairman Horn and Chairman McIntosh for holding this hearing today, April 15th— otherwise known as tax day. I would like to extend a special welcome to the Commissioner for agreeing to be here on this busy day. Most Americans would probably like to participate in today's hearing to have the unique opportunity to ask questions of the Commissioner of the IRS while he is under oath.

The IRS has struggled for years with customer service. In recent history, customer relations have degraded so significantly that the 105th Congress reacted to the stories of taxpayer abuses by passing several new reform laws. The IRS has also responded under the leadership of the new IRS Commissioner, Charles Rossotti, with a proposal to completely restructure the agency and modernize its business practices and information technology.

One of the most serious challenges facing the IRS is its outdated computer system. IRS employees will process 228 million tax returns this year, collect over $1.7 trillion in revenue, and issue 93 million refunds. On-line filing is up 156% from last year, and as of the end of March, over 28 million taxpayers used the IRS telephone service. However, IRS employees approach many of these tasks with technology that dates back to the 1970's -- if not earlier.

Ineffective technology directly affects customer relations and the ability of the IRS to handle American taxpayer revenue appropriately. For example, when making telephone inquiries, taxpayers often must wait for long periods of time to speak with an IRS representative or obtain information because computers are down. Additionally, updated and accurate tax payment information is often unavailable to IRS employees, because the IRS computer files for individuals and businesses are not compatible — resulting in situations where individual officers of companies are assessed taxes and penalties for years after payments have been made in full.

With a subsidiary financial ledger, the IRS could solve this problem, and I would urge the Commissioner to develop a subsidiary financial ledger to help prevent situations where the IRS pursues collection activities against taxpayers when taxes have been paid in full.

These types of system problems hit small businesses hard. Small businesses must comply with the same complicated tax laws that apply to large corporations such as General Electric and Ford Motor Company, but without the resources to hire expensive tax lawyers. Access to information and tax assistance at the IRS is particularly important to small businesses. Without tax advice, some small businesses can make mistakes. Automatic penalty and interest assessments mount quickly and, if compounded by computer problems, may result in huge burdens on small businesses and individuals. I am glad to learn that part of the Commissioner's focus in restructuring is to better address the concerns of American small businesses.

At this time, we are also ushering in a new era of federal agency management. Agencies recognize that they must not only provide top-quality government services, but also must achieve them in a cost effective manner. The IRS is attempting to establish a more balanced set of performance measures for the agency. This is no small task and is crucial to improving the IRS. However, without quality computer systems capable of tracking information in the tax processing system, the IRS will lack reliable data on its performance measures, and it will be incapable of remedying the agency's most serious problems.

Because of its outdated financial management systems, the IRS struggles to generate the quality and degree of financial information that it requires of American taxpayers. At a recent Government Management, Information, and Technology Subcommittee hearing, we learned that the IRS was incapable of balancing its own checkbook with the Treasury Department. The agency must make necessary investment in its information technology and financial management systems, and it is clear that Commissioner Rossotti is committed to this investment. I thank him for being here and applaud his courage.

PAPERWORK REDUCTION ACCOMPLISHMENTS BY THE CLINTON ADMINISTRATION

Fiscal Year	Statutory Paperwork Reduction Goal Set by Congress	Percent of Actual or Expected Increases
1996	- 10%	+ 2.3% *
1997	- 10%	+ 1.0% *
1998	- 5%	+ 0.4%
1999	- 5%	+ 2.1%
2000	- 5%	+ 2.3%

* Not adjusted to reflect violations of the Paperwork Reduction Act incorrectly counted as program reductions.

Prepared for Representative David M. McIntosh

PAPERWORK REDUCTION INITIATIVES FOR SELECTED AGENCIES AFFECTING AMERICANS

Agency	1999 Paperwork Burden on the Public (HOURS)	REDUCTION INITIATIVES in Fiscal Year 1999	REDUCTION INITIATIVES in Fiscal Year 2000
Agriculture	72,000,000	8	5
Health and Human Services	139,000,000	0	3
Housing and Urban Development	18,000,000	1	0
Labor	199,000,000	3	2
Treasury's IRS	5,702,000,000 *	4	0

* Paperwork burden for all of the Treasury Department for which most is imposed by IRS.

Prepared for Representative David M. McIntosh

TREASURY DEPARTMENT PAPERWORK BURDEN AND PAID PREPARER RETURNS

Fiscal Year	Paperwork Burden (HOURS)*	Percent of Paid Preparer Returns**
1980	650,500,000***	38.0%
1985	708,221,000***	45.9%
1990	5,162,768,150	47.9%
1995	5,331,298,033	49.9%
1996	5,352,845,430	53.1%
1997	5,582,121,203	54.7%

* Information from annual OMB paperwork reports to Congress.
** Information provided by National Taypayers Union.
*** IRS substantially re-estimated its paperwork burden in 1989.

Prepared for Representative David M. McIntosh

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BERNARD SANDERS, VERMONT
INDEPENDENT

April 20, 1999

BY FACSIMILE

The Honorable Albert Gore
Vice President
The White House - West Wing
Washington, D.C. 20500

Dear Mr. Vice President:

On April 15, 1999, the Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs, which I chair, held a hearing on the Administration's actual and expected paperwork reduction accomplishments under the Paperwork Reduction Act. This letter seeks to clarify the nature of your involvement in paperwork reduction through your National Partnership for Reinventing Government (NPR), or under regulatory Executive Order 12866 which provides that you "shall coordinate the development and presentation of recommendations," or as Chair of the President's Management Council (PMC).

The hearing examined the Office of Management and Budget's (OMB) mis-management of the paperwork burden imposed on Americans, OMB's falsely-claimed paperwork reduction accomplishments, 872 violations of law last year alone where agencies levied unauthorized paperwork burdens on the American people, and a woefully inadequate number of specific paperwork reduction initiatives identified by the Administration for Fiscal Years 1999 and 2000. The bottom line was that paperwork by your Administration is expected to increase by 2.6 percent and 2.3 percent, respectively, in these two years. This is on top of the 2.3, 1.0, and 0.4 percent increases, respectively, during the past three years.

Given these problems, the General Accounting Office's representative at the hearing, Nye Stevens, Director of Federal Management and Workforce Issues, recommended that you become more involved by exercising your responsibility under Executive Order 12866. Quite frankly, the Administration's witnesses gave conflicting testimony about your role in paperwork reduction. The Administration's representative at the hearing, Deidre Lee, Acting Deputy Director for Management, Office of Management and Budget, testified that you have not been involved in the Government's paperwork reduction efforts. However, the Department of Agriculture's Chief Information Officer Anne Thomson Reed testified that she understood that you had stressed the importance of paperwork reduction in meetings of the PMC.

Please clarify what has been your involvement in government-wide paperwork reduction and the involvement of your staff and other members of the NPR and PMC and their staffs. Once again, it appears that, when it comes to Federal paperwork, what should be down is actually going up and up. I believe that the public deserves substantially more paperwork reduction initiatives by the Clinton-Gore Administration. What steps will you take to improve the Administration's sorry record in this area? Perhaps then Americans would be subject to fewer, rather than more, Federal paperwork requirements.

Sincerely,

David M. McIntosh
Chairman
Subcommittee on National Economic Growth,
Natural Resources and Regulatory Affairs

cc: The Honorable Dan Burton
The Honorable Dennis Kucinich

Rec'd 5/6/99

OFFICE OF THE VICE PRESIDENT
WASHINGTON

April 28, 1999

The Honorable David M. McIntosh
Chairman, Subcommittee on National Economic Growth
Natural Resources, and Regulatory Affairs
Committee on Government Reform and Oversight
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of April 20, 1999 to the Vice President about the Paperwork Reduction Act of 1995 and the importance of having Federal agencies and the Office of Management and Budget (OMB) implement it properly. As you know, the Administration supported the Paperwork Reduction Act. Congress passed this bill without a dissenting vote, and President Clinton was pleased to sign it into law on May 22, 1995.

First, I would like to clarify that the President's Management Council (PMC) is chaired by the Deputy Director for Management at OMB. However, the National Partnership for Reinventing Government (NPR), under the strong leadership of the Vice President, has been working tirelessly with other entities in this Administration to create a more streamlined government. We are focusing on delivering great service to the public; fostering partnership and community solutions; and reinventing agencies to get the job done with less.

Our efforts have resulted in many real and significant measures that have reduced paperwork for both the public and government employees, including:

- Revising the Small Business Administration's (SBA) application forms from 78 pages to one page reduced paperwork imposed on small business applicants. This measure also cut a 90-day review to 3 days.

- Eliminating the Health Care Financing Administration's (HCFA) physician attestation form wiped out 11 million forms of useless paperwork.

- Eliminating the Department of Labor's requirement that employers file financial statements of the condition of their pension and welfare benefits plans ended a quarter of a million filings annually.

- Moving from procurement requisition forms to procurement cards eliminated millions of forms within the federal government.

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- In Georgia, Federal and State agencies worked together to consolidate application forms for a range of assistance programs and cut 70 pages of applications to six.

- The Vice President's Plain Language campaign has led to more understandable forms and notices, thereby reducing burdens on the public. The leader of this effort has been the Securities and Exchange Commission which simplified mutual fund prospectuses.

In this information age, all institutions have come to rely more and more on information to perform their most basic functions. Information is the key to an effective government that provides its citizens with necessary services – national security; a sound financial system; health, safety and environmental protection – in the least intrusive and most efficient manner possible.

As your letter notes, the Vice President has personally urged Federal agencies to review and reduce, where possible, the information they need in order to serve the public. Even the Act recognizes that we must rely more on information, but requires each agency to weigh the burdens imposed by collections of information on the public against the need for or practical utility of the information received.

As you also know, under the Paperwork Reduction Act, the OMB is charged with responsibility for overseeing efforts by each agency's Chief Information Officer to manage the agency's information resources. OMB recently published the FY 1999 Information Collection Budget that summarizes these efforts. It notes, for example, that targeted legislation to reduce individual taxes – legislation supported by both the Administration and Congress – nonetheless requires additional reporting. The document identifies over 70 statutes recently enacted by Congress that will necessarily require additional information. We can and will, of course, continue to work to ensure that these new programs are implemented as efficiently as possible within the constraints established in the law.

You may be assured that this Administration remains committed to reducing red tape and any undue burdens on citizens who must deal with our government. As you know from your work with former Vice President Quayle's Council on Competitiveness, this task is one that requires the full bipartisan cooperation of all of us if we are to truly serve the American taxpayer.

Sincerely,

Morley Winograd
Senior Policy Advisor
and Director of the National Partnership for
Reinventing Government

cc: The Honorable Dan Burton
The Honorable Henry A. Waxman
The Honorable Dennis Kucinich
The Honorable Jack Lew

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ONE HUNDRED SIXTH CONGRESS

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BERNARD SANDERS, VERMONT,
INDEPENDENT

May 11, 1999

BY FACSIMILE
The Honorable Albert Gore
Vice President
The White House - West Wing
Washington, D.C. 20500

Dear Mr. Vice President:

On April 20, 1999, after our April 15th hearing on the Administration's 1998 Paperwork Reduction Act accomplishments and those expected in 1999 and 2000, I wrote you to clarify the nature of your involvement in recent and expected paperwork reduction. On May 6th, we received a letter dated April 28th from one of your staff, listing six earlier paperwork reduction efforts, including some in the first Clinton-Gore term, but none expected in 1999 and 2000.

The April 15th hearing examined the Office of Management and Budget's (OMB) mis-management of the paperwork burden imposed on Americans, OMB's falsely-claimed paperwork reduction accomplishments, 872 violations of law last year alone where agencies levied unauthorized paperwork burdens on the American people, and a woefully inadequate number of specific paperwork reduction initiatives for 1999 and 2000.

Given these problems, the General Accounting Office's representative at the April 15th hearing recommended that you become more involved by exercising your responsibility under Executive Order 12866 and your Reinventing Government initiative. As a consequence, I asked you to identify what steps you were taking to improve the Administration's sorry record in paperwork reduction. Your staff did not address any steps you were taking. I would appreciate a responsive answer from you to all of the questions in my April 20th letter since paperwork reduction is important not only to Congress but also to the American people. Thank you.

Sincerely,

David M. McIntosh
Chairman
Subcommittee on National Economic Growth,
Natural Resources and Regulatory Affairs

cc: The Honorable Dan Burton
The Honorable Dennis Kucinich

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BERNARD SANDERS, VERMONT,
INDEPENDENT

May 11, 1999

BY FACSIMILE
The Honorable Jacob J. Lew
Director
Office of Management and Budget
Washington, D.C. 20503

Dear Director Lew:

This letter includes a followup request based on the May 7, 1999 response from the Office of Management and Budget (OMB) to questions asked during the Subcommittee's April 15, 1999 hearing on the Paperwork Reduction Act. Thank you for providing a chart for the hearing record showing the paperwork hours associated with many of the recent violations of this law.

Please provide another chart (see attached) by May 21, 1999 showing the number of substantive changes made by OMB, if any, to each department and agency's Information Collection Budget submission and the number of additional paperwork reduction candidates independently identified by OMB, if any, for each department and agency.

If you have any questions about this letter, please contact Professional Staff Member Barbara Kahlow at 225-4407. Thank you in advance for providing this additional information for the hearing record.

Sincerely,

David M. McIntosh

David M. McIntosh
Chairman
Subcommittee on National Economic Growth,
Natural Resources and Regulatory Affairs

Attachment

cc: The Honorable Dan Burton
The Honorable Dennis Kucinich

OMB Changes to Agencies' ICB Submissions for FY 1999 ICB

Agency	# of Substantive Changes to Agency ICB Submission Made by OMB	# of Additional Paperwork Reduction Candidates Identified by OMB
Agriculture		
Commerce		
Defense		
Education		
Energy		
HHS		
HUD		
Interior		
Justice		
Labor		
State		
Transportation		
Treasury (except IRS)		
Treasury/IRS		
Veterans Affairs		
EPA		
FEMA		
NASA		
NSF		
NRC		
OPM		
SBA		
SSA		
Other Executive Branch Agencies		
Independent Regulatory Commissions		
TOTAL		

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Rec'd 6/9/99

JUN 4 1999

The Honorable David M. McIntosh
Chairman, Subcommittee on National Economic Growth,
Natural Resources, and Regulatory Affairs
Committee on Government Reform
U.S. House of Representatives
Washington, D.C. 20515-6143

Dear Mr. Chairman:

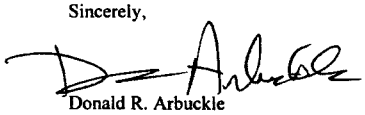
Thank you for your letter of May 11, 1999, in which you requested additional information to our May 7, 1999, response to questions asked during the April 15, 1999, hearing on the Paperwork Reduction Act. We appreciate your continued interest in the *Information Collection Budget (ICB) of the United States Government - Fiscal Year 1999.*

Your request asks about changes made to agency ICB submissions by the Office of Management and Budget (OMB). As you know, the development of the ICB is an iterative process. Agencies submit material to the Office of Information Regulatory Affairs (OIRA) in response to the OMB Bulletin and OIRA staff review that material. OIRA staff then work with the agency to identify missed opportunities for burden reduction, ongoing efforts not described in the submission, or areas that need clarification. The agencies respond to these suggestions, OIRA staff further evaluate these responses, and this process is repeated while the ICB is under development. There is no ongoing record of the individual exchanges.

Enclosed is a sample of two initial agency submissions, so your staff can see the kinds of changes that are made. We would be happy to provide you with copies of other agencies initial ICB submissions. If that would be helpful, have your staff contact Mr. Jefferson B. Hill at 202-395-3176.

If you have any further questions concerning the ICB, I would be pleased to discuss them with you personally.

Sincerely,



Donald R. Arbuckle
Acting Administrator
and Deputy Administrator
Office of Information
and Regulatory Affairs

Enclosures

cc: The Honorable Dan Burton
The Honorable Henry A. Waxman
The Honorable Dennis Kucinich

The enclosures are retained in the Committee on Government Reform's Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs hearing record.

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BERNARD SANDERS, VERMONT,
INDEPENDENT

June 9, 1999

BY FACSIMILE

The Honorable Jacob J. Lew
Director
Office of Management and Budget
Washington, D.C. 20503

Dear Director Lew:

This letter responds to the June 4, 1999 letter from Acting Administrator Donald Arbuckle to our May 11th letter addressed to you about the Paperwork Reduction Act. The June 4th letter is unacceptable and nonresponsive to our oversight needs.

Our May 11th letter elaborated on questions asked during the Subcommittee's April 15th hearing of Office of Management and Budget's (OMB) Acting Deputy Director for Management about OMB's review of and action on the Internal Revenue Service's (IRS) paperwork budget submission. Since OMB was unable to provide any substantive answers about IRS' paperwork budget submission, we requested that OMB complete a chart showing the number of substantive changes made by OMB, if any, to each department and agency's paperwork budget submission and the number of additional paperwork reduction candidates independently identified by OMB, if any, for each department and agency. OMB's June 4th reply did not include a completed chart or any numeric information for any of the agencies included in OMB's Information Collection Budget of the United States Government.

Instead, OMB's response claimed "There is no ongoing record of the individual exchanges [between OMB and the agencies]." This is mind boggling! If there is no record of individual exchanges between OMB's desk officers and the agencies which OMB oversees, how does OMB management evaluate the performance of individual OMB desk officers and the agencies' responsiveness to OMB's specific recommendations? Moreover, if there is "no record," how can Congress know - and why should Congress assume - that OMB is doing any paperwork reduction oversight at all? Therefore, the Subcommittee requests that OMB, in the future, keep a record of all substantive changes to agency paperwork budget submissions made by OMB and all additional paperwork reduction candidates independently identified by OMB.

In addition, OMB enclosed in its June 4th response a sample of two initial agency paperwork budget submissions but without any indication whatsoever of the substantive changes made by OMB or any additional paperwork reduction candidates independently identified by OMB. These sample agency documents were not requested and are not responsive to any question asked at the hearing or by the Subcommittee after the hearing. These non-germane documents are not even a poor substitute for the requested chart with quantifiable information.

In conclusion, because of our oversight responsibility, we expect OMB, starting July 1, 1999, to keep detailed and complete records so that it can provide information requested by Congress, in its oversight role, about OMB's role in government-wide paperwork reduction.

Sincerely,

David M. McIntosh
Chairman
Subcommittee on National Economic Growth,
Natural Resources and Regulatory Affairs

cc: The Honorable Dan Burton
The Honorable Dennis Kucinich

Explanation of the Table: Available Data of FY 1998 Violations

The first column identifies the collection. The OMB number, if available, is necessary to trace the history of a collection. In the case of collections in Table B.2 for which an OMB number has yet to be or never will be assigned, there is no information in our database and thus no information about the burden. The second column is the title of the collection as stored in the database.

The third and forth columns, "Date of Expiration" and "Date of Reinstatement," identify the period during which the collection is or was in violation. For collections that were being conducted without OMB approval and were subsequently approved, no expiration date is listed and the reinstatement date is actually the date upon which the OMB number was assigned and the collection approved. A star by the reinstatement date indicates that information was not in the FY 1999 ICB.

The fifth, sixth, and seventh columns provide information about the burden for collections as reported in our database. Note that none of the information in this table is counter-factual or extrapolated. Under the column "Current," the currently approved burden (i.e., on April 27, 1999) of the information collection is listed. If the collection remains in violation, this number will be zero. This column says "DISCONTINUED" if the agency reported that the collection was no longer being conducted. The approved burden as of COB, September 30, 1998, is listed under the column "Fiscal 1998." Under "Fiscal 1997" is the approved burden as of COB, September 30, 1997. Note that some collections will have a nonzero burden listed in all three columns if they expired and were subsequently reinstated between September 30, 1997, and September 30, 1998.

The final column, "Last Known," has the last known burden for any collection for which the previous three columns were empty. If there is a burden here, there are two possibilities. First, the collection expired prior to September 30, 1997, and has yet to be reinstated. Second, the collection was reinstated and subsequently expired again during FY 1998.

At the end of the table, the final four columns are totaled. Note that, for the columns "Current," "Fiscal 1998," and "Fiscal 1997," these totals are burdens that were approved and in our database. If all collections remained constant over time, a higher total would indicate a greater level of compliance. However, collections do not remain constant over time; the burden for individual collections may change from one date to another. (See, for example, 0560-0155 at the bottom of the first page.)

The attachment is retained in the Committee on Government Reform's Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs hearing record.

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BERNARD SANDERS, VERMONT,
INDEPENDENT

October 13, 1999

BY FACSIMILE
The Honorable Jacob J. Lew
Director
Office of Management and Budget
Washington, D.C. 20503

Dear Director Lew:

This letter follows up on my June 9, 1999 letter about the Paperwork Reduction Act. For our oversight needs, I requested that, starting July 1st, the Office of Management and Budget (OMB) keep detailed and complete records about OMB's role in government-wide paperwork reduction.

For the July 1st through September 30th quarter, please provide a chart in the exact format shown in the Attachment to this letter identifying any substantive change to an agency paperwork submission made by OMB and each additional paperwork reduction candidate independently identified by OMB.

Your response should be delivered to the Subcommittee majority staff in B-377 Rayburn House Office Building and the minority staff in B-350A Rayburn House Office Building not later than noon on Friday, November 19, 1999. If you have any questions about this request, please call Professional Staff Member Barbara Kahlow on 226-3058. Thank you for your attention to this request.

Sincerely,

David M. McIntosh
Chairman
Subcommittee on National Economic Growth,
Natural Resources and Regulatory Affairs

Attachment

cc: The Honorable Dan Burton
The Honorable Dennis Kucinich

OMB Changes to Agencies' Proposed and Existing Paperwork Burden

Agency	# of Agency PRA Submissions with Any Substantive Change Made by OMB	OMB #s (if any) of Each Agency PRA Submission with Any Substantive Change Made by OMB	For Each PRA Submission in Column 3, Brief Description of Substantive Change(s) Made by OMB	# of Paperwork Reduction Candidates Added by OMB	OMB #s of Each Paperwork Reduction Candidate Added by OMB
Agriculture	#	____ - ____ ____ - ____ ____ - ____	XXXXXXXXXXXXXXXXXXXXXXXXXX YYYYYYYYYYYYYYYYYYYYYYYYY ZZZZZZZZZZZZZZZZZZZZZZZZZZZZZZZZ	#	____ - ____ ____ - ____ ____ - ____
Commerce					
Defense					
Education					
Energy					
HHS					
HUD					
Interior					
Justice					
Labor					
State					
Transportation					
Treasury (except IRS)					
Treasury/IRS					
Veterans Affairs					

Agency	# of Agency PRA Submissions with Any Substantive Change Made by OMB	OMB #s (if any) of Each Agency PRA Submission with Any Substantive Change Made by OMB	For Each PRA Submission in Column 3, Brief Description of Substantive Change(s) Made by OMB	# of Paperwork Reduction Candidates Added by OMB	OMB #s of Each Paperwork Reduction Candidate Added by OMB
EPA					
FEMA					
NASA					
NSF					
NRC					
OPM					
SBA					
SSA					
Other Executive Branch Agencies					
Independent Regulatory Commissions					
TOTAL					

Rec'd 4/28/99

Keesecker Agri-Bus. Inc.

2069 Prairie Road Washington, KS 66968 Ph / Fax: (785) 325-3134

April 23, 1999

Honorable David McIntosh
United States House of Representatives
1610 Longworth House Office Building
Washington D.C. 20515

Dear Honorable McIntosh:

Recently I had the pleasure of watching you on C-Span regarding your involvement with the IRS Reform and Management. Listening to the individuals that were testifying and the concerns you and Representative Ryan had of the excessive paperwork and abuse by the IRS has prompted me to write this letter.

First, I would like to give you a little background information of our operation. Our farming operation consists of an Agricultural Limited Liability Company and a family held Agricultural Corporation with my wife, three daughters, and myself as the sole stockholders. These two entities have helped in the process of trying to pass the business from one generation to the next without the tax collectors ending up with the farm. My daughters are the fourth generation to be involved in agriculture and pig production in this community, which is highly unusual. I would hope that my grandsons could carry on the tradition. My concern is if the regulatory trend continues, they will not have this opportunity. We farm over 3,000 acres and produce over 30,000 pigs yearly in our farrow-to-finish operation. Besides family members involved in the operation, we also have 20 other employees.

Paperwork has become almost unbearable. Between environmental issues, payroll tax, unemployment tax, income tax, property tax, and the Department of Labor, the complexity and involvement of all these forms is now taking one office employee over 1000 hours a year to comply. When our professional tax preparer and attorney fees are included with our office personnel, this costs our business over $20,000 annually to comply with all the paperwork.

Even more frightening than the above is the IRS attitude of the taxpayer being guilty until proven innocent and their police type tactics. Enclosed you will find copies of four (4) correspondence that my tax preparer suggested that I share with you.

As you can see, these notices started on March 1, 1999 concerning overpayment notice of $ 19,045.64. The next notice was on March 29th, concerning a change in our return – "Amount Due IRS of $ 19,770.23". The third notice was on April 19th, "URGENT!, We intend to levy on certain assets. Please respond NOW, amount due $ 19,957.15". Lastly, the fourth notice on April 19th, indicated we had a credit adjustment and now owe $ 266.20.

Bear in mind while this scenario was going on, our tax preparer, who has a Masters in Agriculture Economics, was in correspondence with the IRS trying to straighten out this mess. He is of the opinion that we do not owe any additional tax and may even have a refund. He is still working on it. He also indicated that in trying to correspond with the IRS over the phone, he was treated quite rudely and could not obtain any information from them. Our tax preparer also indicated that trying to use the expedited tax process for hog farmers has not expedited the process at all, if anything it has delayed the process.

Our operation recently had an audit from the Department of Labor. In order to get the necessary documentation, it took two office people one week to prepare and we had to meet with our accountant and attorney. Obviously all of this is costly and non-productive. The good news is that the auditor indicated that everything was in order and agricultural is exempt from most of the rules that apply to other businesses, which we already knew.

I resent a few lawmakers and most regulatory people who insinuate that farmers and small business owners are crooks. Agriculture and small business owners are the backbone of this nation and their integrity should not be in question. As you can tell from this letter, the frustration level is extremely high. We have literally lost hundreds of thousands of dollars in equity these last few months due to the historic low hog prices. Besides the losses we have had to deal with, the barrage of paperwork and regulations from the government just keep coming. If family members of the next generation and several key employees that are like family did not want to be involved in agriculture, I would throw up my hands and quit.

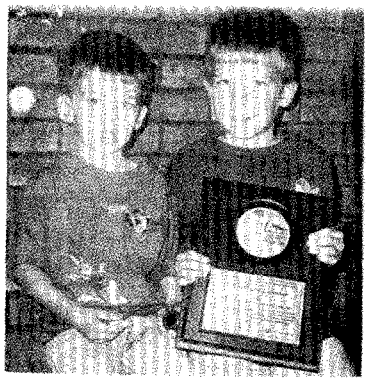
In summary, those of us involved in this farming operation would just like to do our job of producing food and fiber for this nation, which we do extremely well I might add, and quit being overwhelmed with all the paperwork. The vast majority of producers that are involved in agriculture do not break the law or violate the environment. Enclosed is an article from an award in 1995 that might be of interest to you.

I hope this information will be of help to you. If I can be of further assistance, please do not hesitate to contact me. Phone: (785) 325-2510; Fax: (785) 325-3134;
E-mail: kab@kdir.net It was reassuring to me when you informed the individuals that testified, there would be no ramifications or any type of harassment from any of the government agencies for their testimony. Without that assurance, I probably would not have written this letter.

Sincerely,

Dale Keesecker

Enclosure



Mitchell Walter, 2, and Michael Walter, 6, hold the plaque presented to their grandparents, Dale and Lila Keesecker. Dale believes in leaving the environment better for the next generation and thought it fitting to have his grandsons photographed holding the award. (Photo by Peggy Collier)

Keesecker receives national recognition

Dale Keesecker, Washington, was one of five pork operations recognized nationally this month for promoting a strong conservation ethic. Keesecker and wife Lila were in Washington, D.C., Sept. 12-15, where Keesecker was presented with an Environmental Stewards Program Award. The Keeseckers also were among the honored guests at several Congressional luncheons and dinners.

The Keesecker farrow-to-finish family corporation sells between 29,000 and 30,000 hogs annually and includes 2,200 acres of land.

More than 20 feeding research trials involving approximately 50,000 pigs have been conducted over the past 13 to 15 years at the K: :ker farm in cooperation with Drs. Jim Nelssen, Robert Goodbard and Mike Tokach of Kansas State University. As a result of this research, the operation uses a nine-phase feeding program to meet the nutritional requirements of its pigs.

"In the trials, fairly new technology evolved, that of phase feeding and feed budgeting," Keesecker said from his home Tuesday. "Phase feeding and feed budgeting tailor the nutritional needs of the pig specifically to its weight so that it is never overfed protein, phosphorus and the other essential amino acids. With these programs, we reduce the amount of nitrogen and phosphorus excreted by the pig. This in turn lowers the impact of the nitrogen and phosphorus on the environment."

The Keesecker operation also was recognized because it uses a fresh water flushing system in its naturally ventilated finishing units. The lagoon water is utilized

(Continued on 3A)

Keesecker

(Continued from 1A)

through a center pivot system on cropland.

Keesecker has been in the hog business for almost 30 years. The operation includes 62 acres of grass waterways, 56 miles of terraces, 10 acres of upland wildlife habitat, and 3,200 shelter belt trees and shrubs have been planted.

Inspectors for the Environmental Stewards Program placed a lot of emphasis on soil loss when they came to inspect the hog operation, Keesecker said.

"Through the use of no-till and contour farming, terraces and grass waterways, we've limited our soil loss to less than five ton per acre, which sounds like a lot, but it is fairly insignificant to other areas," Keesecker said.

Keesecker shares credit for the Environmental Stewards award with former Soil Conservation Service District Conservationist Charlie Foster, current SCS District Conservationist Dee Miage, and SCS technician Kenny Nelson — they do a great job, he said — daughter Michele Walter, who has planted grasses and wild flowers around the lagoons and been responsible for the operation's aesthetics, and his staff of 15 to 17 employees, whom are "quality people," he said.

Pork producers like Keesecker, who are using new technology that is environmentally sound in their hog operations, are cleaning up the hog farmer's reputation.

Some like Keesecker have taken the research and technology and applied it as soon as it became available. "Before, it was for economical reasons; now it's for environmental reasons," Keesecker said.

Other winners of the Environmental Stewards Program are Harlan Keener of Rocky Knoll Swine Farm, Lancaster, Pa.; PIG USA, Franklin, Ky.; Marlin Pankratz, Mountain Lake, Minn.; and National Hog Farms Inc., Kersey, Colo. The winners were recognized at a special ceremony held in conjunction with the National pork Producers Council's annual Legislative Seminar.

The Keeseckers attended a reception in the Department of Agriculture, where the deputy secretary of agriculture was guest speaker; several Congressional luncheons and dinners, which included visits from Sen. Robert Dole and staff; Sen. Nancy Kassebaum's staff (they visited Sen. Kassebaum in her office); Congressman Pat Roberts and staff; and Congressman Sam Brownback.

Each winner was selected as a winner of a designated region in the United States by a producer committee. Keesecker was selected winner of the Midwest region. This year's winners represent a wide range in size and type of operation, Keesecker said.

The operations were evaluated in five areas: manure management, financial management, aesthethics and neighbor relations, wildlife management, and innovation.

The award is sponsored by the National Pork Producers Council, Pfizer Animal Health and National Hog Farmer magazine.

For more information on the Environmental Stewards program or any other environmental issue, write to: Environment, NPPC, P.O. Box 10383, Des Moines, Iowa 50306, or call NPPC at 515-223-2600.