

## IT Problems at IRS and Medicare: More to Come?

By Gene Steuerle

Already in 2006 alone, the IRS has potentially lost billions of dollars in revenue by failing to come up with a computer program that would replace one that identified returns likely to be fraudulently filed, while Medicare and Social Security have mistakenly sent refunds to 230,000 people who signed up for a prescription drug plan under the new Part D of Medicare. Are those just isolated, unconnected stories unlikely to be repeated in coming months and years across federal agencies? I think not. What is more likely is that they are symptoms of a much more serious government problem in hiring and retaining top-notch people who keep up with new technology, its uses, and its limitations.

The immediate responses of the leaders of government agencies are appropriate, predictable, and limited: They defend their agencies and promise to do better. Yet matters of controversy remain. The IRS commissioner has indicated that some people are likely to be fired along the way, presumably for their incompetence. (See *Tax Notes*, July 24, 2006, p. 319, *Doc 2006-13489*, or *2006 TNT 136-1*.) Meanwhile, Social Security and Medicare have exposed their internal squabbles. The administrator of Medicare argues that his "staff has felt that significant concerns they have expressed have not been taken into account by Social Security," while the Social Security commissioner and his staff claim that Social Security is dependent on information provided by Medicare, which needs many quality checks for its inconsistency. (See Robert Pear, "Medicare Refund Mixup Part of Larger Tangle," *The New York Times*, Sept. 25, 2006.)

We will probably never completely uncover the full stories behind those foul-ups, and I'm guessing that any simplistic assessment of blame will mask the more complicated layers of responsibility involved. But I do know about a festering disease throughout government that raises the probability that such accidents will arise. That disease is the lack of a structure for rewarding people who have the talents and skills and, most importantly, vision about what their agencies can and cannot do well.

If I am right, assessing blame will at best only deal with symptoms of this broader disease. When problems aren't the result of random acts of carelessness but, rather, reflect sores that have been neglected for decades, the healing process is unlikely to be quick and easy. The incentive for a longer-term effort required, moreover, must lie in the public-service hearts of those in charge, because rewards for the fixes mainly accrue to their successor.

That those are not one-time-only problems is evidenced by the number of past glitches. Take the IRS. It wasn't long ago that the National Commission on Re-

structuring the IRS decided to give special attention to information technology (IT), while the Clinton administration around the same time made a substantial effort to hire a commissioner (Charles Rossotti) who was so expert in IT matters that the IRS would presumably be able to turn everything around. If only we would stop putting accountants and lawyers at the top of the IRS, the theory went, we could get some people with business savvy, and they would operate the IRS like a business.

The theory like most of that type, contained elements of both truth and myth. Some business experience probably has helped the IRS, but that's just not enough. Any agency that uses IT must be able both to reward creativity and vision and to encourage it to flourish.

A little over 20 years ago I performed a study for the American Bar Association and the American Institute of Certified Public Accountants. While the study was primarily directed at the financial returns possible from enhanced audit operations, I was able to examine a bit of history along the way.

What I discovered in the IT field was that at one time the federal government was the place to be — at least for part of a career. Agencies like the IRS and the Social Security Administration had massive data files to be managed and often paid for the latest and greatest mega-computers. One could learn the state of the art. By way of analogy, the IRS Office of Chief Counsel has managed to retain over time that same type of advantage in attracting very good lawyers to work there. That is, a tax lawyer still considers the IRS a place to learn his wares, maybe even to stay on for a while if he delights in being on the leading edge of tax rules and regulations, the bread and butter of the legal tax profession.

By the time I did my study, however, the IRS employed almost no graduates who had majored in computer science or other IT fields. The agency was shunned by IT graduates of major colleges and universities. Congress failed to give the IRS a monetary reward structure through which it could hire the most qualified people. By then, also, most government agencies no longer offered the use of state of the art equipment and software, and agencies like the IRS quickly became the last places one would want to work if one wanted to pursue a career in IT. Meanwhile, the broad-scale attack on government also dampened the psychological reward that helps sustain many civil servants. In the end, most of the IT staff at the IRS were good and ambitious people who moved over from other parts of the Service.

Skip forward more than two decades, and look at how recent agency heads try to solve the IT problems that have arisen. They turn to the one tool they have at hand: paying outsiders. They contract with consultants and firms to do what people inside can no longer do. Pay for people inside the agency is capped, but the pay for those at the top of the hierarchies within the private firms might be 10 or 100 times higher than what anyone inside

can receive. An energetic agency head might also be able to attract a few buddies from the outside for a few years, if they really have a hankering to perform public service for a while, but there are severe limits on how much even the most talented individuals can substitute for people who have broader experience of what is required, how past mistakes were made, and how the requirements of one part of the agency mesh with those of other parts.

Now liberals might be tempted to think that recent glitches reveal that we should abandon outside consultants and start hiring even more government workers, while conservatives might be tempted to think we need even more privatization of agency work. Both views are too simplistic, and derive from ideological more than pragmatic considerations.

The simple truth is that contracting can be efficient but only if there are good people within the agencies who have clear-cut visions about what can and cannot be achieved, both by fellow government workers and by outsiders. Government leaders need a structure of rewards they can dispense. Of course, money is one type of reward, but others include state of the art equipment and software, the best training available anywhere, the ability to conference regularly and travel to meet with colleagues in the field, time off to write papers and test

ideas, leadership in professional associations, and offices in ways that build a sense of team as well as individual accomplishment.

Still another requirement for an elite corps of insiders is an understanding of what their agencies cannot accomplish, not just what they can, and how to turn disadvantages into opportunities. The limitations on any agency like the Social Security Administration or the IRS are severe: far more programs to administer than there are staff available, a constantly changing set of laws, and the tendency of elected officials to define agency success as staying out of the public eye, regardless of how well or poorly the agency is fulfilling its tasks. The response to those constraints must be a continual shifting of targets — in some ways like, and in some ways not like, a private business. But it also means a more ready willingness to expose weaknesses in a constructive way, to develop second-best solutions, to test for stress, and to prepare back-up programs and alternatives when the electricity goes out or the consultants don't deliver.

No agency can do a good job without substantial internal capability to know what it wants and what can be delivered in a timely fashion at a good price. Otherwise it and the public are going to be taken to the cleaners again and again.

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