

# PROPOSED REORGANIZATION OF 12 SMALLEST IRS DISTRICTS

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON ADMINISTRATION OF THE  
INTERNAL REVENUE CODE  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
NINETY-FIFTH CONGRESS  
SECOND SESSION

—  
MAY 10, 1978  
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# PROPOSED REORGANIZATION OF 12 SMALLEST IRS DISTRICTS

WEDNESDAY, MAY 10, 1978

U.S. SENATE,  
SUBCOMMITTEE ON THE ADMINISTRATION OF THE INTERNAL  
REVENUE CODE OF THE COMMITTEE ON FINANCE,  
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long presiding. Present: Senators Long, Haskell, Hathaway, Dole, and Roth, Jr. [The committee press release announcing this hearing follows:]

[Press release]

SUBCOMMITTEE ON ADMINISTRATION OF THE INTERNAL REVENUE CODE ANNOUNCES HEARING ON PROPOSED IRS REORGANIZATION OF TWELVE SMALLEST IRS DISTRICTS

Subcommittee Chairman Floyd K. Haskell (D.-Colo.) and Senator Bob Dole (R.-Kans.), ranking Republican member, today announced that a hearing will be held on Wednesday, May 10, on the proposed reorganization of the twelve smallest IRS districts.

The hearing will be held on Wednesday, May 10, 1978, at 10 A.M. in Room 2221 Dirksen Senate Office Building.

The lead-off witness, presenting the Administration's views, will be IRS Commissioner Jerome Kurtz.

Senator Haskell stated that, "The proposed reorganization is the result of an internal IRS Organizational Review Study Group series of recommendations and encompasses changes which have never been the subject of public comment. As a result of numerous concerns, expressed by various members of the Senate, our Subcommittee has scheduled public hearings on this matter." "It is essential for us to insure that taxpayers in the affected States will not suffer any reduction in IRS services or be subject to any additional inconvenience in attempting to comply with the tax laws," Haskell added.

Senator Dole stated that, "It is important that the IRS not proceed with a reorganization plan without providing for public comments on such a plan which may involve the downgrading of the role of personnel in smaller States and a decrease in IRS assistance to taxpayers." "We cannot allow the IRS to be organized solely for the convenience of bureaucrats and those who happen to live in urban areas. We must be cautious that those who live in less populous areas receive fair treatment and convenient service from the IRS, too," Dole noted.

*Requests to testify.*—Others who wish to testify may submit their requests to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D. C. 20510, by no later than the close of business, May 8, 1978.

*Legislative Reorganization Act.*—Senator Haskell stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify must comply with the following rules:

(1) A copy of the statement must be filed by the close of business two days before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 75 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Committee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.

(5) Not more than ten minutes will be allowed for oral presentations.

*Written Testimony.*—Senator Haskell stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by June 2, 1978, to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

Senator LONG. This hearing will come to order.

This morning, the subcommittee has been convened to hear testimony concerning an IRS proposal regarding the reorganization of the 12 smallest IRS districts. The IRS has proposed that management and support service positions in smaller district offices be reduced and adjacent, larger district offices provide technical and support services and that the supervision of functions of less than group size be centered in adjacent, larger districts.

It is our understanding that these proposals are an outgrowth of an IRS 1970 study which had proposed elimination of many district offices.

This subcommittee is particularly interested in determining whether this proposal will result in any reduction of service to the public or inconvenience to the taxpayers in meeting with IRS personnel. In its announcement of these hearings, this subcommittee has noted that it wants to be certain that those who reside in less populous areas receive fair treatment and convenient service from the IRS.

We are pleased to have as our first witness this morning the Honorable Clayborne Pell, Senator from Rhode Island.

Senator Pell, we would be happy to hear your statement.

#### STATEMENT OF HON. CLAIBORNE PELL, A U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Senator PELL. Thank you, Mr. Chairman and members of the committee. I appreciate the honor of the chairman of the full committee being here very much indeed.

This hearing is on a subject of the proposal to reorganize or "streamline" certain of the district offices of the IRS including the district office for the State of Rhode Island.

I find myself opposed to this proposal for two basic reasons. First, and I have done some study in it and heard the IRS people, I remain unconvinced that the reorganization, including the ultimate elimination of 25 positions in the Rhode Island District Office, can be accomplished without reducing the quality of services to at least our own Rhode Island taxpayers.

Second, I have become increasingly concerned over the trend of Federal Government agencies to eliminate or reduce citizen service func-

tions in offices in smaller States like Rhode Island and transfer their function to regional offices in adjoining larger States.

Typically, these changes are made in the name of efficiency and improved services, but the end result is that the citizens of my State find themselves dealing by telephone, mail, or personal visit with distant Federal officials in Boston, Hartford, New York, or Philadelphia.

IRS is not the first Government agency that has decided, in good faith, but erroneously, that it can provide better services to Rhode Islanders by transferring those functions out of the State.

Mr. Chairman, when I was first informed by IRS on February 6 of its intentions to reorganize the Rhode Island district office, I did not immediately oppose the proposal. Instead, I expressed by own willingness to support a reorganization that would provide the same services or improved services at lower cost, and asked for additional information.

As I said, the additional information, when received, left me unconvinced.

I think also that the procedure followed by the IRS in planning this reorganization sheds some light on its merits. It is clear from the history of this reorganization that it was planned from the top down, a theoretical, abstract exercise. The planners reached the statistical conclusion that smaller district offices were less efficient. They then devised an overall plan to reorganize all of the 12 smallest district offices. I believe they set an arbitrary limit on the number of jobs under which they would seek to remove the functions.

That arbitrary limit, if my recollection is correct, was about 250 positions. Rhode Island fell under that arbitrary limit.

It was at this point that the decision to go ahead with reorganization was made and district directors, Members of Congress, and the public were notified. Only after the decision to go ahead with the reorganization was made did the IRS select so-called implementation teams and direct them to work out a specific plan for the reorganization at each affected district office.

These implementation teams were, in effect, given the assignment of making the foot fit the shoe. They had to take the realities they found in the district offices and make them fit this theoretical plan drawn up by management officials in Washington.

It is because of this procedure that IRS was unable to provide the detailed information on the reorganization for the Rhode Island district office for more than 2 months after the decision to reorganize had been made. When those details were made known, about 2 months later, on March 31, they indicated the original Washington plan was to be carried out with one change, internal paper processing would continue to be done in the Rhode Island office.

But, transferred out of the Rhode Island office would be all personnel, training, administrative support, supply and space provision functions and most significantly, the review of taxpayer returns.

To judge this reorganization, I believe we have to consider its stated objectives. The IRS has made it clear that the primary objective is not cost-saving, but, to quote Commissioner Kurtz: "An IRS which would be more responsive to taxpayers needs for services and assistance."

A truly noble and exemplary objective, but I challenge the IRS to show how this reorganization will improve responsiveness to taxpayer's needs in Rhode Island. Indeed, the IRS does not promise that the reorganization will improve services in Rhode Island.

In its announcement on February 6, IRS said services would be maintained at current levels and, over the long run, would probably be improved. By March 31, when the detailed plans were announced, IRS has retreated somewhat from even that probability and said that only in some cases service would be improved, and they did not say which cases.

So reorganization which had as its primary objective improved, more efficient services, is now reduced to a probability of improved services over the long run, and only in some cases.

In fact, I believe there is a high probability that services will be less satisfactory under reorganization. For example, the return review process for Rhode Islanders will be conducted outside of our State, in Hartford, Conn., where IRS said that greater specialization is possible.

I seriously doubt that IRS will find, in its Hartford office reviewers with the familiarity, much less specialized knowledge of the jewelry industry—our principal industry at this time, principal employer at this time, outside of government—or the fishing industry, both of which are very important in Rhode Island but minimal in Connecticut.

And, will reviewers in Connecticut have any knowledge of the peculiarities of the Rhode Island income tax or the Rhode Island temporary disability insurance program? And, of course, transferring the review process to Hartford means that Rhode Island taxpayer returns which are reviewed will be shuttled back and forth between Connecticut and Rhode Island. If that results in improved services, I will be much surprised.

I should congratulate the IRS for the terminology they have devised for this reorganization. The district offices being stripped of functions are designated as "streamlined districts," a term with obvious appeal in this age of dieting, but the offices which are gaining functions are designated not as "fattened district," but as "prime districts."

I think this took, really great public relations sensitivity and judgment. Streamlined versus primed, rather than streamlined versus fat.

Mr. Chairman, I think that Washington officials, in their commendable zeal for streamlining, often forget a basic fact about this Nation, and that is that we are a Federal Republic made up of States. There is no more forthright defender of States' rights and the understanding of the States' particular position and the conditions under which they joined the Union than you, Mr. Chairman. Washington administrators find State lines and State jurisdictions something of a nuisance. They would like to redraw the map of the United States with neat, logically consistent regions, somewhat like the map of Africa is drawn arbitrarily by the different foreign powers with no recognition of the tribal lines, which has caused all kinds of problems ever since.

What the Washington administrators forget is that the States do exist in reality. There are State governments, State tax and property

laws and State institutional arrangements that have a major impact on how Federal programs and services must operate.

There is also the pride of citizens in their States, and I know that Rhode Islanders bitterly resent Federal action tending to subordinate our State to any other State. IRS contends that the streamlined Rhode Island district will not be subordinated in any way to the fattened, or prime district, but I think that the facts of the reorganization speak for themselves.

The Rhode Island district will be dependent on the prime district, or fattened district, for personnel assignments, personnel recordkeeping, personnel training, supplies and even procurement of office space, and I cannot believe that the return reviewers working on the Rhode Island returns at Hartford are really going to be under the supervision and direction of Rhode Island's district director.

Indeed, the proposed streamlined districts under the reorganization look suspiciously like branch offices, and the State of Rhode Island and Providence Plantations is not a branch of the State of Connecticut, or Massachusetts, or any other State. It is one of the original 13 States and we have considerable pride in that fact.

In summary, Mr. Chairman, I am convinced that the reorganization will not achieve the objectives that the IRS has proclaimed. What it will do is endanger the current level of services to Rhode Island taxpayers and, inevitably, subordinate the direction of the Rhode Island district to a district office in another State.

I would add that I am not alone in the Senate in my views regarding this reorganization. On April 7 of this year, 14 Senators from 10 States affected by the proposed reorganization joined me in signing a letter to Secretary of the Treasury Blumenthal protesting the reorganization and urging that it be abandoned.

These Senators were Senators McIntyre, Durkin, McGovern, Hansen, Stafford, Abourezk, Garn, Hathaway, Hatfield, Melcher, Schmidt, Leahy, Hatch and Roth. As you can see, that covers a broad spectrum of party and geography within the Senate. I have asked that a copy of that letter and a reply from Secretary Blumenthal, dated May 2, be made a part of the hearing record.<sup>1</sup>

Senator HASKELL. Without objection, so ordered.

Senator PELL. I would also like to ask permission to read into the record at their personal request, the letter from the Senators from New Hampshire, Senators McIntyre and Durkin.

I see my time has expired—

Senator HASKELL. Go right ahead, sir.

Senator PELL. I will read the letter from Senators McIntyre and Durkin.

On February 6th, 1978, the IRS made known its intention to reorganize the district offices that service New Hampshire and twelve other states. Under the reorganization plan, the present functions of the Portsmouth District Offices would be reduced and the office would become what is known as a streamlined district.

Many of the responsibilities now performed by the Portsmouth Office would be transferred to the Boston District Office. Despite certain changes in the original reorganization plan, we are still concerned that the Portsmouth streamlined office

<sup>1</sup> See Senator Hathaway's opening statement on p. 21.



may become a mere branch of the Boston IRS office, devoid of specialized personnel, expertise, and the authority to adequately serve the New Hampshire taxpayers.

In addition, because the plan involves some centralization of Federal agency functions and the dilution of authority, personnel and state services, we are concerned that IRS services in New Hampshire will not be maintained once existing functions are shifted from New Hampshire to Boston; as we believe that the IRS reorganization plan fails to assure that New Hampshire taxpayers will receive efficient IRS services, we ask that our concerns, and those of New Hampshire taxpayers, be given serious consideration. Sincerely, Thomas McIntyre, John A. Durkin.

Mr. Chairman, I thank you very much for the opportunity to testify today and do urge your committee and your subcommittee to direct the IRS to halt the implementation of this ill-considered reorganization proposal, leaving the districts as they are and getting away from this idea of prime and streamlined districts.

Thank you very much.

Senator HASKELL. Thank you very much, Senator Pell. I have no questions.

Senator Long?

Senator LONG. I have no questions.

Senator HASKELL. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

Before I make a few comments on the testimony of our distinguished Senator from Rhode Island, I would like to introduce the testimony of Senator Wallup, Senator Hansen and Senator Schmitt, all of whom are in opposition to the proposed modification and unfortunately cannot be here this morning.

Senator HASKELL. That will be received, and will follow Senator Pell's testimony in the record.

[The material referred to follows:]

#### STATEMENT OF SENATOR MALCOLM WALLOP

Mr. Chairman, I am honored to appear here today before the Senate Finance Committee to indicate my strong reservations about the removal of key functions of the Internal Revenue Service's Cheyenne office to the regional IRS office in Denver, Colo.

While IRS Commissioner Jerome Kurtz has made assurances that the proposed transfer of several line responsibilities of the Cheyenne IRS office will in no detrimental way affect the services to the taxpaying public of Wyoming and that the Wyoming IRS personnel displaced by this move will be kept to an absolute minimum, my concern remains.

This administration's ongoing policy removing offices of Federal agencies away from the very people these agencies were designed to serve is shocking. This centralization of federal government services renews the American public's distrust of faraway government bureaucrats and increases the bureaucratic red tape involved in solving our citizens' problems. How better, Mr. Chairman, can a government serve its people than with agency directors with the authority to make decisions on hand and in sight in the community to answer questions and help residents avoid future problems. It is this fundamental principle of a responsive and effective government to which we all devote our efforts that I fear is being undermined by this proposed move.

It is particularly important that this agency, one whose complex requirements touch every citizen, be maintained intact to effectively serve the residents of the State of Wyoming.

While we must all strive to lower the cost of Government, and the Service's efforts in this direction are commendable, we must at the same time strive to keep Government agencies responsive and alerted to the needs of local areas. I believe the residents of the State of Wyoming with questions or problems in need

of IRS attention cannot be best served by an obscure office in the Federal complex in Denver, Colo. It is also my concern that many of the same areas of this nation, like Wyoming, are continually called upon to relinquish government offices and services to centralized regional offices.

Finally, Mr. Chairman, I am hopeful that a better compromise can be reached on the Cheyenne IRS office. I urge the reorganization of the Cheyenne office be redrafted to ensure that all key personnel with the authority to make decisions to resolve Wyoming citizens' problems be maintained in the Cheyenne office. In the event this proposal for the Cheyenne IRS office before you today is approved, I am hopeful that all of the Administration's assurances regarding the effect of the move will be met in good faith.

Thank you.

#### STATEMENT OF SENATOR HANSEN

Mr. HANSEN. Mr. Chairman, reduction of service to taxpayers would be the ultimate result of the proposed reorganization of the IRS District Office in Wyoming and I do not believe their best interests would be well served by the "streamlining" announced by Commissioner Kurtz.

Smaller states such as Wyoming will have their citizens inconvenienced by the reorganization and from what I can learn, the quality of service to them will be significantly less.

I do not believe the Internal Revenue Service can justify the personnel changes they contemplate if IRS assistance to taxpayers is used as the measuring stick; it is my opinion that this should be the criteria we should apply and not some other yardstick that will fit a pre-conceived cost-efficiency formula put together for a highly populated state.

A number of Senators from the states affected have protested this IRS decision, so far to no avail.

We have written President Carter, Secretary Blumenthal, Commissioner Kurtz, and others but have not yet received much more than cursory attention.

It is my hope that the hearing today—and we are most grateful you scheduled it—will focus on the question and give us the opportunity for public comment which is something that has been missing so far from the reorganization process.

It is my understanding that unless we can do something at this level to dissuade the IRS projected reorganization, the 12 district offices affected will have the new plan put into effect on October 1, 1978. This, to my mind, is moving far too quickly and will not serve the best interests of our citizens.

As my colleagues and I have pointed out, we can clearly foresee that the proposed reorganization will require taxpayers in our states to telephone, travel and write to the Prime District Offices because their own tax records or review personnel will not be available in their home states after the streamlining occurs.

In addition, we noted that because of our past experience with the centralization of Federal agency functions in large regional cities and the dilution of authority and personnel in state offices, we simply can not rely on the assurances of IRS officials that the services in our states will be maintained or improved when existing functions and personnel are shifted from our states to cities in larger states.

Basically, what we need to find out is how the IRS reorganization plan will affect service to taxpayers.

I'm especially concerned that recent reorganization in several agencies, such as IRS and the Department of Housing and Urban Development, seems to reduce services in rural states.

Citizens in sparsely-populated states are entitled to the same level of service as urban residents. To provide for less would be a real disservice.

#### STATEMENT OF SENATOR SCHMITT

Mr. Chairman, the proposed reorganization of the Internal Revenue Service, when first announced in February, resembled very strongly the proposed reorganization of the Department of Housing and Urban Development. It appeared to be another part in the larger package of discriminatory reorganization actions by the Administration aimed at further centralizing decision-making responsibilities in large urban centers and professing that better service to taxpayers would be the result.

In late March, the Commissioner advised me of an organizational configuration which somewhat improved the picture from the initial proposal IRS had

put forth. Still, there are questions with respect to taxpayer services lost versus savings gained. While we have been assured that the consolidation of positions and related activities is not the first step in the elimination of these offices, we know that Administration policies are subject to change.

A consideration which is additionally important is the question of whether the Directors in the so-called "streamlined" districts will remain fully responsible for their tax administration programs and staffs. Doubts remain as to whether, by removing certain portions of their former responsibilities, they will be in a subordinate position to the "prime" district director.

In Albuquerque, for instance, the audit function is being removed to Denver. Two positions are slated to be lost from the Audit Division. Eight of the ten people who now hold review positions will end up as field examiners. If a taxpayer should disagree with the initial findings on a return, a report would then be written and the file would go to Denver for review. It is acknowledged that, even at present, although the reviewers (who will be in Denver) almost never talk to the taxpayer directly, they have a tremendous impact on what the examiners do. Above all, personal contact is lost at the local level.

Yet another major question remains with respect to the local director's function. The burdens for decisionmaking on matters involving collection, administration and intelligence are to fall on his shoulders. Generally, as he is not trained in all of the areas for which he will be responsible, it will be extremely difficult for him to give proper and required attention to each area as needed.

We have also received assurances, Mr. Chairman, that services to taxpayers will be maintained at present levels and, in some cases, will be improved. Although the plan as it now stands appears not to eliminate those positions which involve actual interaction with taxpayers, it is my belief that taxpayers will be indirectly affected in several ways.

1. The District Director in Albuquerque will be called upon to perform the duties that the Chiefs of Collection, Administration and Intelligence previously performed, as I have mentioned earlier.

2. The Audit Review function will be moved from Albuquerque to Denver. It cannot now be seen what effect this second move will have, except for the fact that reviewers provide answers to complex technical problems that taxpayers and practitioners ask. Under the proposed plan, a single agent or group manager will be assigned to answer those complex problems. Taxpayers will no longer have the opportunity, should the need arise, to discuss unagreed cases personally with reviewers—unless, of course, they could manage to track down the right person in Denver. This problem would be especially crucial to taxpayers who do not communicate well in English. The tax law is now so complicated that eliminating the personal contact between reviewers (who will be in Denver) and examiners (in Albuquerque) and, in turn, between reviewers and taxpayers, may create great inefficiencies. The propensity for delay in processing and handling questions and complaints is built in. When and if a dispute arises, it is imperative, considering the penalties, that answers and complaints be taken care of expeditiously.

3. The Returns Program Manager position will be eliminated. At present the Returns Program Manager monitors the number of returns to be audited, audits both returns and auditing, and is responsible for classifying returns for audit. Under the reorganization, Albuquerque would send personnel to Austin on a temporary basis to classify returns. It is not yet known who will perform the other duties for which the Returns Program Manager is currently responsible.

4. The District Training Officer position will be eliminated. At present the incumbent acts as Training and Public Affairs Officer. The public affairs function will remain in Albuquerque, but training matters will be handled by the Denver office. Realistically, Denver's concern for the training needs of over 200 Albuquerque employees might be called into question.

5. The Personnel Officer will be eliminated. Pay problems, union disputes, leave problems, hiring, etc., all of which come under the jurisdiction of the Personnel Officer, supposedly will be handled from Denver, several hundred miles away.

6. Strangely enough, it appears that the Facilities Management office will also be eliminated, and no one seems to know who will take care of the purchasing of supplies, ordering of forms, and the purchasing and repairing of equipment.

All in all, after a long and often bewildering battle with the Department of Housing and Urban Development with respect to their reorganization plan, I am once again in a quandary as to how such proposals can be concocted. Many

"loose ends" remain in the plan as proposed for Albuquerque, giving one the feeling that the plan has not been well-thought through, to say the least. I remain adamantly opposed to taking government from the people it is mandated to serve. I still fail to see how the elimination of these particular eighteen positions will make the operation more efficient or that it would have any positive impact on cost savings for the taxpayers.

Mr. Chairman, this appears to be an utterly myopic move, especially in the case of the Albuquerque district, since New Mexico is one of the fastest growing states in the nation. I am hopeful that the Committee will examine microscopically these proposed plans in order to insure that changes are not being made simply for the sake of change.

Senator ROTH. Mr. Chairman, I also have an opening statement which I would ask be made a part of the record. I will not read it, but I would want to make two or three comments.

First of all, I think, Senator Pell, you hit the nail on the head when you say that there is a lack of appreciation for the importance of the States. It seems to me that is what the IRS has failed to recognize. It does not give any consideration that our States are key governmental units.

What bothers me is what bothers you. They talk about cost efficiency and they talk about centralization. I think both of us feel very strongly that we need to improve efficiency, but we cannot do that at the cost of service to the people, and this is what we have involved here.

There is no area, no activity, where the people are more involved, and unhappier anyway, than in paying taxes. And frankly, to me, we are moving in the wrong direction.

The distinguished chairman of the subcommittee knows very well that I have introduced a taxpayer assistance bill because I think there is a need to improve the service to the taxpayer. And instead of moving the service closer to the public, what this is doing is the opposite.

Now, Mr. Chairman, I would just like to say I am weary of Washington ignoring the rights of my State. I had to get up this morning and catch an early train because Amtrak makes exactly the same kind of argument. Small States are not important. According to Amtrak, it is not important what time the train stops in Delaware, what is important is the time it starts in New York.

I fought recently because Washington wanted to take away HUD personnel from Wilmington and combine them into Baltimore.

I fought recently an effort to take the salvage surplus operations away from Dover Air Base. They wanted to move that to Philadelphia under the guise of efficiency.

Now, the emphasis should be on efficient service to the public, and I share exactly your concern. But as the distinguished chairman of the Finance Committee said in his opening statement, this reorganization plan really dates back to 1963. There has been a consistent fight by the IRS to reduce the vitality, the viability, of the district offices.

The IRS cannot tell me that the elimination of 14 men and women is not going to make a difference in taxpayer service. It will mean that people are going to have to go to, in my case, to Philadelphia, in your case I think it was Connecticut, for many of their services, and they are going to be low man on the totem pole, you know that and I know that. There is no way that you can write regulations to prevent that.

Mr. Chairman, according to a statement in the Internal Revenue study:

Any proposal to eliminate a substantial number of district offices as was proposed in the 1970 IRS report, while perhaps desirable from a strict expenditure standpoint, could result in perceptions of reduced service to the public, regardless of any assurance by IRS to the contrary.

Well, all I can say is it is not a question of perception, it is a question of fact. It has been our experience with the regional offices that we get less services, in fact, in Wilmington and the entire State.

Senator Pell, I think you make a very valid point when you talk about expertise. Every State has its peculiarities, its specialties. I can assure you that I do not think there is going to be much interest in the Philadelphia office for the broiler industry, which is one of our primary industries, in Delaware.

I would like to reemphasize one of the things we said in the letter that we all sent recently to Treasury Secretary Blumenthal, because I think it states my feelings about this proposal.

In the letter we say:

Despite the assurance of IRS officials, we can clearly foresee that the reorganization will require taxpayers in our State to telephone, travel and write to the distant prime district offices because their own tax records or review personnel are not available to our own State.

This paragraph, I think is especially important:

In addition, we recognize the administrative rationale of a reorganization under which division chiefs in the prime district will be responsible to district directors in both the prime districts and the streamlined districts. Under such arrangement, it is inevitable that the streamlined district offices will become mere branch offices of the prime districts, devoid of the specialized personnel, expertise, the authority, to service adequately the taxpayers in our State.

I think the fact that they are moving personnel records and administration up there means that they are going to know who is responsible.

I know I am taking considerable time, but I want to say, Mr. Chairman, that I appreciate your calling these hearings at my request. I intend, later, to push forward on my ombudsman legislation to provide more taxpayer service rather than less and, as you know, I will also offer a resolution of disapproval of this reorganization proposal.

[The prepared statement of Senator Roth follows:]

STATEMENT OF SENATOR BILL ROTH (R-DELAWARE) REGARDING  
PROPOSED IRS "STREAMLINING" OF 12 IRS DISTRICTS

Small is not necessarily beautiful in the eyes of the IRS. They seem to have picked out the 12 smaller states to downgrade service.

The IRS taxes progressively and gives service regressively.

IRS is perhaps the closest taxpayers come to direct contact with the federal government and with paying taxes unpopular at best why should IRS make it any more difficult?

The rationale for Delaware taxpayers losing services at the expense of Philadelphia is a mystery to me. Nationally, this 'streamlining' affects approximately 220 people and by some strange coincidence they all come from the smaller IRS offices. That's over a 10 percent reduction for Delaware.

I have reviewed the organization chart of the "streamlined" offices and it would receive a failing grade in any business school. It has eight functional categories now reporting directly to the District Director—replacing four Division Chiefs. If they adopt the new "boxology," I suggest they also include a traffic cop to direct traffic.

Eight bureaus would be falling over their "crats" in a headlong rush to innundate the District Director without prior review or adjudication at an appropriate lower level.

I can see no cost saving if a GS-13 or 14 is transferred from one office to another or assigned a different function elsewhere . . . All I can see is less people in the smaller district offices providing smaller service at the same time we are paying a larger tax burden.

The States affected are: Delaware, Idaho, Maine, Montana, New Hampshire, New Mexico, North Dakota, Rhode Island, South Dakota, Utah, Vermont and Wyoming.

#### STATEMENT OF SENATOR BILL ROTH

Mr. Chairman, I am pleased the Finance Committee is holding this hearing to assess the impact of the Internal Revenue Service proposal to implement a reorganization plan affecting the district office in twelve states, and I welcome the witnesses who have agreed to testify on this proposal today.

Under the IRS proposal, IRS district offices in twelve states, including the Wilmington office which serves the entire State of Delaware, will be downgraded into "streamlined districts," with many of their functions being transferred to IRS offices in other states which will be known as "prime districts."

In the Wilmington office, the reorganization would result in the elimination of 14 positions, with an additional 5 position eliminated through attrition.

Specifically, the reorganization will eliminate the Division Chiefs for the Administration, Collection and Taxpayer Service, Audit, and Intelligence Divisions, and the support staff for each of these divisions.

In all, the reorganization will result in a reduction of approximately 10 percent of the Wilmington workforce. I am seriously concerned this reorganization plan will result in reduced services for the taxpayers of Delaware and the other affected areas.

Despite the assurance of the IRS, which I anticipate will be repeated today, I am not satisfied this proposed reorganization will not diminish taxpayer services in Delaware. In fact, it is inconceivable to me that the quality of taxpayer service can be maintained or improved by a proposal which downgrades the authority and responsibility of Wilmington personnel and moves key personnel from the Wilmington office to another state.

Assurances are not enough. The burden of proof is on the IRS to prove to me that the elimination of 4 division chiefs and a 10 percent reduction in the Wilmington office staff will not impair services to the taxpayers of Delaware.

Furthermore, the burden of proof is on the IRS to convince me that this proposal is not just the first step in a move to totally eliminate the smaller district offices.

I am also not convinced this reorganization will result in a more efficient, less costly government. I support economy in government. But a proposal made in the guise of economy must be measured against the untold delays, increased costs, and less efficient administration which will result.

I believe the taxpayers of my state deserve the same amount of taxpayer services that are provided to other states. In fact, based on the amount of taxes paid by Delawareans, a case can be made that Delaware deserves better taxpayer service. According to IRS statistics, only six states and the District of Columbia pay more individual income taxes per capita than the State of Delaware. The IRS taxes the people of Delaware progressively but serves our taxpayers regressively.

The Internal Revenue Service is the only contact most citizens have with their government, and it is important we maintain and improve services, not diminish them.

No one can tell me that services to the taxpayers will be maintained or improved if the personnel in the Wilmington office is reduced by 10 percent and key personnel are eliminated.

Under the present organization, the four Division Chiefs report to the District Director. Under the proposed reorganization chart, the District Director will have eight supervisors reporting to him. Every business school in the country teaches that such an organization would result in inefficiencies and decision-making delays.

The IRS has argued the smaller districts do not require the levels of management and services currently assigned to them. This either means that the 4 Division Chiefs and support staff are doing nothing today—or that they do have

enough work to do and the elimination of their jobs will result in a reduction in service. If the present workload is not heavy enough in Wilmington, the IRS should transfer some of Philadelphia's function to Wilmington, instead of penalizing Delaware taxpayers.

I am concerned this reorganization plan will limit the ability of small taxpayers in small states to have a fair, efficient and timely resolution of their tax questions and disputes with the government, and unless I am convinced otherwise, I will continue to oppose this proposal.

Senator HASKELL. Well, thank you, Senator Roth.

I would like to mention, Senator Pell, my personal experience. I remember when the regional office in our part of the country was located in Omaha. It was tough enough having the regional office located outside the city without taking away authority from the district office.

For that reason, I sympathize with you very much. I believe that certain things done in the name of efficiency are not necessarily good government. I believe the point you are making here is that the people in your State and other parts of the country are basically being deprived of certain rights and a certain closeness of government to them, and, for that reason, I sympathize very much with your problem and the problem of others. I would like to comment on Senator Roth's bill.

I believe that, on the taxpayer assistance level, service should be more extensive rather than less. I must say that what I have observed in Colorado has been good. However, there should be more of it, and it should be dispersed, in a State like Colorado, to different locations in the State. I am sure the same thing is true of Rhode Island.

So I am very much in sympathy with your viewpoint, and I, too, have an opening statement which I would ask be inserted in the record.

[The prepared statement of Senator Haskell follows:]

#### OPENING STATEMENT BY SENATOR FLOYD K. HASKELL

This morning the subcommittee will hear testimony concerning an IRS proposal to reorganize the 12 smallest IRS districts. The IRS has proposed that certain positions in the smallest district offices be eliminated, and the supervision of functions of less than group size be centered in adjacent larger districts. I have been advised that these proposals are an outgrowth of an IRS 1970 study which had proposed elimination of many district offices. This subcommittee wants to be certain the current proposal will not result in any reduction of service to the public or inconvenience for taxpayers in working with IRS personnel. We want to make certain that the proposed changes are not penny wise and pound foolish. The effectiveness of IRS operations should not be impaired simply to achieve a modest cost savings.

Senator PELL. I thank you very much, indeed, and I thank you for letting me be with you this morning.

Senator HASKELL. Senator Dole?

Senator DOLE. I have no questions. I have a statement to be included in the record.

I want to express concern over the reorganization and appreciate the chairman calling these hearings. It is always difficult, Government reorganization is a difficult problem. You never really know whether the changes are in the right direction. I think we will hear a great deal this morning that will give us some insight.

[The prepared statement of Senator Dole follows:]

#### STATEMENT OF SENATOR BOB DOLE

No government agency has more contact with the citizens of this country than the Internal Revenue Service. In early February, the IRS announced that they

proposed to shift certain functions and personnel in 12 smaller State offices to neighborhood State offices.

The Internal Revenue Service was created to collect the revenue and enforce our tax laws. It was created to serve both government and taxpayers. The purpose of these hearings are to have public comment and understanding of the Internal Revenue Service proposed reorganization.

I am concerned that taxpayers of all States receive efficient and proper service from the Internal Revenue Service with the minimum amount of inconvenience. On the other hand, Government agencies must be encouraged to eliminate waste and duplication. I am sure that the witnesses today will be able to shed some light on the situation and I look forward to their comments.

Senator LONG. The Inspector General of the Department of Health, Education and Welfare made a report that \$7 billion was being mis-spent in the Department of Health, Education, and Welfare; the Department was paying money to people who were not eligible, overpaying, and paying excessive fees to certain doctors, and various and sundry costs that were not proper. Some of us feel that in order to provide better service, one of the places to start would be to ferret out some of these people who are drawing money that they are not entitled to.

We came across one lady who was on the welfare rolls under 18 different names. It would not be too hard to check it out. All you would have to do is just look at the address. You would have to classify your caseload by address and you would come to one little house over here and you are told in that one little house there are 18 families living. It is hard to think that they could pack that many people inside one house.

Well, that probably could not be. So, you would just send somebody around to inquire and find out—and what would be found is that one lady is on there under 18 different names, and it would save you a lot of money to do that kind of thing.

Now, if you just saved half the money that is being wasted in that one department, that would save us about \$3.5 billion. That is a case where providing more service, I think, would really do a great thing for the public.

But, I take it the kind of service you are talking about is that after the taxpayers pay their money in, somebody says, well, maybe they did not pay enough. So, they have to go and hold a conference with the Federal agents and see whether, let's say, having separated themselves from half their income, maybe they should have separated themselves from more than half their income. Under the IRS proposal, that might require some additional travel for that meeting. There are some really nice highways to get you from, let's say, Providence to Hartford, but people in Rhode Island really think that it ought to be adequate to go only as far as Providence, I take it, to talk with Uncle Sam about whether they paid their fair share of taxes. Those taxpayers are probably not anxious to go to Hartford and talk with people who might not be familiar with the peculiarities of Rhode Island law compared to the peculiarities of the law in Connecticut. That is the kind of thing you are talking about.

Senator PELL. Exactly; and as I mentioned earlier, people may not be familiar with our quahog industry, or our fishing industry, or our lobster industry or jewelry industry which are more peculiar to our State.

Senator LONG. Every now and then you might want to try to find somebody who might understand your problem; well, you might be



told, he is not in, you will have to come back tomorrow, and if you have to come back tomorrow, it is a lot easier to return from where you live in, let's say, Providence to the suburb than it is to drive all the way back from Hartford and then come back on a subsequent day to see the person. That is involved in it, too, I take it.

Senator PELL. And, psychologically, I think that the people find the Government more and more remote and they acquire more and more of a distaste for that Government. And one of the causes of the decline of Rome was that Roman citizens showed an increased disinclination to get too far from Rome in the Provinces. We seem to be going along the same idea, as we remove our officials, centralize our officials, further and further away from where the people are.

I think what Senator Roth said is so correct. We ought to provide more services.

The problem you mentioned in HEW, those are not problems caused by the reduction of Federal officials. They are caused, sometimes, by the remoteness or lack of knowledge. And if more dollars were spent getting the officials out in the communities, I think that many of those dollars would be saved, too.

Senator HASKELL. Thank you very much, Senator.

Senator PELL. Thank you very much, Mr. Chairman.

Senator HASKELL. Our next witness is the Honorable Jerome Kurtz, Commissioner of Internal Revenue; accompanied by Mr. Williams, Deputy Commissioner, and Mr. Green, Regional Commissioner of the central region.

Gentlemen, we are pleased to have you here today.

**STATEMENT OF HON. JEROME KURTZ, COMMISSIONER OF INTERNAL REVENUE, ACCOMPANIED BY WILLIAM E. WILLIAMS, DEPUTY COMMISSIONER, INTERNAL REVENUE SERVICE, AND LEON GREEN, REGIONAL COMMISSIONER OF THE CENTRAL REGION**

Mr. KURTZ. Mr. Chairman, members of the committee, I appreciate the opportunity to appear before the committee today to explain the IRS reorganization.

Let me say, before beginning the more formal part of my statement, that there is nothing in this reorganization that will require any taxpayer to go any place that he does not now go. I think there has been considerable misunderstanding as to the effect that the reorganization will have on taxpayers, and I would like just to make that point clear.

Shortly after coming to the Internal Revenue Service, Secretary Blumenthal, as part of President Carter's governmental reorganization effort, directed me to conduct a comprehensive review of the IRS organization. In response, I asked a group of senior, career IRS executives who had experience at all levels of the organization, to conduct the review and submit any recommendations that they thought appropriate for my consideration.

William E. Williams, Deputy Commissioner and a senior career executive of the Service, was appointed chairman of the Organizational Review Group. Also serving on the group were Anita Alpern, Assistant Commissioner of Planning and Research; Joe Davis, Assist-

ant Commissioner, Administration; Jim Owens, Assistant Commissioner, Accounts, Collection and Taxpayer Service; Singleton Wolfe, Assistant Commissioner, Compliance; Edwin Trainor, Regional Commissioner, Midwest Region; and Elton Greenlee, Director of the Office of Management and Organization of the Treasury Department; Charles Brennan, District Director, Manhattan; Charles Parks, District Director, Oklahoma City; Norman Morrill, Director, Philadelphia Service Center; and Anthony D'Amato, Assistant Regional Commissioner, Administration, in the Central Region; with Richard Greenstein as Executive Secretary to the group.

The only constraint which I placed on the group was that any recommendations for change must maintain or improve levels of service to taxpayers, that effectiveness of IRS operations was not to be impaired to increase cost savings. After more than 5 months of intensive fact-gathering, analysis and deliberation, the group reported their final conclusions and recommendations to me. I have approved this report and forwarded it to Secretary Blumenthal for his concurrence, which I subsequently received.

The group found that the IRS organization was essentially sound, with the ability to respond to changing conditions and circumstances. Of course, in an organization as large and complex as the Internal Revenue Service, there are opportunities for improvement, and the report did recommend some changes which would improve the efficiency without adversely affecting service to the public.

The review group, early in its deliberations, reached an agreement on the principle that a district office, in every State, was an essential part of the tax administration system. It also concluded that a District Director was necessary in each State to insure the fair and proper application of the tax code to the particular circumstances found within that State.

I am firmly committed to the principle of maintaining at least one district office in every State which provides all basic IRS services and programs within that State. I am equally committed to having a District Director in charge of each of those offices, with full authority and responsibility for the functioning of that office.

The reorganization in no way diminishes the status and authority of either the district office or the District Director.

The principal recommendations were: one, the separation of enforcement functions from service functions. This will be accomplished by transferring the collection activity to the Assistant Commissioner, Compliance, who will be responsible for all enforcement programs.

The Assistant Commissioner, Accounts, Collections, and Taxpayer Service, will be redesignated as the Assistant Commissioner, Taxpayer Service and Returns Processing, and will have responsibility for all taxpayer service programs, including our disclosure operations which includes freedom of information matters, the tax administration advisory staff which assists foreign and State governments, and taxpayer information.

Similar realignments will take place in district and regional offices.

Two, creation of a single level of appeals system as the regional office level which is completely independent of the examination and determination process. We recently published, in the Federal Register, a notice

of proposed amendments to procedural rules which, if adopted, would establish a single level of administrative appeal to replace the present system of district audit and regional appellate conferences.

The Federal Register notice provides for a 60-day comment period, followed by a public hearing on June 20, 1978, in Washington. It would be inappropriate, and premature, for me to discuss possible implementation of a single level of appeal procedure until after all public comments have been carefully studied and evaluated.

There is one point, however, which I would like to make. Any change in the IRS appeal procedure will provide that taxpayers will have the opportunity to have timely conferences in every location where district audit or regional appellate conferences are now scheduled. In addition, all records pertaining to the case under appeal will be available at the time of the conference, just as they are today.

Three, the centralization of paper processing and computer terminal service and the audit collection and intelligence function in a single service unit in 46 district offices. These activities include the opening, tracking and closing of cases, microfilm research, the operation of a computerized integrated data retrieval system, and centralized file areas.

Four, the streamlining of 12 of the smallest district offices by removing certain middle management, technical, and administrative support positions. The streamlining proposal has resulted in considerable discussion and is, of course, the primary reason for this hearing. I would like now to discuss this aspect of the reorganization in more detail.

The organizational review group specifically recommended that the amount of middle-level management and administrative support in 12 of smallest district offices be reduced. Its findings are based upon the fact that the present managerial and administrative support structure in a district office of 200 employees is essentially identical to that in an office with 2,000 employees, or more.

For purposes of comparison, in the Los Angeles district office, a GS-15 Audit Division Chief is responsible for the activities of 120 audit groups while in the Wilmington district, a GS-15 chief is responsible for 5 audit groups.

This type of situation results in the underutilization of both our district directors and division chiefs in the smaller districts.

To remedy this problem without adversely affecting service to the public or overall district effectiveness, the group proposed that division chief positions—in other words, middle management positions—be eliminated in the 12 streamlined district offices with firstline supervisors reporting directly to the district director.

To insure a district director is not given an unreasonably large number of managers to supervise directly, provision is made to create a section chief in those functions with three or more firstline supervisors. These section chiefs will be responsible for the day-to-day programs of their functional activities.

The executive responsibilities of the informal division chief shift to the district director, rather than being assigned to the section chief.

It is recommended that adjacent, larger districts, to be designated as prime districts, provide the internal administrative support, such

as the recruitment of personnel, the procurement of space and supplies, with provisions for a small administrative staff reporting to the district director in in the streamlined district office.

Audit review, which should not involve any public contact, is also to be performed in the prime districts to better maintain technical expertise and permit a greater degree of specialization among the review personnel. The Organization Review Group also recommended that paper processing and computer terminal services in support of the operating functions which I described earlier, be transferred to the prime districts.

These proposals were contained in my announcement of the IRS reorganization on February 6, 1978.

After the group's report was approved, I appointed Leon Green, Regional Commissioner, central region, another career official who has had extensive managerial experience, both in Washington and in field installations, to head up the implementation effort.

He, in turn, selected experienced functional managers and district directors to work on the required implementation plans. During their deliberations, the implementation team could have recommended changes to any of the proposals of the organizational review group. However, the resulting plans, with one exception, followed very closely the group's final recommendation. That exception, with which the organizational review group and I both agree, was that the paper processing and computer terminal support for the operating functions be centralized in one organization within each of the 12 small streamlined districts rather than being moved to the adjacent prime districts. This will result in a uniform centralized services activity in all 58 IRS district offices.

This decision, together with a detailed listing of affected positions at each of the streamlined offices was transmitted in a letter dated March 31, 1978 to all Members of Congress in the 12 States affected by the streamlining proposal.

I want to assure this committee that all of our actions are based on the premise of strengthening and supporting frontline IRS operations. While certain internal processing and review activities may be centralized to assure maintenance of skills and expertise and capture economies of scale, our objective is to provide more service to the public and more effective tax administration.

In that regard, I should point out that no additional positions will be added in Washington or in our regional offices as a result of streamlining the smaller district offices.

IRS is a highly decentralized organization with the vast majority of its employees in field installations. As IRS employment has increased, the ratio of Washington-based employees to total IRS employment has decreased.

For example, in 1970, Washington employment comprised 6.4 percent—there are some minor changes from the figures in my written statement—comprised 6.4 percent of the total IRS work force. By 1977, that figure had dropped to 5.86 percent while staffing throughout the service increased by 28,000.

The IRS commitment to placing personnel as close as possible to the people it served is clearly demonstrated by the recently announced re-

organization of the IRS Chief Counsel activity. One of the major parts of this reorganization is the expansion of the field force with the establishment of eight additional branch offices.

In addition, refund litigation work now performed in Washington will be decentralized to the field on a phase-in basis. This will eventually result in some 50 to 60 positions being transferred from Washington to field offices across the nation.

In summary, our streamlining plan calls for the elimination of 220 positions out of a total IRS employment of over 85,000. Our most recent information indicates that 13 of the 220 positions to be eliminated are now vacant; 155 of the affected positions are administrative and clerical, such as personnel and facilities managements specialists; 65 are supervisory and technical positions, such as division chiefs and reviewers.

Provision has been made for assigning at the employees' option at least 49 of these 65 technical and supervisory employees to frontline examination and collection positions. This will require some overstaff positions which will be eliminated as attrition occurs, or made permanent if workload demands it.

A total of 26 positions will be added to the prime districts to provide required technical and administrative support. Therefore, the eventual net effect of streamlining will be the net reduction of 194 positions nationwide.

IRS has, I believe, a well-deserved reputation for making technological and organizational changes with a minimum adverse impact on employees. Its record in the massive redeployment program caused by the introduction of the automatic data processing system in the 1960's is considered an outstanding one in both the public and private sectors.

We have done extensive planning to place employees affected by this reorganization, including instituting a job freeze to afford eligible affected employees placement opportunities, in conducting a survey to determine employee placement preferences, and establishing the overstaffed positions to which I referred earlier.

To the maximum extent possible we will work out each employee's placement in a manner which accommodates both the needs of IRS and the employee.

We have had some inquiries as to how the districts were chosen for streamlining. Earlier studies of the IRS organization had indicated that smaller district offices are less efficient. An updating of these studies fully supported that earlier finding.

It also confirmed observations from the organizational review group members on experiences that the overhead structures in the smaller districts was unnecessarily high, resulting in underutilization in managerial and support personnel.

After constructing a streamlined organizational configuration, the group then selected those districts with District Directors in grades GS-15, the 14 smallest districts to which to apply this approach.

Two of these fourteen districts, Anchorage and Honolulu, were excluded because of the physical distances involved. The remaining 12 smallest districts were then examined in terms of their organizational structure and the normal lines of communication between them and adjacent larger districts which could provide the internal administrative and technical support as prime district.

There have been statements made that streamlining will result in reduced levels of service to the public. This is not the case. As I stated earlier, those functions involving public contact remain unchanged, as do the personnel assigned to them. The District Directors remain responsible and accountable for all programs for which they are now responsible and accountable.

Decisionmaking remains unchanged. Only the location of some administrative and technical support will change.

Taxpayers and practitioners will not experience a difference in dealing with their local IRS office.

Some concern has been expressed about moving the audit review function to a prime district office. I want to emphasize that this move will not affect the authority and responsibility of the Directors of the streamlined districts. If there is a disagreement on the treatment of a particular issue between the examiner of the tax return and the reviewer, the Director in the streamlined district will make the decision.

There will be no effect on either factual determinations or decision-making authority. They remain the responsibility of that District Director.

We foresee no problems with communications between reviewers, examiners, and district managers. Reviewers' notes and the telephone are used extensively today. Cross-district review is not new to IRS operation.

Review in specialized areas, such as estate and gift, have been done for many years by selected districts for all other district offices. These arrangements have caused no discernible problems and have in no way diminished the authority of a local District Director.

On the positive side, such cross-district review in specialty areas has insured better quality, since efficient workload has been generated to maintain specialization and expertise.

The streamlining process will improve the management efficiency in the smaller districts by involving the District Director more directly in district operations. We are eliminating the middle-management level, the division chiefs, and generally providing for frontline supervisors reporting directly to the district director.

A necessary part of any reorganization is the process of monitoring and evaluating the results of changes made. We will be doing that as part of our comprehensive system of national office and regional office evaluation programs. If these evaluations reveal the need for any changes or revisions, I assure this committee that we will make them promptly.

I know the committee appreciates the changing environment in which the Internal Revenue Service operates. We have changes in law and economic conditions, shifts in population and changing filing patterns to contend with in administering the tax system and providing service to the public. There are technological achievements which make our lives both simpler and more complicated. Within IRS, we are continually exploring ways to do our job more effectively and efficiently. We may find that we can better provide certain services by centralizing them, while others can be done by decentralization.

New types of equipment are being tested, and if they are adopted for use by IRS, they could result in reallocations of personnel and equip-

ment. For example, we recently conducted a telephone-answering-site study which we are now evaluating. The results may show that we can provide more effective service to taxpayers in handling their inquiries by relocating some answering sites.

If we can improve our service, I believe we have an obligation to do so.

I assure this committee, however, that any future organizational changes will be subject to the same criteria for consideration that I imposed on the organizational review group. Any change proposed would have to maintain or improve levels of service to taxpayers and the effectiveness of operations.

I again want to thank the committee for the opportunity to appear before it and explain our reorganization. I also would like to restate our commitment to maintenance or improvement of levels of service in all 58 IRS district offices. Our reorganization will improve efficiency without reducing service to the public.

I will be happy to answer any questions which the committee might have.

Senator HASKELL. Thank you, Commissioner.

It seems to me that the heart of the problem is whether or not the public, individual taxpayers, will be deprived of any direct contact which it now has. You mentioned enforcement, for example. That might be one.

I am going to ask the committee staff to confer with your staff and make an analysis of what, if any, taxpayer services or present conveniences might be affected by the reorganization. I do not think that I can go into all of the details, nor can anybody else at the hearing, but I am asking the committee staff to confer with your staff for that purpose.

Senator ROTH. Would the Senator yield at that point? I would like to make two comments.

I think that that is a desirable approach that the chairman is taking, but I want to make it very clear that it is not only contact with the taxpayer that should be the criteria, it is also the time sequence.

Now, a number of functions are being transferred, in the review area, to other States, that could delay the answer to our taxpayers. I believe this should be studied.

I am concerned that by removing certain internal disposition of cases, reviews and other aspects of the problem that we will not be giving the timely service that we should to the taxpayer.

I, for one, am dissatisfied with the time delays taxpayers are experiencing in getting answers. If there is a question being raised as to whether or not they are paying their full share of taxes, they are entitled to know as rapidly as possible.

Senator HASKELL. I would ask our staff that while they are conferring with your staff, Commissioner, that one of the factors to be considered should as Senator Roth has indicated, any time delays that might result. That should be part of the staff study upon which they will report to us.

Mr. KURTZ. We would be happy to do that, and I believe we can demonstrate—and that is certainly our purpose and our goal in this, that taxpayers not only have no obligation to travel or to go anywhere

that they do not have to go now, but that they be served as promptly as they are served today.

Let me add, I think it is less than completely clear what review is, and if I may say a few words about that.

The review function is an internal quality review function. That is, it is not a review of disputes between taxpayers and examiners.

If a taxpayer does not agree with an examiner's findings, then he goes through an appeal process, which is not part of a review process. The review is a sampling quality review. Not every audited return is reviewed. It is done on a sampling basis to insure the quality of our agent's work.

It is not a function where the taxpayer has a disagreement with an agent, for example, and he takes it up with a reviewer. That is a completely different function.

Senator HASKELL. Senator Long?

Senator LONG. I have no questions.

Senator HASKELL. Senator Hathaway?

[The opening statement of Senator Hathaway follows:]

**STATEMENT OF SENATOR WILLIAM D. HATHAWAY**

Mr. Chairman. Commissioner Kurtz on February 6, 1978, announced a proposal to reorganize the field offices of the Internal Revenue Service. In his letter to me of February 6, 1978, Mr. Kurtz stated that the plan is designed not only to reduce costs but also to "result in a more effective and efficient organization—an IRS which would also be more responsive to taxpayers' needs for services and assistance."

Considerable controversy has surrounded the reorganization plan.

I have received correspondence from employees in the Maine District Office of the Internal Revenue Service.

My office has also discussed this issue with Mr. Richard LaGrange, Union Representative for the National Treasury Employees Union in Maine. His comments and those of officials here in Washington have been most helpful in evaluating the reorganization plan.

Commissioner Kurtz and his staff have been most responsive to questions posed by myself and members of my staff concerning their proposal. I was very gratified to receive correspondence from the Commissioner on March 31 of this year which sets out more details of the reorganization. I would ask that a copy of his letter as well as other correspondence be included in the hearing record.

I had requested that Senator Haskell hold this hearing to provide a forum so that the members of the Senate Finance Committee, and other interested Senators might have an opportunity to review the IRS reorganization plan prior to its implementation.

While I would not presume to dictate staffing levels or organization to the IRS, there are several issues which I would like to discuss.

First, I want to assure the people of the State of Maine that there will be no reduction in the scope or quality of taxpayer services.

Second, I would like to ascertain the depth and composition of the proposed personnel reductions and the attendant job security afforded these individuals.

Third, I would like to review the anticipated savings and efficiencies which should arise from the reorganization.

Finally, I would like assurances that this reorganization will not be the first step toward the demise of the District Director's position in each office.

Mr. Chairman, I appreciate your scheduling this hearing and I look forward to a thorough review of the implications arising from the proposed IRS reorganization.

**THE SECRETARY OF THE TREASURY,**  
*Washington, D.C., May 2, 1978.*

**HON. WILLIAM D. HATHAWAY,**  
*U.S. Senate,*  
*Washington, D.C.*

DEAR BILL: Thank you for your April 7, 1978, and April 13, 1978, letters. I appreciate the offer to discuss the IRS reorganization before you ask for a public



hearing. However, I understand that a hearing has been scheduled for May 10, 1978, by the Senate Finance Committee to discuss the streamlining we are planning.

While I understand the concerns expressed in your letters, I believe the changes the IRS is planning for the Augusta District Office will not result in reduced levels of service to your constituents. Certainly, this is not the intention of those involved in the reorganization process. Additionally, the Service will realize a reduction in overhead costs as a result of the changes that will be made.

During the May 10, 1978, hearing, Commissioner Kurtz will address the concerns you have raised about the effect of streamlining including such matters as levels of service and cost savings. He will also respond to any additional questions which may arise concerning the streamlining process.

Best regards,  
Sincerely,

W. MICHAEL BLUMENTHAL.

U.S. SENATE,  
Washington, D.C., April 7, 1978.

Hon. W. MICHAEL BLUMENTHAL,  
*Secretary of the Treasury,*  
*Department of the Treasury,*  
*Washington, D.C.*

DEAR MR. SECRETARY: On February 6, 1978, the Internal Revenue Service announced its intention to reorganize its District Offices in our states. Under the reorganization, functions and personnel would be transferred from our states to District Offices in adjoining larger states.

We have examined the reorganization proposal and have concluded that the plan poses a very real threat to the quality of services to taxpayers in our states.

Despite the assurances of IRS officials, we can clearly foresee that the reorganization will require taxpayers in our states to telephone, travel and write to the distant "Prime District Offices" because their own tax records, or review personnel are not available in our own states.

In addition, we question the administrative rationale of a reorganization under which Division Chiefs in the "Prime Districts" will be responsible to District Directors in both the "Prime District" and the "Streamlined District". Under such arrangements, it is inevitable the "Streamlined District Offices" will become mere branch offices of the "Prime Districts", devoid of the specialized personnel, the expertise, and the authority to service adequately the taxpayers in our states.

Because of our past experience with the centralization of Federal agency functions in large regional cities, and the dilution of authority and personnel in state offices, we simply cannot rely on the assurances of IRS officials that the services in our states will be maintained or improved when existing functions and personnel are shifted from our states to cities in nearby larger states.

For all of these reasons, we strongly urge and request that the proposed "streamlining" of IRS District Offices in our states be abandoned.

Sincerely,

Thomas J. McIntyre, Claiborne Pell, John A. Durkin, George McGovern, Clifford P. Hansen, Robert T. Stafford, James Abourezk, Jake Garn, William D. Hathaway, Paul Hatfield, John Melcher, Harrison Schmitt.

APRIL 13, 1978.

Hon. W. MICHAEL BLUMENTHAL,  
*Secretary, Department of the Treasury,*  
*Washington, D.C.*

DEAR MR. SECRETARY: The Internal Revenue Service has proposed a reorganization of the District offices. The office in Augusta, Maine would be downgraded to a "Streamlined District Office" as various individuals and functions are transferred to the "Prime District Office" in Boston.

After discussions with representatives of the IRS National Office, the National Treasury Employees Union and employees in Augusta, I wrote Commissioner Kurtz in March. In his response the Commissioner indicated that the reorganization of the Augusta office would eliminate 20 positions. He further stated that "the reorganization will not compromise our ability to maintain service to the residents of Maine."

A number of Members from New England met with Commissioner Kurtz on April 5. After these further discussions, I am still concerned that the realignment of functions between offices will reduce services to Maine citizens and will not achieve any significant cost-savings to the IRS.

I am, therefore, considering a request for a Senate Finance Committee hearing on the reorganization plan.

I would appreciate your review of this IRS proposal and would be pleased to discuss the issue with you further before making a decision in regard to holding a hearing.

Sincerely,

WILLIAM D. HATHAWAY,  
U.S. Senator.

COMMISSIONER OF INTERNAL REVENUE,  
Washington, D.C., March 31, 1978

HON. WILLIAM D. HATHAWAY,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR HATHAWAY: I want to apologize for our delay in answering your letter of March 17, 1978, inquiring about our reorganization of the Augusta IRS District Office. I wanted to be able to provide you with specific information about what was planned for Augusta and this took some time. We have now developed the details and I have enclosed a copy of the implementation guidelines for your information.

Before proceeding, let me correct some erroneous information that seems to be circulating about the reorganization. First, the "streamlining" of the 12 smaller District Offices by removing some middle management positions and consolidating administrative support activities is not the first step in the elimination of those offices. I have given personal assurance to the leadership of the Congress, the chairmen of the committees which oversee IRS, and the Executive Office of the President, and I repeat those assurances to you, that we have no intention to eliminate any IRS District Headquarters Office. Second, this realignment of functions and activities will not subordinate one District Office to another District Office. The Directors in our "streamlined" Districts remain fully responsible for their tax administration programs and staffs. Third, levels of service to your constituents will be maintained at least at present levels and, in some cases, will be improved.

Our implementation plan for the reorganization of the Augusta District Office calls for the elimination of 20 positions. Of this number 2 are now vacant, so the actual number of current employees affected is 18. An additional 4 positions will continue in an "over-staffed" status and either will be eliminated through attrition or used to absorb future program growth. The positions involved are those in middle-management, associated secretarial support, and some administrative, technical, and clerical areas as designated in Enclosure 1.

There will be some exceptions made in applying the decision to eliminate intermediate level management positions. District Offices with four or more Revenue Agent groups or three or more Revenue Officer groups will be authorized a Section Chief position to insure that a District Director is not assigned an excessively large span of control. In the case of Augusta an Examination Section Chief will be created to assist the Director in managing these activities.

The Director will also have a full-time Administrative Officer as a member of the management staff. This individual will be responsible for coordinating the various administrative services (i.e. personnel, training and procurement of space and supplies) which will be provided by the Boston District. With the exception of the Administrative Officer, all Administration Division positions will be eliminated and services provided by the "Prime" District.

When I initially informed you of the changes to be made in Augusta I indicated that internal record keeping and paper processing would be transferred to Boston. We have reviewed this in more detail and decided that processing functions should remain in Augusta District, and be consolidated into one organizational unit. This change, which will be implemented in all District Offices regardless of size, will provide better control over our paper flow and periodic workload fluctuations. The larger, consolidated staff will be more productively employed at all times and we can expand the number of employees per super-

visor. Consolidation will reduce the number of supervisory positions and concentrate resources directly on work to be done.

For the employees whose positions are being eliminated, IRS will make every effort to place them either in the "streamlined" district or some other IRS office. We are committed to accomplishing the necessary staffing adjustments in a manner that will minimize the negative economic impact on the area and personal inconvenience to affected employees. In keeping with the requirements of both civil service regulations and agreements with the National Treasury Employees Union, a variety of redeployment techniques will be utilized.

Let me re-emphasize that the reorganization will not compromise our ability to maintain service to the residents of Maine because there are no changes being made to the number of employees currently dealing with taxpayers in our Audit, Collection and Taxpayer Service activities, nor to IRS personnel assigned to our posts of duty throughout the State. Our front-line staff, their immediate supervisors and the District Director are not affected by the realignment or in their ability to provide full and complete service. Taxpayers residing in Maine will deal with the Office in the same manner and to the same extent after our reorganization as they do today.

The original reorganization package referred to a proposal to modify the IRS appeals process that was being prepared for publication. This proposal, which would combine the present two levels of appeal into one, invites comments and provides for a public hearing on June 20, 1978. It will appear as a Notice of Procedural Change in the *Federal Register* on April 3, 1978. I have enclosed a copy for your information. We do not anticipate that this change, if adopted in its proposed form, would have any significant effect on IRS employment in your District.

I trust this information answers any questions you may have about the application of our reorganization to the Augusta District. If you wish further information, please let me know.

With kind regards,  
Sincerely,

JEROME KURTZ.

Enclosures.

*Augusta District—Summary of positions affected by organization changes*

Administration division—

Positions eliminated:

Chief, administration division.....	1
Secretary, chief, administration.....	1
Personnel officer.....	1
Personnel management officer.....	1
Facilities management specialist.....	1
Administrative assistant trainee.....	1
Clerk-typist.....	3
Supervisor, support services.....	1
Time and leave clerk.....	1
Supply clerk.....	1
Management assistant.....	1

Total positions eliminated..... 13

New positions created:

Administrative officer.....	1
Secretary.....	1

Total new positions..... 2

Net administration position reduction..... 11

Audit division—

Positions eliminated:

Chief, audit division.....	1
Secretary.....	1
Senior reviewer.....	1

## Audit division—Continued

## Positions eliminated—Continued

Reviewer .....	1
Secretary, chief, review.....	1
Returns program manager.....	1
Supervisor, service branch.....	1
Classification control clerk.....	1
Clerk .....	1

Total positions eliminated.....	9
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## New positions created:

Section chief.....	1
Secretary .....	1
Chief, centralized services.....	1
Overstaff revenue agents.....	3

Total new positions.....	6
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Net audit position reduction.....	3
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## Collection and taxpayer service division—

## Positions eliminated:

Chief, collection and taxpayer service.....	1
Secretary .....	1
Chief, office branch.....	1
Accounts maintenance clerk.....	1

Total positions eliminated.....	4
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## New positions created:

Revenue officer.....	1
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Total new positions.....	1
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Net collection and taxpayer service reduction.....	3
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## Intelligence division—

## Positions eliminated:

Chief, intelligence division.....	1
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Total positions eliminated.....	1
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## New positions created:

Total positions created.....	0
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Net Intelligence Division position reduction.....	1
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Net encumbered positions eliminated, all activities.....	18
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## Vacant positions that will not be filled:

Chief, technical branch, audit division.....	1
Secretary, chief, intelligence division.....	1

Total.....	2
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Net reduction of positions.....	20
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COMMISSIONER OF INTERNAL REVENUE,  
Washington, D.C., February 6, 1978.

Hon. WILLIAM D. HATHAWAY,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR HATHAWAY: This is to inform you of some organizational changes we are making in the Augusta IRS District Office.

Last April, Secretary Blumenthal directed IRS to review its organization as part of President Carter's governmentwide reorganization project. I then appointed a study group of senior IRS and Treasury executives headed by the Deputy Commissioner to conduct a comprehensive study of the IRS. My charge to them was that, while I was obviously concerned about costs, I wanted recommendations which would result in a more effective and efficient organization—an IRS which would also be more responsive to taxpayers' needs for service and assistance.

The study group found a much higher percentage of administrative overhead to operating personnel in the small districts. This resulted in higher operating costs, excessive levels of supervision and the diversion of skilled personnel from front-line taxpayer assistance and compliance work.

The study group members recommended "streamlining" the smaller district offices by eliminating intervening levels of management between the District Director and the front-line taxpayer assistance and compliance group managers. They also proposed that small district offices should receive administrative and support services from an adjacent larger district office where economies of scale and specialized personnel are available. Services to the public will be maintained at current levels and, over the long run, will probably be improved. The District Director will become involved more directly in the taxpayer service and compliance activities of the district office. These changes will be gradually phased in to avoid or reduce any adverse effect on employees.

The changes for the Augusta District Office involve phasing out the positions of Chief for the Audit, Collection and Taxpayer Service, and Intelligence Divisions and having the supervisors for these activities report directly to the District Director. The Administration Division will be phased out and its functions performed by the Boston, Massachusetts District although there will be an administrative generalist assigned in the Office of the Director in Augusta to provide on-site support and assistance. Internal paper and record processing and review activities for Audit, Collection, and Intelligence will also be provided from Boston.

No services to the public will be removed from the Augusta District; they will continue to be provided and managed by IRS personnel assigned and located in Maine.

We are committed to an orderly change with no diminution of service to the public, and we will avoid or minimize any adverse effect on our employees. In keeping with President Carter's directive and the long-standing IRS policy we will phase in the changes over a period of time in order to minimize any impact on the affected employees and provide suitable placements for these employees to the maximum extent possible.

Should you desire more details on exactly how the Augusta District Office will be affected by these changes, Mr. John J. Jennings, the Augusta District Director, will be available to discuss them at your convenience.

With kind regards,  
Sincerely,

JEROME KURTZ,  
*Commissioner.*

Senator HATHAWAY. Mr. Chairman, I appreciate your holding these hearings in the first place, and I just wanted to ask Mr. Kurtz a few questions about what is going to happen to the district office in Augusta, Maine

How many offices altogether are you cutting back on?

Mr. KURTZ. Twelve.

Senator HATHAWAY. And Augusta is one of them.

Could you tell us what the staff reduction will actually be at that office?

Mr. KURTZ. Yes; if I may have just a moment to find it.

The Augusta district will have a net reduction of 20 positions of which 2 are now vacant, so it will be 18 positions which are now encumbered.

Senator HATHAWAY. And how many positions are there right now altogether.

Mr. KURTZ. I can get that also, if you will just wait a minute.

As of January 1978, 242.

Senator HATHAWAY. 242 and you are going to subtract 18 from that?

Mr. KURTZ. Yes, sir.

Senator HATHAWAY. Another figure had been circulated—I forget what it was, but it was 50 or more that got into the papers. Was that your preliminary figure? Where did that come from?

Mr. KURTZ. We had no preliminary figure.

The organizational review group released its recommendations before particular numbers were assigned. They were, in a sense, schematic recommendations.

One of the recommendations was that there be a centralization of certain paper processing and terminal facilities. When the implementation group got into it, they recommended that that not be done.

Now, the 50 or 60 figure—and I have seen those figures around—was never our figure, although if one took the organizational group's initial recommendation and assigned to it the maximum possible changes, I believe that one could have come up with members in those areas.

But that decision involved—

Senator HATHAWAY. But that was never an official figure?

Mr. KURTZ. It was never an official figure, although I understand how it could have been derived. But the recommendation for centralization of terminal facilities and things of that kind in a prime district has been abandoned.

Senator HATHAWAY. Well, what are the 18 people doing that you are going to cut back?

Mr. KURTZ. I can give it to you one by one.

Senator HATHAWAY. No, not necessarily, just the —

Mr. KURTZ. Well, of the 18 positions, 11 are in the administration division—personnel offices, facility management specialists, supply clerks, things of that kind.

Three are Audit Division, three are Collection Division, one is Intelligence Division. In each of those cases, they are the supervisory type of positions and their secretarial support.

Senator HATHAWAY. What is intelligence? Is that tied in with the CIA?

Mr. KURTZ. We are changing the name of our Intelligence Division to Criminal Investigations as part of this reorganization, to make this title more descriptive of their functions.

Senator HATHAWAY. When will this reorganization be put into effect?

Mr. KURTZ. Well, our plans were to implement the district streamlining on a phase-in basis by the end of February 1979.

Senator HATHAWAY. 1979, I see.

Now, will this result in any cutback in services to the people?

Mr. KURTZ. No; absolutely not, Senator Hathaway.

Senator HATHAWAY. And what will happen to the 18 people? Are they going to get jobs?

Mr. KURTZ. Well, some will. As I mentioned, we have had a freeze on filling vacancies as they occur for those positions that these people might be able to fill. To the extent possible, we will do that.

As to the others, we will work one by one to try to find positions within the district, with other Federal agencies in the area, or whatever. I, of course, cannot guarantee that we will be able to place every individual in the same office where they are today.

Senator HATHAWAY. But an effort will be made to do something?

Mr. KURTZ. Yes; and every one will be offered employment with the Service. What I cannot guarantee is that it will be in the same location and, of course, that would present a problem to the individual.

— Senator HATHAWAY. Yes.

Now, it has been mentioned that this is just a first step, and that it is 18 next year, but then after that it is going to be more and more and more. Is that correct?

Mr. KURTZ. No. There are absolutely no present plans to do anything further affecting these districts.

Now, let me say that the personnel in districts varies over time, depending on workload changes, and workload changes depend on population shifts, on return filings patterns and things like that. Those things go on continuously year after year, so there are additions to districts and subtractions from districts over time, and that, of course, will continue. But there are no further plans of any kind for any further reorganizational changes within these districts.

Senator HATHAWAY. Fine. Thank you, Mr. Kurtz.

Thank you, Mr. Chairman.

Senator HASKELL. Commissioner, I just wondered, are there any other reorganization plans affecting the Internal Revenue Service in the mill?

Mr. KURTZ. Well, I mentioned the single level of appeal which we have published as a notice of procedural rulemaking that we will be holding hearings on.

Senator HASKELL. I mean within the walls of the Internal Revenue Service and unknown to the public and the Finance Committee, are there any other plans for reorganization?

Mr. KURTZ. No; no reorganizational changes, but we are always studying new technologies and new methods. We would not consider that an organizational change.

For example, over the last several years we have done some consolidation of phone answering sites as equipment has improved and we find that we can more efficiently handle it. That may go on and other things may develop.

I would certainly be remiss to sit here and guarantee that we will not change—we will change. But there is nothing that—

Senator HASKELL. I think change is desirable. My only comment, sir, is that when you make a change which affects the relationship of the IRS—or is perceived to affect the relationship of the IRS to the public, just as a suggestion, it might be helpful if you could on an informal basis, talk to members of the Senate Finance Committee and the Ways and Means Committee and perhaps some of these problems could be ironed out in advance.

That is just one person's view of the matter.

Mr. KURTZ. I happily accept that advice.

Senator HASKELL. I do not have any further questions.  
Senator Roth?

Senator ROTH. Mr. Commissioner, you say these recommendations are basically the result of a new 5-month study? But there have been at least two proposals, one in 1963 and one in 1970, to do much the same thing to the smaller offices. Is that correct?

Mr. KURTZ. No; I think the prior recommendations were different in one fundamental respect, and that is that they had recommended the elimination of some of the smaller district offices. That is an aspect of these proposals—

Senator ROTH. Was that true in 1963?

Mr. KURTZ. That is long before I was here.

Mr. WILLIAMS. Yes; Senator. The 1963 proposals did recommend, initially, I believe, the elimination of the district directors' positions as such in the small districts. That recommendation was further modified to provide that the district director would remain, but the major programs for which he was responsible would have been managed by a nearby, larger district.

The IRS considered those recommendations at that time. They were further considered again in 1970. In the opinion of the senior officials of the service who conducted the 1978 study, as well as the Commissioner, it was concluded we should have a district director in every State who can maintain liaison with the State tax department and the Governor, who can maintain liaison with practitioner groups, and who can be the senior official representing the Commissioner in that State.

So it was a unanimous position on our part that District Directors should remain so that this is not, in any way, the same type of recommendation that occurred in 1963.

Senator ROTH. Well, let me just make a couple of comments. First of all, in going back and looking at some of the earlier records, it would appear to be very similar. Now, perhaps there was a proposal to eliminate certain offices but I have a paper dated March 5, 1963, where most of the same States were to be affected—

Mr. WILLIAMS. I believe there were 15 States affected at that time—

Senator ROTH. And your study then proposed to eliminate most of the managerial positions and the District Director by having the nearest large district provide the necessary technical staff support and perform other processing and support activities. In general, the positions that were to be affected were all Division Chiefs and Branch Chiefs, their assistants and clerical staffs, most positions in the 2,100 activities audit service, review staff, personnel branch and facilities management branch.

Now, we can sit here and argue of course, but that appears to be very similar to this new proposal.

My predecessor, Senator Williams, who probably knew more about taxes than most people in Washington, played a very key role in preventing that reorganization from going through.

I understand that Mr. Williams has been involved in this area since 1963.

So it seems that this has been a long-time game plan on the part of the service to reduce in some measure the District Offices in smaller States and it bothers me.



Mr. Commissioner—and let me say, first of all, that I have great respect for you and I am not questioning your motives or desires—I think in Washington we have become too ivory-towered. Whenever we talk about efficiency or effectiveness, it really means centralization. Instead of centralizing authority in Washington, the thrust should be in better service and an efficient service to the people, to the taxpayers themselves.

Now, in our discussions earlier, Mr. Commissioner you said this proposal would in no way reduce any services to Delaware, and I specifically raised the question of the Kent and Sussex offices.

But in the paper on May 4, I read, “IRS Cut Hours in Kent and Sussex,” and discover that you are limiting the hours in which a taxpayer can get taxpayer service.

Yesterday, a Delaware taxpayer went into the Dover IRS office at 4 o'clock.

The office was open but he could not get the forms he requested because the taxpayer service desk was closed. He was told to go by Wilmington to get the forms.

That is a small incident and there may be some kind of an explanation. But the thing that bothers me, is that nowhere in any of your studies was there anyone to really consider the taxpayer's point of view, and I just think the thrust is in entirely the wrong direction. I know that tomorrow and 6 months later, despite the sincerity of the Commissioner, that if they want to make further changes, they will find changed circumstances to justify it.

Mr. KURTZ. Senator, if I could say a word, Senator, I think we all take the part of the taxpayer in rendering service, and I would be the first to admit that the service we render is not good enough and our goal is to make it better, but we have severe limitations imposed in personnel and on budget and what we are constantly trying to do, and what this reorganization is a part of, is trying to use our resources to provide better service.

There is no excuse, let me say, for a taxpayer going into an office that is open and not being able to get forms, and I will look into that.

Senator ROTH. There is no sense in this proposal. I do not see how you can get better service by taking the people away from the people they are trying to serve.

How many people are being reduced, say, in the Washington office as a result of these studies?

Mr. KURTZ. There is no reduction in the Washington office as a result of this. There is no increase and there has been, over the years, a decrease in the proportion of the Internal Revenue Service quartered in Washington, a significant decrease.

Senator ROTH. Well, unfortunately, most of the cases, when you ask that question, it does not make any difference what department it is, usually the home office is growing.

Mr. KURTZ. No; that is not the case here. I can give you the figures year by year from 1956 on. There has been a constant reduction, percentage reduction.

Mr. WILLIAMS. Mr. Chairman, if I could, I would like to make a comment on Senator Roth's reference to the 1963 study. I was not involved in the 1963 study. In fact, I was in the field at that time, and my job was eliminated as a result of that study.

**Senator ROTH.** Were you involved in the 1970 study?

**Mr. WILLIAMS.** I was involved in the 1970 study in which this recommendation was not finally made. I was a member of that study group. I had no involvement with the 1963 study.

**Senator ROTH.** It is my understanding that in the 1970 study there was a recommendation to eliminate district offices.

**Mr. WILLIAMS.** The initial considerations of the group considered this because of the same concerns that were raised in 1968, but I believe that the final recommendation was not made to the Secretary.

I also would like to attempt to delineate the recommendations that were made in 1963 with the current ones. In 1963, the programs of collection, audit, intelligence and so forth would have been managed by the nearby larger district or, in this case the prime district. In our recommendations today, the District Director in the streamlined district will have the total responsibility. The nearby District Director will not be managing those programs, and that is a very important distinction, I think, between those two sets of recommendations.

**Senator ROTH.** I want to ask two more questions. I am not a specialist in your procedures, but one of the things that concerns me and obviously concerns Senator Pell is that by having these functions in each State, agents develop a certain amount of specialization. I cannot go along with your statement that there will be more specialization if these functions are moved to Philadelphia. I doubt very seriously, in the case of the Philadelphia office, that agents are going to develop the expertise on the broiler industry there, which is an important agricultural industry in my State or the chemical industry, and that is a matter of great concern.

We talk about improving, being more efficient and more effective. Now, as a result of this reorganization, we are going to have eight men reporting to the District Director instead of to these group chiefs.

Now, I do not know of any business school in the country which would teach that expanding the number of people that report to the head improves efficiency. Maybe that is a new development.

The District Director cannot be a specialist in all of these areas and he is going to have to go to the Director of the Philadelphia office to receive advice and counseling, and those people are not going to be reporting to him, and they are going to be reporting to another director in another State, are they not?

**Mr. KURTZ.** No.

**Senator ROTH.** Who will they be reporting to then?

**Mr. KURTZ.** I am not clear why he would be going to Philadelphia.

**Senator ROTH.** Did you not make the statement that there would be greater specialization in the prime offices and the review and other—

**Mr. KURTZ.** Among the reviewers, but that does not imply an absence of specialization in the remaining revenue agents and group chiefs which will be in Wilmington.

**Senator ROTH.** But I am saying that, at the review level, our District Director will be dealing with people in the Philadelphia office, will he not?

**Mr. KURTZ.** With the reviewer.

**Senator ROTH.** That is right.

Mr. KURTZ. But the reviewer will be responsible—a reviewer reviewing Wilmington cases will be responsible to the District Director in Wilmington.

Senator ROTH. As far as his personal job, who will be responsible to him? Who will have control of his promotions and his ratings?

Mr. KURTZ. Philadelphia.

Senator ROTH. I think, Mr. Chairman, that that proves the point I am trying to make, that despite the best of intentions, there is no question but those reviewers and other personnel in the Philadelphia office are going to be responsive to those who are responsible for their career futures. That is just human nature.

Mr. KURTZ. I might just add, Mr. Chairman, in this regard, that our estate tax returns have been reviewed in Philadelphia for about 10 years. Our excise tax returns in Wilmington are reviewed in Newark. Our Joint Committee cases are reviewed in Philadelphia.

The District Director in Wilmington will be providing data to the District Director in Philadelphia on the quality of the review work which can be used in evaluating those reviewers and determining their promotions.

Senator ROTH. I recognize that, but the final decisionmaking will be done in Philadelphia.

Mr. KURTZ. It will be done in Wilmington. The final decisionmaking will be done in Wilmington.

Senator ROTH. Not decisionmaking, but I mean as far as the career evaluations and so forth, the final analysis will be done by the Philadelphia office.

Mr. KURTZ. Yes, which is very much similar to the way we do it today.

Senator ROTH. Mr. Chairman—I have questions here from Senator Schmitt and from Senator McGovern but rather than take the time, I would ask that they be submitted in writing.

Senator HASKELL. They will be submitted in writing and, Commissioner, I would ask that you respond in writing, possibly within a week.

Mr. KURTZ. We would be pleased to do that.

Senator ROTH. Thank you, Mr. Chairman.

Senator HASKELL. Thank you, gentlemen, very much indeed.

[Attachments to the IRS testimony and revision responses to questions follow:]

ALBUQUERQUE DISTRICT

Attachment 1

SUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:		
Chief, Administration Division	1	
Secretary	1	
Facilities Specialists	3	
Personnel Specialists	2	
Training Specialist	1	
Management Analyst	1	
Clerks	<u>5</u>	
Total positions eliminated		16
New positions created:		
Administrative Officer	1	
Secretary	<u>1</u>	
Total positions created		2
Net Administration positions eliminated		12

AUDIT DIVISION

Positions eliminated:		
Chief, Audit Division	1	
Secretary	1	
Chief, Service Branch	1	
Reviewers	3	
Returns Program Manager	1	
Classifier	1	
Clerk	<u>2</u>	
Total positions eliminated		10
New positions created:		
Audit Section Chief	1	
Secretary	1	
Chief, Centralized Services	1	
Overstaff - Revenue Agents	4	
Overstaff - Tax Auditor	<u>1</u>	
Total positions created		8
Net Audit Positions Eliminated		2

COLLECTION & TAXPAYER SERVICE DIVISION

Positions eliminated:		
Chief, Collection & Taxpayer Service	1	
Secretary	1	
Chief, Office Branch	1	
Cash Clerk	<u>1</u>	
Total positions eliminated		4
New positions created:		
Overstaff - Revenue Officer	1	
Overstaff - Taxpayer Service Specialist	<u>1</u>	
Total positions created		2
Net Positions Eliminated		2

INTELLIGENCE DIVISION

Positions eliminated:		
Chief, Intelligence Division	1	
Secretary	<u>1</u>	
Total positions eliminated		2
New positions created:		
		0
Net Intelligence positions eliminated		<u>2</u>
TOTAL ENGINEERED POSITION REDUCTION, ALL ACTIVITIES		
Less: Positions not to be filled: Personnel Specialist		<u>18</u>
NET REDUCTION OF POSITIONS		<u>19</u>

AUGUSTA DISTRICT

Attachment 1

SUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:		
Chief, Administration Division	1	
Secretary, Chief, Administration	1	
Personnel Officer	1	
Personnel Management Officer	1	
Facilities Management Specialist	1	
Administrative Assistant Trainee	1	
Clerk-Typist	3	
Supervisor, Support Services	1	
Time and Leave Clerk	1	
Supply Clerk	1	
Management Assistant	<u>1</u>	
Total positions eliminated		13
New positions created:		
Administrative Officer	1	
Secretary	<u>1</u>	
Total new positions		<u>2</u>
Net Administration Position Reduction		11

AUDIT DIVISION

Positions eliminated:		
Chief, Audit Division	1	
Secretary	1	
Senior Reviewer	1	
Reviewer	1	
Secretary, Chief, Review	1	
Returns Program Manager	1	
Supervisor, Service Branch	1	
Classification Control Clerk	1	
Clerk	<u>1</u>	
Total positions eliminated		9
New positions created:		
Section Chief	1	
Secretary	1	
Chief, Centralized Services	1	
Overstaff Revenue Agents	<u>3</u>	
Total new positions		<u>6</u>
Net Audit Position Reduction		3

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:		
Chief, Collection & Taxpayer Service	1	
Secretary	1	
Chief, Office Branch	1	
Accounts Maintenance Clerk	<u>1</u>	
Total positions eliminated		4
New positions created:		
Revenue Officer	<u>1</u>	
Total new positions		<u>1</u>
Net Collection & Taxpayer Service Reduction		3

AUGUSTA DISTRICT (CONTINUED)

-2-

INTELLIGENCE DIVISION

Positions eliminated:			
Chief, Intelligence Division	<u>1</u>		
Total positions eliminated		1	
New positions created:	<u>0</u>		
Total positions created		<u>0</u>	
Net Intelligence Division Position Reduction			<u>1</u>
NET ENCUMBERED POSITIONS ELIMINATED, ALL ACTIVITIES			10
Vacant Positions that will not be filled:			
Chief, Technical Branch, Audit Division		1	
Secretary, Chief, Intelligence Division	<u>1</u>		
NET REDUCTION OF POSITIONS			<u>2</u> 20

PORTSMOUTH DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:		
Chief, Administration Division	1	
Secretary	1	
Personnel Specialists	2	
Administration/Management Assistants	2	
Facilities Specialist	1	
Clerks	<u>3</u>	
Total positions eliminated		10
New positions created:		
Administration Officer	1	
Secretary	<u>1</u>	
Total new positions		<u>2</u>
Net Positions Eliminated		8

AUDIT DIVISION

Positions eliminated:		
Chief, Audit Division	1	
Secretary	1	
Reviewers	2	
Returns Program Manager	1	
Chief, Services Branch	1	
Clerk	<u>1</u>	
Total positions eliminated		7
New positions created:		
Audit Section Chief	1	
Secretary	1	
Chief, Centralized Services	1	
Overstaff - Revenue Agents	<u>3</u>	
Total new positions		<u>6</u>
Net Positions Eliminated		1

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:		
Chief, Collection & Taxpayer Service	1	
Secretary	1	
Chief, Office Branch	1	
Remittance Clerk	<u>1</u>	
Total positions eliminated		4
New positions created:		
Overstaff - Revenue Officer	<u>1</u>	
Net Positions Eliminated		3

INTELLIGENCE DIVISION

Positions eliminated:		
Chief, Intelligence Division	1	
Secretary	<u>1</u>	
Total positions eliminated		2
New positions created:		
	<u>0</u>	
Net Positions Eliminated		<u>2</u>
TOTAL ENCUMBERED POSITION REDUCTION, ALL ACTIVITIES		14

BURLINGTON DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:			
Chief, Administration Division	1		
Secretary	1		
Facilities Specialists	2		
Personnel Specialists	2		
Training Specialist	1		
Clerks	<u>2</u>		
Total positions eliminated		9	
New positions created:			
Administrative Officer	1		
Secretary	<u>1</u>		
Total new positions		<u>2</u>	
Net Administration positions eliminated			7

AUDIT DIVISION

Positions eliminated:			
Chief, Audit Division	1		
Secretary	1		
Returns Program Manager	1		
Clerks	2		
Computation Reviewers	<u>1</u>		
Total positions eliminated		6	
New positions created:			
Overstaff Revenue Agents	2		
	<u>2</u>	<u>2</u>	
Net Audit positions eliminated			4

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:			
Chief, Collection and Taxpayer Service	1		
Secretary	1		
Chief, Office Branch	1		
Cash Clerk	<u>1</u>		
Total positions eliminated		4	
New positions created:			
Overstaff Revenue Officer	1		
Chief, Centralized Services	<u>1</u>		
Total new positions		<u>2</u>	
Net Collection & Taxpayer Service positions eliminated			2

INTELLIGENCE DIVISION

Positions eliminated:			
Chief, Intelligence Division	1		
Secretary	<u>1</u>		
Total positions eliminated		2	
New positions created:			
Group Manager	1		
Secretary	<u>1</u>		
Total new positions		<u>2</u>	
Net Intelligence positions eliminated			<u>0</u>

TOTAL ENCUMBERED POSITIONS REDUCTION, ALL ACTIVITIES			13
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Vacant positions not to be filled:			
Chief, Audit Service Branch			<u>1</u>

NET REDUCTION OF POSITIONS			14
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PROVIDENCE DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:		
Chief, Administration Division	1	
Secretary	1	
Facilities Specialists	3	
Personnel Specialists	2	
Administrative Assistant	1	
Secretaries and Clerks	<u>6</u>	
Total positions eliminated		14
New positions created:		
Administrative Officer	1	
Secretary	<u>1</u>	
Total new positions		<u>2</u>
Net Administration positions eliminated		12

AUDIT DIVISION

Positions eliminated:		
Chief, Audit Division	1	
Secretary	1	
Returns Program Manager	1	
Clerk	1	
Reviewers	3	
Chief, Service Branch	<u>1</u>	
Total positions eliminated		8
New positions created:		
Overstaff Revenue Agents	4	
Audit Section Chief	1	
Secretary	1	
Chief, Centralized Services	<u>1</u>	
Total new positions		<u>7</u>
Net Audit positions eliminated		1

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:		
Chief, Collection and Taxpayer Service	1	
Secretary	1	
Chief, Office Branch	1	
Chief, Analysis and Comp. Section	1	
Cash Clerk	<u>1</u>	
Total positions eliminated		5
New positions created:		
Overstaff Revenue Officer	1	
Overstaff Taxpayer Service Specialist	1	
Chief, Collection Section	1	
Secretary	<u>1</u>	
Total new positions		<u>4</u>
Net Collection & Taxpayer Service positions eliminated		1

INTELLIGENCE DIVISION

Positions eliminated:		
Chief, Intelligence Division	1	
Secretary	<u>1</u>	
Total positions eliminated		<u>2</u>
TOTAL ENCUMBERED POSITIONS REDUCTION, ALL ACTIVITIES		16
Vacant positions not to be filled:		
Personnel Specialist	1	
Clerks	<u>2</u>	
Total vacant positions not to be filled		<u>3</u>
NET REDUCTION OF POSITIONS		19

WILMINGTON DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:		
Chief, Administration Division	1	
Secretary	1	
Chief, Personnel	1	
Training Specialist	1	
Management Assistant	1	
Supply Specialist	1	
Clerk	3	
Total positions eliminated		9
New positions created:		
Administration Officer	1	
Secretary	1	
Total new positions		2
Net Administration Division positions eliminated		7

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:		
Chief, Collection and Taxpayer Service	1	
Secretary	1	
Chief, Office Branch & SPS	1	
Remittance Clerk	1	
Secretary	1	
Total positions eliminated		5
New positions created:		
Overstaff Revenue Officers		2
Net Collection and Taxpayer Service position reduction		3

AUDIT DIVISION

Positions eliminated:		
Chief, Audit Division	1	
Secretary	1	
Chief, Service Branch	1	
Reviewers	3	
Clerk	1	
Total positions eliminated		7
New positions created:		
Audit Section Chief	1	
Secretary	1	
Chief, Centralized Services	1	
Overstaff Revenue Agent	3	
Total new positions		6
Net Audit Division positions eliminated		1

INTELLIGENCE DIVISION

Positions eliminated:		
Chief, Intelligence Division	1	
Secretary	1	
Total positions eliminated		2
NET ENCUMBERED POSITIONS ELIMINATED, ALL ACTIVITIES		
Vacant Positions not to be Filled - Returns Program Manager		13
TOTAL POSITIONS ELIMINATED		14

ABERDEEN DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:		
Chief, Administration Division	1	
Secretary	1	
Facilities Specialists	1	
Personnel Specialists	2	
Administrative Assistant	1	
Clerks	<u>2</u>	
Total positions eliminated		9
New positions created:		
Administrative Officer	1	
Secretary	<u>1</u>	
Total new positions		<u>2</u>
Net Administration positions eliminated		7

AUDIT DIVISION

Positions eliminated:		
Chief, Audit Division	1	
Secretary	1	
Returns Program Manager	1	
Reviewers	2	
Chief, Service Branch	<u>1</u>	
Total positions eliminated		6
New positions created:		
Overstaff Revenue Agents	3	
Audit Section Chief	1	
Secretary	1	
Chief, Centralized Services	<u>1</u>	
Total new positions		<u>6</u>
Net Audit positions eliminated		0

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:		
Chief, Collection and Taxpayer Service	1	
Secretary	1	
Chief, Office Branch	1	
Cash Clerk	<u>1</u>	
Total positions eliminated		4
New positions created:		
Overstaff Revenue Officer	<u>1</u>	
Total new positions		<u>1</u>
Net Collection & Taxpayer Service positions eliminated		3

INTELLIGENCE DIVISION

Positions eliminated:		
Chief, Intelligence Division	1	
Secretary	<u>1</u>	
Total positions eliminated		2
New positions created:		
Group Manager	1	
Secretary	<u>1</u>	
Total new positions created		<u>2</u>
Net Intelligence positions eliminated		<u>2</u>

NET REDUCTION OF POSITIONS

10

FARGO DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:		
Chief, Administration Division	1	
Secretary	1	
Facilities Specialists	1	
Personnel Specialists	2	
Clerks and Trainee	<u>3</u>	
Total positions eliminated		8
New positions created:		
Administrative Officer	1	
Secretary	<u>1</u>	
Total new positions		<u>2</u>
Net Administration positions eliminated		6

AUDIT DIVISION

Positions eliminated:		
Chief, Audit Division	1	
Secretary	1	
Returns Program Manager	1	
Classification Clerk	1	
Chief, Service Branch	<u>1</u>	
Total positions eliminated		5
New positions created:		
Overstaff Revenue Agents	1	
Audit Section Chief	1	
Secretary	1	
Chief, Centralized Services	<u>1</u>	
Total new positions		<u>4</u>
Net Audit positions eliminated		1

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:		
Chief, Collection and Taxpayer Service	1	
Secretary	<u>1</u>	
Total positions eliminated		2
New positions created:		
Net Collection & Taxpayer Services positions eliminated		- 0 -
		2

INTELLIGENCE DIVISION

Positions eliminated:		
Chief, Intelligence Division	1	
Secretary	<u>1</u>	
Total positions eliminated		2
New positions created:		
Group Manager	1	
Secretary	<u>1</u>	
Total new positions		2
Net Intelligence positions eliminated		- 0 -

TOTAL ENCUMBERED POSITIONS ELIMINATED		9
Vacant positions not to be filled:		
Computation Reviewer		<u>1</u>
NET REDUCTION OF POSITIONS		10

CHRYSLER DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:			
Chief, Administration Division	1		
Secretary, Chief, Administration Div.	1		
Personnel Officer	1		
Facilities Management Officer	1		
Public Affairs/Training	1		
Clerk Typist	1		
Supply Technician	1		
Clerk (Temporary)	2		
Total Administration positions eliminated		9	
New Positions Created:			
Administrative Officer	1		
Secretary	1		
Total new positions		2	
Net Administration position reduction			7

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:			
Chief, Administration Division	1		
Secretary, Chief, Administration	1		
Chief, Office Branch	1		
Total positions eliminated		3	
New Positions Created:			
Chief, Centralised Services	1		
Revenue Officer in Overstaff position	1		
Total new positions		2	
Net Collection & Taxpayer Service position reduction			1

AUDIT DIVISION

Positions eliminated:			
Chief, Audit	1		
Secretary, Chief Audit	1		
Reviewers	2		
Returns Program Manager	1		
Total Audit positions eliminated		5	
New positions created:			
Revenue Agents in Overstaff positions		6	
Net Audit position reduction			1

INTELLIGENCE DIVISION

Positions eliminated:			
Chief, Intelligence Division	1		
Secretary	1		
Total Intelligence Division positions eliminated		2	
New Positions Created:			
Special Agent in Overstaff position		1	
Net Intelligence position reduction			1

NET ENCUMBERED POSITIONS ELIMINATED, ALL ACTIVITIES 10

NET REDUCTION OF POSITIONS 10

BOISE DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:		
Chief, Administration Division	1	
Secretary	1	
Facilities Management Officer	1	
Facilities Management Assistant	1	
Personnel Officer and Specialist	2	
Public Affairs	1	
Clerk Typist	2	
Personnel Clerk	1	
Supply Clerk	4	
Total positions eliminated		14
New positions created:		
Administrative Officer	1	
Secretary	<u>1</u>	
Total new positions		<u>2</u>
Net Administration positions eliminated		12

AUDIT DIVISION

Positions eliminated:		
Chief, Audit Division	1	
Secretary	1	
Returns Program Manager	1	
Clerk Steno	1	
Reviewer	1	
Chief, Service Branch	<u>1</u>	
Total positions eliminated		6
New positions created:		
Overstaff Revenue Agents	2	
Audit Section Chief	1	
Secretary	1	
Chief, Centralized Services	<u>1</u>	
Total new positions		<u>5</u>
Net Audit positions eliminated		1

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:		
Chief, Collection and Taxpayer Service	1	
Secretary	1	
Remittance Clerk	<u>1</u>	
Total positions eliminated		3
New positions created:		
Overstaff Revenue Officer	<u>1</u>	
Total new positions		<u>1</u>
Net Collection & Taxpayer Service positions eliminated		2

INTELLIGENCE DIVISION

Positions eliminated:		
Chief, Intelligence Division	1	
Secretary	<u>1</u>	
Total positions eliminated		<u>2</u>
TOTAL ENCOMPASSED POSITIONS REDUCTION, ALL ACTIVITIES		
		17
Vacant positions not to be filled:		
Chief, Office Branch	1	
Total vacant positions not to be filled		<u>1</u>
NET REDUCTION OF POSITIONS		
		18

Attachment :

HELENA DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:			
Chief, Administration Division	1		
Facilities Officer & Specialist	2		
Personnel Officer & Assistant	2		
Public Affairs Officer	1		
Clerk & Personnel Clerk	2		
	<u>1</u>		
Total positions eliminated		8	
New positions created:			
Administrative Officer	1		
	<u>1</u>		
Total new positions		1	
Net Administration positions eliminated			7

AUDIT DIVISION

Positions eliminated:			
Chief, Audit Division	1		
Secretary	1		
Returns Program Manager	1		
Clerk & Clerk Typist	2		
Reviewer	1		
	<u>1</u>		
Total positions eliminated		6	
New positions created:			
Overstaff Revenue Agents	2		
Audit Section Chief	1		
Secretary	1		
	<u>1</u>		
Total new positions		4	
Net Audit positions eliminated			2

COLLECTION AND TAXPAYER SERVICE DIVISION

Positions eliminated:			
Chief, Collection and Taxpayer Service	1		
Secretary	1		
Chief, Office Branch	1		
	<u>1</u>		
Total positions eliminated		3	
New positions created:			
Overstaff Revenue Officer	1		
Chief, Centralized Services	1		
	<u>1</u>		
Total new positions		2	
Net Collection & Taxpayer Service positions eliminated			1

INTELLIGENCE DIVISION

Positions eliminated:			
Chief, Intelligence Division	1		
Secretary	1		
	<u>1</u>		
Total positions eliminated		2	
New positions created:			
Group Manager	1		
Group Clerk	1		
	<u>1</u>		
Total new positions		2	
Net Intelligence positions eliminated			0
TOTAL ENGINEERED POSITION REDUCTION, ALL ACTIVITIES			10
NET REDUCTION OF POSITIONS			10

SALT LAKE CITY DISTRICTSUMMARY OF POSITIONS AFFECTED BY ORGANIZATIONAL CHANGESADMINISTRATION DIVISION

Positions eliminated:		
Chief, Administration Division	1	
Secretary, Chief Administration	1	
Chief, Personnel	1	
Training Officer	1	
Facilities Management Officer	1	
Personnel Management Specialist	1	
Facilities Management Technician	1	
Personnel Assistant	1	
General Supply Specialist	1	
	<u>1</u>	
Total positions eliminated		9
New positions created:		
Administrative Officer	1	
Secretary	1	
	<u>1</u>	
Total new positions		<u>2</u>
Net Administration position reduction		7

COLLECTION & TAXPAYER SERVICE DIVISION

Positions eliminated:		
Chief, Collection & Taxpayer Service	1	
Secretary, Chief, Collection & Taxpayer Serv.	1	
Cash Clerk	1	
Chief, Office Branch	1	
	<u>1</u>	
Total positions eliminated		4
New positions created:		
Revenue Officer in overstaff position	1	
Section Chief, Collection	1	
Secretary to Section Chief, Collection	1	
	<u>1</u>	
Total new positions		<u>3</u>
Net Collection & Taxpayer Service Position reduction		1

AUDIT DIVISION

Positions eliminated:		
Chief, Audit Division	1	
Secretary, Chief Audit	1	
Returns Program Manager	1	
Clerk-Typist	1	
Reviewer	1	
Supervisor, Tax Examiner	1	
	<u>1</u>	
Total positions eliminated		6
New positions created:		
Section Chief	1	
Secretary to Section Chief	1	
Revenue Agents in Overstaff Position	2	
Chief, Centralized Services	1	
	<u>1</u>	
Total new positions created		<u>5</u>



## SALT LAKE CITY DISTRICT - CONTINUED

-2-

INTELLIGENCE DIVISION

Positions eliminated:			
Secretary, Chief Intelligence	<u>1</u>	1	
New positions created:			
None		<u>0</u>	
Total new positions created			0
Net Intelligence Position Reduction			<u>1</u>
TOTAL ENCUMBERED POSITION REDUCTION, ALL ACTIVITIES			10
Vacant positions not to be filled:			
Clerk	1		
Chief, Technical Branch	1		
Chief, Intelligence	<u>1</u>		
Total vacant positions not to be filled			<u>3</u>
NET REDUCTION OF POSITIONS			13

Revision  
Responses to Questions  
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May 10, 1978 Senate Hearing  
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Senator Schmitt:

- Q. One of the functions presently assigned to the Returns Program Manager in Albuquerque, the classification of tax returns for audit, will be temporarily performed in Austin, Texas. How long will this arrangement last? What will happen to this function when it is no longer performed in Austin? Will it be performed in the Denver "Prime District" office? Or will it be assigned to the District Director in Albuquerque?
- A. The reorganization plan calls for the elimination of the Returns Program Manager position in Albuquerque. It also provides that the classification of returns for examination by the Albuquerque District Office will be done at the IRS Service Center at Austin, Texas. The classification of Albuquerque returns will be done by technical personnel of the Albuquerque District who will periodically travel to Austin to classify and select returns for examination. As workload levels demand, Albuquerque will request shipment of the classified returns to New Mexico for examination. The Denver District Office will in no way be included in the process of classifying and selecting tax returns for examination in New Mexico.

Senator McGovern

1. Q. The District Director of the IRS office in Aberdeen is a personnel management specialist and has spent the greater part of his career within IRS in the personnel field.
- Do you believe that, given his background, he will be capable of functioning in the technical areas of collection and criminal investigations?
- A. We are firmly convinced that the District Director in Aberdeen, and the Directors in the other 11 streamlined districts, will be capable of functioning well in all the technical areas assigned to a district office. They are, under the present organization, very much involved in the technical aspects of collection and criminal investigations. Many key and sensitive decisions in cases in both functions can now only be made by the District Director personally. In addition, there are section chiefs or group managers within each of the functions who can assist the Director on technical issues.

-2-

All IRS District Directors are graduates of the IRS Executive Selection and Development Program, which involves extensive training and developmental assignments in each of the technical functions of a district office. Following completion of the program, graduates are normally given their first assignment in an Assistant position to gain further knowledge and experience prior to an assignment as a District Director.

While the Aberdeen District Director did have experience in the management engineering field in other agencies before coming to the IRS--which has proven quite beneficial in the management of the Aberdeen District Office--his assignments with IRS have been specifically tailored to develop his technical skills in District Office functions. Each of our District Directors comes to the job with experience in a particular functional area or specialty and must learn the details of the other functions. Obviously, with the complexities of the tax laws, there will always be technical questions requiring expertise not found in the Aberdeen District. In addition to section chiefs and group managers, the Regional Office and the National Office will be available to give the Director and his staff technical assistance on complex issues. The present District Director has, of course, headed up the Aberdeen District Office for eight years in a very satisfactory manner.

2. Q. The reorganization proposal calls for elimination of two reviewer positions in the Aberdeen District Office. One of these positions presently entails at least 25 percent of the time spent in performing the functions of the Disclosure Officer. (The Disclosure Officer is presently vested with the responsibility of insuring that IRS complies with Freedom of Information Act requests and the privacy statutes (sic) established under the United States Code and the Internal Revenue Personnel Manual).

When the reviewer positions are eliminated in Aberdeen, who will take over the functions of the Disclosure Officer?

- A. While the reviewer positions in Aberdeen will be eliminated, the incumbents of those positions will, at their option, be reassigned to other positions in the District Office. The Disclosure function will continue to be performed in the Aberdeen District, as it is in all 58 IRS District Offices. It will continue, because of workload levels, to be a part-time assignment of a technical employee.

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While the Aberdeen District Director did have experience in the management engineering field in other agencies before coming to the IRS--which has proven quite beneficial in the management of the Aberdeen District Office--his assignments with IRS have been specifically tailored to develop his technical skills in District Office functions. Each of our District Directors comes to the job with experience in a particular functional area or specialty and must learn the details of the other functions. Obviously, with the complexities of the tax laws, there will always be technical questions requiring expertise not found in the Aberdeen District. In addition to section chiefs and group managers, the Regional Office and the National Office will be available to give the Director and his staff technical assistance on complex issues. The present District Director has, of course, headed up the Aberdeen District Office for eight years in a very satisfactory manner.

2. Q. The reorganization proposal calls for elimination of two reviewer positions in the Aberdeen District Office. One of these positions presently entails at least 25 percent of the time spent in performing the functions of the Disclosure Officer. (The Disclosure Officer is presently vested with the responsibility of insuring that IRS complies with Freedom of Information Act requests and the privacy statues (sic) established under the United States Code and the Internal Revenue Personnel Manual).

When the reviewer positions are eliminated in Aberdeen, who will take over the functions of the Disclosure Officer?

- A. While the reviewer positions in Aberdeen will be eliminated, the incumbents of those positions will, at their option, be reassigned to other positions in the District Office. The Disclosure function will continue to be performed in the Aberdeen District, as it is in all 58 IRS District Offices. It will continue, because of workload levels, to be a part-time assignment of a technical employee.

Senator HASKELL. We have four more witnesses and we have a time limit on how long we can meet. Therefore, I am going to ask the other witnesses to stay within the 10-minute time limit and, if it is necessary, to submit their written testimony for the record and summarize.

Our next witness is Mr. Vincent L. Connery, national president of the National Treasury Employees Union.

**STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION (ACCOMPANIED BY: JOHN CASHIN, NTEU NATIONAL VICE PRESIDENT, NEW ENGLAND; ALBERT THORNTON, PRESIDENT, PROVIDENCE, RHODE ISLAND IRS CHAPTER; JERRY D. KLEPNER, NTEU DIRECTOR OF COMMUNICATIONS, AND MICHAEL GOLDMAN, NTEU DIRECTOR OF LEGISLATION)**

Mr. CONNERY. Mr. Chairman, I am Vincent L. Connery, president of the National Treasury Employees Union. Our Union is the exclusive representative of over 100,000 Federal workers, including 97 percent of all IRS employees. Seated with me today on my left are John Cashin, national vice president for New England; Mr. Albert Thornton, president of our Providence Rhode Island IRS Chapter; to my right, Mr. Jerry D. Klepner, NTEU director of communications; and on my far right, Michael Goldman, NTEU director of legislation.

We have prepared a detailed statement outlining, point by point, our opposition to the proposed reorganization of IRS District Offices. We ask that this statement be included in the record in its entirety.

Senator HASKELL. It will be so included.

Mr. CONNERY. For the sake of brevity, I have a few comments which I would like to make at this time.

We are firmly convinced, Mr. Chairman, that the proposed reorganization of IRS, if implemented, will have an adverse impact on the efficiency of the service, the taxpayers of many States, and a significant number of IRS employees. Despite repeated assurances from Commissioner Jerome Kurtz and his assistants, it would be virtually impossible for the 12 proposed "streamlined districts" to meet the same levels of service and efficiency as under the present structure.

Though each district would maintain its own Director—in keeping with the IRS longstanding commitment to Congress—these individuals will be little more than figureheads with only nominal control over their own district's affairs. Under the IRS plan, the middle-level management and review staff would be removed from the streamlined districts thereby eliminating many of the personnel necessary to provide the Director with technical support in their respective areas of expertise.

The Commissioner claims that the Director of each streamlined district will continue to have complete authority over all operations and will make all decisions affecting the citizens of that State. In effect, the Commissioner and his representatives are saying that all technical decisions affecting taxpayers in the streamlined districts will be made in those districts by the Director.

Anyone familiar with the IRS knows that this is impossible. For a District Director to assume the myriad duties of all of the positions



which would be removed from the streamlined districts would require an individual with broad experience and detailed technical knowledge of every facet of IRS operations, which few, if any, District Directors possess.

Most of the Directors have been trained, or have extensive experience in only one of the five or six major IRS functions. It is totally unrealistic to expect that a Director with no background in the audit function, for example, would be capable of making informed decisions in this area. Since those with the technical background and expertise would now be located in the prime district in another State, obviously they would be the ones making the decisions.

On paper, the Director of the streamlined districts will bear full responsibility for all activities within the district, however, in reality, most managerial decisions requiring any degree of expertise will have to be made in the prime district.

While all of the activities of the IRS are integral to the workings of a district, none have as traumatic an effect on taxpayers as the examination and collection functions. These divisions, which are responsible for conducting audits and securing delinquent tax returns, touch the lives of a great many individuals. It is in these areas where taxpayers and practitioners need and deserve both direct access to those making the decisions that affect them and the right to have their cases resolved as quickly as possible.

But the proposed reorganization will foster neither goal. With the removal of so many key functions from the streamlined district, taxpayers will suffer an acute loss of service in numerous ways.

Under the reorganization, the initial decision to audit a taxpayer in a streamlined district will most likely be made by managers in another State or managers who may not be familiar with the unique needs or character of the residents in the streamlined district.

In addition, because the review staff will now be located in another State, audit cases must be mailed or hand delivered back and forth between the prime and streamlined districts before final closure. Obviously, this will cause unnecessary delay to taxpayers and practitioners awaiting the finalization of their audits and increase the possibility of loss or disclosure of confidential information.

For the Commissioner to claim that the reorganization will not interrupt the flow of service to taxpayers and practitioners evidences a complete lack of candor. From the highly complex matters of audit and dispute resolution to the simple matter of distribution of tax forms, taxpayers in the streamlined districts will be treated as second-class citizens.

We have been concerned from the very outset that this reorganization plan would simply be a means of testing the proverbial waters for future cutbacks in taxpayer service of an even greater magnitude. In fact, the IRS study group that devised the current reorganization went so far as to indicate its preference for streamlining all district offices with less than 600 employees.

In its report, the study group claimed that any district with less than 600 employees could not operate efficiently. Using this standard, not only would the 12 affected districts be streamlined, but 18 others would as well. Yet, despite the drastic effect of such an action, which

would leave over half of the States with only a skeletal district office, the study group offered no evidence or statistics as to why 600 was the minimum acceptable number of employees necessary to maintain efficiency.

For some reason, rather than adopting and applying this criteria, IRS officials chose to single out the 12 streamlined districts for reorganization and instead of the number of employees, the controlling factor became the grade level of the district Director. We can only assume that the fear of adverse congressional and public opinion prevented IRS officials from expanding the reorganization at this time to other districts.

Once this reorganization is accepted and implemented, however, then broader changes in the IRS structure could be more easily accomplished, as admitted by the study group. Rather than 12 streamlined districts, there would soon be 30 and taxpayer service would be severely reduced for millions of other Americans.

We are convinced that there is no logical basis to support the streamlining of any district. Obviously, the Commissioner and his top assistants disagree and are determined to proceed with the reorganization. In the event they cannot be convinced otherwise, we believe that the IRS should, at the very least, be required to test this concept of streamlined and prime districts in one area, as they are doing with their proposed regional reorganization.

In considering certain changes in the regional office structure, the study group concluded that:

Because of the number of questions which the concept raised, it would be desirable to test the concept in one region before making any decisions concerning implementation in the other regions. The group envisions the establishment of criteria against which results of tests would be matched to insure an objective evaluation of the concept of feasibility.

We can find little fault with this reasoning and, as a matter of fact, we believe that it should be applied to the streamlining of a district office as well. By conducting a test in one district, all affected parties will at least have the benefit of evaluating actual experience with the plan before millions of taxpayers would be subject to a severe reduction in the quality of their service.

Such a program is eminently fair, and the concept of testing a proposal before implementation is widely accepted throughout all sectors of our society. We urge this subcommittee as a service to taxpayers everywhere, to do all in its power to insure that if the reorganization cannot be reversed, that a thorough and careful test be conducted in one district before implementation anywhere else.

On behalf of the National Treasury Employee's Union, Mr. Chairman, I appreciate the opportunity to appear before you today and, if there are any questions, my colleagues and I will be pleased to answer them at this time.

Senator HASKELL. Thank you, Mr. Connery.

I have no questions, but I am going to ask the committee staff to discuss with you the same problem which I asked that they discuss with the Commissioner, so that we can have a balanced viewpoint.

Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

I strongly agree with your last proposal. I think it would be very helpful to have your actual comments on any recommendations finally made by the Internal Revenue Service as part of that.

Mr. CONNERY. We would be very happy to do so, sir.

[The following was subsequently supplied for the record.]

NATIONAL TREASURY EMPLOYEES UNION,

Washington, D.C., June 16, 1978.

HON. FLOYD HASKELL,

Chairman, Subcommittee on Administration of the Internal Revenue Code, Senate Committee on Finance, Dirksen Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: As you know, the National Treasury Employees Union, as the exclusive representative of 97 percent of all Internal Revenue Service employees nationwide, is vitally interested in the disposition of the Internal Revenue Service proposal to "streamline" 12 District Offices.

We have obtained, from your Committee staff, the responses that Commissioner Kurtz has forwarded to you in answer to several questions raised by NTEU and others at the Subcommittee hearing held on May 10, 1978.

We have reviewed this information very carefully and we remain unconvinced that the plan is in any way sound or viable. In many areas, we found the Commissioner's explanations less than complete. In this regard, we have prepared, for your information, our response to the Commissioner's assertions, and I respectfully request that this material be included as part of the hearing record on this issue.

It is our hope that, you will agree that the reorganization plan should be rejected in its entirety, and in doing so, maintain the high level of service that all taxpaying citizens of this nation deserve.

Sincerely yours,

VINCENT L. CONNERY,  
National President.

*Item 1: Reorganization as the first step in eliminating small districts*

NTEU has maintained that the Internal Revenue Service proposal to "streamline" 12 District Offices nationwide is the first step toward the eventual elimination of these offices. In response, the IRS has merely denied that this is their intent. However, a review of the facts supports NTEU's position.

The Study Group's report specifically endorses as cost-effective a 1970 IRS proposal to eliminate a substantial number of District Offices. Although the Study Group found this a desirable approach, they decided not to recommend it because they concluded that the public would perceive the elimination of District Offices as a loss of service.

Instead, the Study Group recommended a proposal, first made in 1963, to "streamline" certain District Offices. However, they even went further than the 1963 proposal by indicating their preference for "streamlining" all District Offices with less than 600 employees. Using this standard, not only would the 12 affected Districts be "streamlined," but 18 others would as well.

For some reason, rather than adopting and applying this criterion, IRS officials choose to single out twelve Districts for reorganization; and instead of the number of employees, the controlling factor became the grade level of the District Director. We can only assume that the fear of adverse Congressional and public opinion prevented IRS officials from expanding the reorganization, at this time, to other Districts.

It is likely that if the present proposal is implemented the streamlining of the remaining 18 Districts would soon follow. This is borne out by the following statement in the Study Group's report which as adopted by Commissioner Kurtz: ". . . (A) factor to be considered would be the cost—both in resources and management credibility—for the IRS to propose significant organizational changes, defend them, and then have them again rejected . . . It might be better, if this were to be the case, to propose changes, which admittedly would be less substantial, but which would have a better prognosis in terms of implementation and yet still be consistent with the objectives of more comprehensive recommendations."

Rather than see their proposals meet the same fate as previous attempts at reorganization, the Study Group sought to evolve a scheme which was "less substantial" but would still be consistent with "more comprehensive recommenda-

tions." While Commissioner Kurtz has stated that the proposed "streamlining" is not simply a first step in a more sweeping reorganization effort, the Study Group's admission clearly belies his contention.

*Item 2: Subordination of the streamlined districts*

It remains the position of NTEU that Streamlined Districts will be subordinated to Prime Districts. In response to this charge, the Commissioner maintains that the "prime/streamlined relationship only involves two areas—the administrative or internal housekeeping activities and the qualitative review of reports of examination of income tax returns." NTEU is not persuaded by the Commissioner's statement.

The transfer of the Review function of the Prime District will mean that the Review Staff will be supervised by the Examination Division and Branch Chiefs in the Prime District. The Director of the Streamlined District will have no line authority over the individual reviewer, who will only be responsible to his or her supervisor in the Prime District. Under such conditions, the Streamlined District Director, although theoretically responsible for review activities within his District, will, in reality, have no control over the employees reviewing the audited cases of taxpayers under his jurisdiction.

If the Streamlined District Director believes a reviewer is not doing his or her job, he will have no authority to counsel the individual, provide additional training for the employee, or initiate disciplinary action if necessary. Moreover, he has no control over the flow of cases. The Streamlined District Director cannot establish priorities on cases to be reviewed. It is likely, therefore, that cases from the "Prime District" will take precedence over cases from the Streamlined District. This is especially true since the IRS has indicated that it does not intend to hire additional reviewers in the Prime Districts.

A further example of the subordination of the Streamlined District is the transfer of the functions of the Administrative Division to the "Prime District." As a result, Training, Personnel, and Facilities Management, which comprise the Administration Division, will be controlled by the Prime District.

The District Director of the Streamlined District will have no line authority over the persons responsible for developing and scheduling of training programs, processing personnel actions or negotiating for supplies. Since these persons will be hired, trained, and evaluated by Prime District management, it is inevitable that the needs of the Prime District, will be given priority, while the Streamlined District will be relegated to a second class status.

While the reorganization proposal calls for the creation of an Administrative Officer in each of the Streamlined Districts, this person will have little or no input in the formulation of administrative policy and will be limited to "certain local purchasing authority for small supply items." In reality, his role will be little more than a coordinator of requests which must be directed to the Prime District.

Clear evidence of the subordination of the "Streamlined District" to the "Prime District" is also found in the reorganization plan itself. The report of the Study Group provides that: "While the District Director will continue to be responsible for operating functions—Examination, Collection, Taxpayer Service and Criminal Enforcement—it is contemplated that where there are insufficient employees to constitute a group in an operating function, supervision of that function would be transferred to the "Prime District!"

According to the IRS implementation plan, this will occur in the Criminal Enforcement Division in virtually every "Streamlined District." As a result, the supervision and management of this sensitive and complex function will be conducted in abstentia by the "Prime District."

There is no question that the "Prime District" will have direct day to day supervision of activities in the "Streamlined District." the assertion by the Study Group that the District Director in the "Streamlined District" will retain control over operating divisions even when there is less than group size is baseless. It is the immediate supervisor in the "Prime District" who will direct their activities and he or she is responsible through a chain of command to the District Director in the "Prime District." Where there is no group, the "Streamlined" District Director will have absolutely no control over these employees.

*Item 3: Regionalization reduces services to localities*

The transfer of the Review Staff will result in reduced services to taxpayers through needless delays in case processing. Currently, when a question arises

during the review process, it can informally resolved between the Reviewer and the Revenue Agent by simply walking across the hall.

Under the "Streamlined" concept, this will no longer be possible. The entire case file will have to be transferred between Districts. If a problem arises and cannot be solved over the telephone, then the case files will have to be shuttled back and forth between the "Prime" and "Streamlined Districts" until final closure by the Audit Service Branch. This will result in a great deal of confusion and unnecessary delay for taxpayers and practitioners in a "Streamlined District."

Another foreseeable consequence of the reorganization will be proliferation of unagreed cases in the "Streamlined Districts." The loss of the face to face contact between the Revenue Agent and Reviewer makes it less likely that differences of opinions will be informally resolved. While discussions could take place over the telephone, it is not nearly as effective. If agreement can't be reached the Revenue Agent must go back to the taxpayer and if the taxpayer does not accept the reviewer's determination the only alternative for the taxpayer is to seek a formal conference under IRS procedure in order to resolve the dispute.

Furthermore, the fact that Reviewers in one state will be considering cases from another state could result in additional unagreed cases; particularly when one considers that a Reviewer in a "Prime District" may not be familiar with issues unique to industries in the "Streamlined District."

Taxpayers will also suffer from the loss of career opportunities in the "Streamlined Districts." Because the elimination of higher-graded position, either managerial or on the Review Staff, employees who are career-minded will be forced to relocate to states with "Prime Districts." In all likelihood, there will be a continuous turnover of personnel within the "Streamlined Districts" and the taxpayers in those Districts will be serviced by less experienced employees. Moreover, the plan calls for the eventual elimination of an additional three to six positions in each District, primarily Revenue Agents. This will cause additional delays in the processing of cases because of the increased workload for the remaining employees.

The elimination of the Returns Program Manager (RPM) positions in the "Streamlined District" could also cause taxpayers to be burdened with unnecessary audits. It is the RPM who is responsible for selecting cases for audit as well as establishing the number of cases to be audited. The elimination of this position in the "Streamlined District" will either result in the duties being transferred to the RPM in the "Prime District" or being assumed by someone in the "Streamlined District" on a part-time basis.

If the function is transferred to the RPM in the "Prime District," he or she may not be aware of specialized tax issues pertinent to key industries in the "Streamlined District," which could result in the erroneous identification of cases for audit. Furthermore, if these duties are assumed by someone in the "Streamlined District" on a part-time basis, this is also likely to result in errors. The RPM is a very important position and unless the person performing those duties has the experience and time to devote to it, cases may be wrongfully identified for examination, forcing taxpayers to suffer the anxiety of going through an audit without just case.

NTEU has also maintained that taxpayer service will be adversely affected by the elimination of the mid-level managers because it is they who possess the technical expertise. The Commissioner responds by arguing that should a "Streamlined" District Director need technical expertise he or she could look to the Regional Office. This is not a satisfactory response. The technical expertise is necessary on a day to day basis in each of the various functions in order for the District Office to carry out its responsibilities. A Regional Office is not staffed in such a manner to assume this role.

By implementing this reorganization, nobody benefits. Employees will find it more difficult to perform their job, decisions concerning taxpayers in the "Streamlined District" will be made in other states, and an overall reduction in service to taxpayers and practitioner awaiting the finalization of an audit is guaranteed.

*Item 4: Reorganization was imposed by Washington without regard to local conditions*

While officials of the "Streamlined Districts" may have been consulted about the reorganization plan, as the Commissioner states, this was done after the Study Group had made its report. There was nobody from these Districts on the Study Group which formulated the recommendations. It was only after the recommendations became a fait accompli that the District Director, from the pro-

posed "Streamlined District" of Helena, Montana, was asked to serve on the team formulating the implementation plan.

The Commissioner also states that the decision to centralize the Review function and to transfer the Administration Division is based upon actual experience. With regard to Review, although he maintains that this is already being done in special areas such as Estate Tax, International and Insurance cases, he offers no data from which to conclude that it has been successful.

In addition, the situations are dissimilar. "Streamlining" would involve the transfer of all cases to the "Prime District" for review and not just a limited number of specialized cases. Therefore, the "Prime District" would be required to absorb a far greater number of cases which, undoubtedly, would make centralized review less effective.

Furthermore, the "Streamlined Districts" will be stripped of their expertise through the elimination of Division Chiefs and Branch Chiefs. As a result, there may be more technical errors in the cases sent to centralized review. However, under the present program involving specialized cases, each District Office is fully staffed.

With respect to the transfer of the Administration Division, the Commissioner draws a comparison between the reorganization proposal and situations where there are District Offices and posts-of-duty in the same District. He concludes that since a post-of-duty can be serviced by an Administration Division which is geographically removed and located in the District Office, a "Streamlined District" can successfully receive administrative services from a "Prime District" from which it is geographically separated.

Contrary to the Commissioner's assurances, the two situations are not comparable. A "Streamlined District" and a "Prime District" each have their own chain of command. The District Director of a "Streamlined District" will have no line authority over the Chief or Administration in the "Prime District" and will be unable to direct his activities or even establish priorities for the "Streamlined District." However, a District Office and each of its posts-of-duty are under the same District Director, assuring that his decisions are carried out with regard to fulfilling the needs of the posts-of-duty.

In sum, those who are most knowledgeable about the problems which will result from "Streamlining" were not integrally involved with formulating the Study Group recommendations and there is no comparable experience upon which to predict the success of the reorganization.

*Item 5: Centralization of review returns program manager will decrease quality*

NTEU has maintained that the centralization of Review will result in decreased taxpayer service. Commissioner Kurtz denies this by claiming that Review is only an internal function and that the Reviewer has no contact with the taxpayer and no authority to impose his or her judgment on the Examining officer or the Examining Officer's Supervisor.

While Review may be an internal operation with no direct taxpayer contact by the Reviewer, nevertheless, the centralization of the Review function will have a significant adverse impact on the taxpayers in the "Streamlined Districts." Under the current review system, questions which arise during the review process can often be resolved informally because the Revenue Agent and Reviewer are in reasonable proximity to each other. Once the reorganization is implemented, informal resolutions will be far less likely, since transactions would have to be conducted by telephone—a much less effective method—or suffer the delays of having cases physically transferred between offices.

Moreover, as previously stated, while the Reviewer cannot impose his or her judgment on officials in the "Streamlined District," his or her failure to approve a case can result in the necessity for formal conferences. Since centralization will make it more difficult to informally resolve differences between Revenue Agents and their supervisors in the "Streamlined District" and Reviewers in "Prime Districts," the probable effect will be an increase in the number of cases forced to a conference. This will subject taxpayers to greater delays and expense in the processing of their cases.

NTEU has also argued that the centralization of Review will result in a lack of expertise on the Review Staff concerning local conditions in the "Streamlined" Districts. Although the Commissioner asserts that "intimate knowledge" of "local conditions" is not a "prerequisite to successful review," it is, nevertheless,

true that Revenue Agents and Reviewers working in particular states become experts on tax matters affecting key industries and groups in those states. If the review function is transferred to the "Prime District" where the Reviewers are unfamiliar with the specific tax issues affecting the taxpayers in the "Streamlined District," it could result in an increased number of unagreed cases, as well as misinterpretations of returns and needless other difficulties for residents in both the "Streamlined" and "Prime" Districts.

For example, the primary industries in different states present unique tax problems for IRS employees. Revenue Agents and Reviewers in Salt Lake City, which is scheduled to become a "Streamlined District," have developed an expertise in dealing with the laws governing tax exemption for religious institutions due to the widespread influence of the Mormon Church in Utah.

Under the reorganization, Reno will be the "Prime District" associated with Salt Lake City. Because of the importance of the gambling industry in Nevada, IRS employees in this state are highly proficient in those portions of the tax code, but may not be as familiar with the provisions concerning religious exemptions. If the Reviewer in Reno was responsible for reviewing a case for Salt Lake City, his or her unfamiliarity with the specific tax concerns of industries and citizens of Utah could result in the unnecessary rejection of a case.

In support of centralization, the Commissioner claims that it is already in operation and working well in the Fargo, North Dakota District Office. While the Commissioner makes this assertion, he offers no data to support his conclusion. Moreover, there is no indication that the Fargo experiment has been monitored in order to assess its success. If centralized review is working in Fargo, it is probably because there is a full contingent of mid-level management personnel to provide the necessary technical expertise which would minimize errors. However, these positions will be eliminated in the "Streamlined Districts."

Another issue which the Commissioner addresses is the elimination of the Returns Program Manager (RPM) position in the "Streamlined District." Despite the fact that the RPM selects returns for examination and devises and supervises compliance with the audit plan for the entire District, the Commissioner asserts that this is a part-time position and the duties will be assumed by others in the "Streamlined District."

While the Commissioner has stated that this function will remain in the "Streamlined District" and be performed on a part-time basis by the Examination Section Chief and Revenue Agents detailed to this activity, we do not believe this to be true because of the crucial importance of the Returns Program Manager to the entire examination function of a District. Instead of the ad hoc system outlined by the Commissioner, we are convinced that it is much more likely that the responsibilities of the Returns Program Manager would be transferred to the "Prime District." What this means is that key decisions concerning those citizens in the "Streamlined District" who are to be audited will be made by IRS officials in another state.

The Commissioner has sought to minimize fears of this prospect by claiming that the U.S. Tax Code applies in every state and decision regarding its administration are uniform. Such a simplistic statement, however, ignores two crucial factors—the impact of state laws on Federal tax enforcement and the dominant influence of key industries in certain states.

For the reasons previously stated, we believe the centralization of review and the elimination of the RPM in the "Streamlined District" will further reduce taxpayer service.

*Item 6: Career opportunities will be reduced in the streamlined district*

NTEU maintains that career opportunities will be severely curtailed for Internal Revenue Service employees in the "Streamlined Districts" if the reorganization proposal is implemented.

In each of the offices selected for reorganization, between ten and twenty staff positions will be eliminated, including a number of "overstaff" positions. As these "overstaff" positions are gradually phased out, the number of positions available in the "Streamlined Districts" will be even fewer. Clearly, with fewer positions to fill, fewer vacancies will occur and the opportunities for entry and advancement within the "Streamlined Districts" will be severely limited.

In addition, those positions which are being eliminated are at the highest grade levels in all areas, including managerial and non-supervisory employees. The Reviewers and secretarial positions which are being abolished are among the highest paid professional and clerical positions in the "Streamlined District."

Because of this, career-minded employees in the "Streamlined Districts" will be forced to relocate to the "Prime Districts" in order to pursue their careers, or leave the IRS altogether and go elsewhere. This will result in a constant turnover and an influx of inexperienced personnel in these offices which will have negative impact on taxpayer service.

*Item 7: The span of control is excessive and district directors are not competent to do the job required.*

NTEU has consistently maintained that the Directors in the "Streamlined Districts" do not possess the knowledge or experience required to directly oversee the day to day activities of all the IRS functions. In his response, the Commissioner fails to specifically address this problem; instead, he directed his remarks to the number of employees the District Director in the "Streamlined District" is required to supervise and concludes that supervising eight managers will work effectively. But, this is not the issue.

As we pointed out in our testimony, the real issue is whether the District Director in the "Streamlined District" has the detailed background in each of the various facets of the IRS operation in order to supervise its daily activities. Most of the Directors have been trained, or have extensive experience, in only one of the 5 or 6 major IRS functions. It is totally unrealistic to expect that a Director with no background or training in the Audit function, for example, would be capable of making policy decisions in this area.

In addition, we have made a study of time charged in one District which shows that by simply attending the meetings involved in supervising the major divisions within a District, the Director would consume 299 working days per year. Add to this the normal demands on a District Director's time and the total becomes 369 working days, four more days than there are in one calendar year.

Even the Study Group indirectly recognized the overwhelming burdens that would be placed upon the Director of a "Streamlined District" if he or she were truly to assume the responsibilities of all the mid-level management positions which will be moved to the "Prime District." In considering whether to create a new position in the IRS Regional Offices to be titled the Assisted Regional Commissioner for Compliance, the Group rejected this concept because: ". . . this would place an extremely large managerial responsibility on the ARC, as well as requiring detailed, multi-functional knowledge on the part of the incumbent."

While we agree with the Study Group's conclusion concerning the Assistant Regional Commissioner for Compliance, we cannot understand how they could subsequently expect the Director of a "Streamlined District" to assume responsibilities which are even broader in scope. Either the Commissioner is being extremely myopic or, more likely, the statement that the Director of a "Streamlined District" can perform these numerous duties is predicted on the assumption that the real authority will emanate from the "Prime District." On paper, the Director of the "Streamlined District" will bear full responsibility for all activities within the District; however, in reality, most managerial decisions requiring any degree of expertise will be made in the "Prime District."

*Item 9: The savings resulting from the reorganization will be lost in the additional cost of operations*

Commissioner Kurtz states that there will be an annual cost savings after the initial cost of implementation is realized.

The Study Group has annualized the cost savings to be a mere \$5,232,500. However, the Commissioner in his reply to the Committee's questions, concludes that it will result in only a \$4,000,000 savings. While these sums might seem substantial, NTEU has calculated that the total savings of the "Streamlining" proposal will amount to less than three hundredths of one percent of the total IRS budget. This figure does not take into account the initial outlays involved in the transfer of personnel, equipment and files from the Streamlined to the Prime District Offices.

Additionally, in view of the fact that this will have a serious adverse impact on taxpayers, resulting in needless audits, avoidable errors, and delays; as well as inconvenience to taxpayers and tax practitioners, it will undoubtedly result in a loss of public confidence in the IRS. Since confidence is the mainstay of the voluntary tax system in this country, it should not be jeopardized for the miniscule cost savings which has been projected.

Senator ROY. Mr. Connery, you have answered a number of my questions in your testimony. Going back to the service to the taxpayers,



do you feel—you have heard my line of questioning with the Commissioner, that the fact that the people in the prime district office will be reporting to and evaluated by the regional director there, that that will make any difference to the service of the so-called streamlined districts?

Mr. CONNERY. It will make every kind of difference to the people in the streamlined district. As an IRS employee of many years, I am sure that the reviewer in the prime district will consistently look to, and follow, the people who evaluate him and have his promotion opportunities before them.

Senator ROTH. So, in effect, in the case of Delaware, it is going to make us second-class citizens?

Mr. CONNERY. Absolutely. As I said in my statement.

Senator ROTH. That is human nature.

Mr. GOLDMAN. Senator, I would like to say that there is another part of the plan which demonstrates that point—the Criminal Investigation Division. If there are not enough employees to form a group—which means nine or more employees, they will be directed on a day-to-day basis by the officials in the prime district.

Senator ROTH. Is there any reason that if the personnel in the Delaware office are not as busy as the efficiency experts say, that they could not handle some Philadelphia work in the Delaware office. The contiguous area of Pennsylvania is really Delaware oriented. Many of the people, while they live over in Pennsylvania, work in Delaware.

Would there be any reason that you would know of why part of the burdens of those people could not be placed on the Delaware office?

Mr. CONNERY. No.

Senator ROTH. In other words, better utilization of time could be made, and perhaps better service given since these people are, for all practical purposes, Delaware oriented.

Mr. CONNERY. And work in the same economy and the expertise that is in Delaware is available—they share it with those people in southern Pennsylvania.

The same thing is true with the area that I worked with in IRS. The people, for instance, in Kansas, had a considerable degree of oil and gas expertise within our area as did Oklahoma. Now, this was totally not the case in the neighboring States of Nebraska and Iowa to the north. I predict some day if this concept is followed, Kansas will be a streamlined district, and the people there would be losing service. Audits would be reviewed by people in other States who are not familiar with the issues. Their returns would be selected for examination by people who are not familiar with the area and its needs.

Senator ROTH. And the internal operations of the prime offices, will they develop the kind of expertise that one would, say, have in the Delaware office with respect to the broiler or chemical industry?

Mr. CONNERY. No.

Senator ROTH. So that, both from the point of view of efficient operations of the Internal Revenue as well as service to the taxpayer, Wilmington and Delaware would be losing out?

Mr. CONNERY. Exactly, and they will lose out for all time, because the employees are not going to go into these streamlined districts on an

initial entry basis and be satisfied to stay there. Their promotion opportunities are going to be severely limited unless they are willing to move to these very large metropolitan areas, which in many instances, they will have to do at very great personal expense.

It is clear, certainly to us, that our members, who are employees of the Service, are not going to be very anxious to work in the streamlined districts.

Senator ROTH. Finally, the last question I will ask, Mr. Chairman, is do you see this as just a further thrust of the reorganization plans of the 1960's and early 1970's?

Mr. CONNERY. I see this as simply phase one of an effort, and of a desire, to regionalize the entire country. Absolutely.

As I point out in my statement, we clearly predict that if they get away with this, that 30 districts will ultimately be streamlined.

Mr. KLEPNER. Senator, we have a copy of the 1963 proposal and the first recommendation in the 1963 reorganization proposal concerned the modification of 12 small districts. Of the 12 districts chosen in 1963, there are only 2 changes under the current program.

The 1963 proposal, in effect, is exactly the same as what is being proposed today.

What Deputy Commissioner Williams was referring to was another part of that 1963 proposal. That part dealt with the elimination of four district offices. That part, as I recall, was implemented. What was not implemented was the part of the proposal concerning the modification of the 12 districts.

In effect, what we are facing today is simply a resurrection of the 1963 proposal with a modification by simply changing two district offices.

Senator ROTH. I might point out, in closing, that while the Commissioner talked about population shifts, in the case of Delaware the population growth has been very substantial.

I want to thank you, gentlemen. We may have some written questions for you to answer at a later date.

Mr. CONNERY. Thank you. We would be happy to do so.

Senator HASKELL. Thank you, Mr. Connery and gentlemen, for appearing today.

[The prepared statement of Mr. Connery follows:]

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, NATIONAL TREASURY  
EMPLOYEE UNION

I am Vincent L. Connery, President of the National Treasury Employees Union. Our union is the exclusive representative of over 100,000 Federal workers, including 97 percent of all Internal Revenue Service employees.

We are here today, Mr. Chairman, to express our strong opposition to the proposed reorganization of IRS District Offices. We believe that this plan, if implemented, will have a severe adverse impact on the efficiency of the Service, the taxpayers of many states, and a significant number of IRS employees.

The heart of the reorganization plan is the removal of mid-level management positions and the Review Staff from 12 "Streamlined" IRS District Offices, and the transfer of these positions and functions to "Prime Districts" in other states. The District Offices to be "Streamlined" are: Aberdeen, South Dakota; Albuquerque, New Mexico; Augusta, Maine; Boise, Idaho; Burlington, Vermont; Cheyenne Wyoming; Fargo, North Dakota; Helena, Montana; Portsmouth, New Hampshire; Providence, Rhode Island; Salt Lake City, Utah; and Wilmington, Delaware.

This reorganization plan is strikingly similar to one that was proposed in 1963, but never implemented. Like the current plan, the 1963 proposal recommended a similar "modification" of the 12 smallest Districts, but pressure from Congress, taxpayers, and employees caused the IRS to abandon this reorganization.

The IRS Study Group that recommended the current reorganization plan, not only resurrected the 1963 proposals, but even went so far as to indicate its preference for "Streamlining" all District Offices with less than 600 employees.

In its report, the Study Group claimed that any District with less than 600 employees could not operate efficiently. Using this standard, not only would the 12 affected Districts be "Streamlined" but 18 others would as well. Yet, despite the drastic effects of such an action, which would leave over half of the states with only skeletal District Offices, the Study Group offered no evidence or statistics as to why 600 was the minimum acceptable number of employees necessary to maintain efficiency.

For some reason, rather than adopting and applying this criterion, IRS officials chose to single out twelve Districts for reorganization; and instead of the number of employees, the controlling factor became the grade level of the District Director. We can only assume that the fear of adverse Congressional and public opinion prevented IRS officials from expanding the reorganization, at this time, to other Districts.

As the Study Group stated in its report, which was approved by Commissioner Jerome Kurtz: ". . . (A) factor to be considered, would the cost—both in resources and management credibility—for the IRS to propose significant organizational changes, defend them, and then have them again rejected . . . It might be better, if this were to be the case, to propose changes, which admittedly would be less substantial, but which would have a better prognosis in terms of implementation and yet still be consistent with the objectives of more comprehensive recommendation."

Much can be gleaned from this single paragraph. Rather than see their proposals meet the same fate as the 1963 reorganization, the Study Group sought to evolve a scheme which was "less substantial" but would still be consistent with "more comprehensive recommendations." While Commissioner Kurtz has stated that the proposed "Streamlining" is not simply a first step in a more sweeping reorganization effort, the Study Group's admission clearly belies his contention.

We have been very concerned from the outset that this reorganization plan would simply be a means of testing the proverbial waters. Once in place, then broader changes in the IRS structure could more easily be implemented. Rather than 12 "Streamlined Districts," there would soon be thirty, and taxpayer service would be severely reduced for millions of other Americans. With this in mind we say to you that the 1978 IRS reorganization plan deserves the same fate as its 1963 predecessor.

In addition, despite repeated assurances by Commissioner Kurtz and his assistants, it would be virtually impossible for a "Streamlined District" to meet the same levels of service and efficiency as under the present structure. Though each District would maintain its own Director—in keeping with IRS' long-standing commitment to Congress—these individuals will be little more than figureheads with only nominal control over their District's affairs.

Currently, each District Director is supported by a Division Chief in charge of each of the major areas of IRS operations: Examination, Collection, Taxpayer Service Administration, and Criminal Enforcement. Each Division Chief supervises the work of Branch Chiefs, Section Chiefs, Group Managers, and various other mid-management positions. These individuals carry out a wide variety of functions and provide the Division Chief and District Director with technical support and advice in their respective areas.

Under the Commissioner's initial reorganization plan, all management positions below the District Director and above the Group Manager level, including certain clerical and support employees, would have been transferred out of the "Streamlined District" into a "Prime District" in another state. However, after strong adverse reaction from Congress, our union, and various segments of the public, the Commissioner issued a revised plan wherein Section Chiefs in the Examination and Collection Divisions, as well as the Audit Service and Office Collection Branches, would remain in the "Streamlined District."

Salutary as these changes may be, they do not remedy the basic problems inherent in this reorganization effort; namely, that most of the officials who are

responsible for the day-to-day operations and technical decisions concerning taxpayers in the "Streamlined Districts" will be moved to another state, creating confusion, delays, and a severe disruption of service to the taxpayers in these twelve Districts.

The IRS has answered this charge by claiming that the Director of each "Streamlined District" will continue to have complete authority over all operations and will make all decisions affecting the citizens of that state. In effect, the Commissioner and his representatives are saying that all policy and technical decisions affecting taxpayers in the "Streamlined Districts" will be made in those Districts by the Director. However, anyone familiar with the Internal Revenue Service knows that this is impossible.

For a District Director to assume the myriad duties and responsibilities of all the positions which would be moved to the "Prime District" would require an individual with broad experience and detailed technical knowledge of every facet of IRS operations, which most District Directors do not possess. He or she would have to be a combination Personnel Officer, Criminal Investigator, Program Returns Manager, and Chief of Collection and Taxpayer Service to name but a few.

Among the functions the Director of a "Streamlined District" would be required to perform are:

Furnishing positive staff leadership in the areas of position classification, pay administration, equal employment opportunity, and employee relations, as does a Personnel Officer;

Advising and counseling technical personnel in matters requiring tax policy determinations arising in complex tax fraud investigations, as does a Supervisory Criminal Investigator;

The overall planning, direction, and coordination of all audit activities, as does a Returns Program Manager;

Planning District-wide Taxpayer Service programs, including staffing, training and public information relating to such programs, as does a Branch Chief of Taxpayer Service; and the overall planning, direction, and coordination of all collection functions as does the Chief of Collection and Taxpayer Service.

Simply stated, most of the Directors have been trained, or have extensive experience, in only one of the 5 or 6 major IRS functions. It is totally unrealistic to expect that a Director with no background or training in the Audit function, for example, would be capable of making policy decisions in this area. Since those with the technical background and expertise would now be located in a "Prime District" in another state, obviously they would be the ones making these decisions.

In addition, we have made a study of time charged in one District which shows that by simply attending the meeting involved in supervising the major divisions within a District the Director would consume 299 working days per year. Add to this the normal demands on a District Director's time and the total becomes 369 working days, four more days than there are in one calendar year.

Even the Study Group indirectly recognized the overwhelming burdens that would be placed upon the Director of a "Streamlined District" if he or she were truly to assume the responsibilities of all the mid-level management positions which will be moved to the "Prime District." In considering whether to create a new position in the IRS Regional Offices to be titled the Assistant Regional Commissioner for Compliance, the Group rejected this concept because: ". . . this would place an extremely large managerial responsibility on the ARC, as well as requiring detailed, multi-functional knowledge on the part of the incumbent."

While we agree with the Study Group's conclusion concerning the Assistant Regional Commissioner for Compliance, we cannot understand how they could subsequently expect the Director of a "Streamlined District" to assume responsibilities which are even broader in scope. Either the Study Group is being extremely myopic or, more likely, their statement that the Director of "Streamlined District" can perform these numerous duties is predicated on the assumption that the real authority will emanate from the "Prime District." On paper, the Director of the "Streamlined District" will bear full responsibility for all activities within the District, however, in reality, most managerial decisions requiring any degree of expertise will be made in the "Prime District."

Evidence of this can be found within the reorganization plan itself. For example, the report of the Study Group provides that Criminal Enforcement activities will be supervised by the "Prime District" if there are less than nine Special Agents in a "Streamlined District." This provision will remove supervision of

Criminal Enforcement from virtually every "Streamlined District" and the management of this sensitive and complex function will, therefore, be conducted in absentia by the "Prime District."

Perhaps no other activities of the IRS have as traumatic an impact on taxpayers as Examination and Collection. These Divisions, which are responsible for conducting audits and securing delinquent tax returns, touch the lives of a great many taxpayers. It is in these areas where taxpayers and practitioners need and deserve direct access to those making the decisions that affect them and the right to have their cases resolved as quickly as possible. The proposed reorganization, however, will foster neither goal while significantly lowering the level of service in the "Streamlined Districts."

For example, in the Examination Division, a great deal of decision-making authority is vested with the Returns Program Managers. This individual selects returns for examination and devises the audit plan. Under the reorganization, the position of Returns Program Manager is removed from the "Streamlined Districts."

While the Commissioner has stated that this function will remain in the "Streamlined District" and be performed on a part-time basis by the Examination Section Chief and Revenue Agents detailed to this activity, we do not believe this to be true because of the crucial importance of the Returns Program Manager to the entire examination function of a District. Instead of the ad hoc system outlined by the Commissioner, we are convinced that it is much more likely that the responsibilities of the Returns Program would be transferred to the "Prime District." What this means is that key decisions concerning those citizens in the "Streamlined District" who are to be audited will be made by IRS officials in another state.

The Commissioner has sought to minimize fears of this prospect by claiming that the U.S. tax code applies in every state and decisions regarding its administration are uniform. Such a simplistic statement, however, ignores two crucial factors—the impact of state tax laws on Federal tax enforcement and the dominating influence of key industries in certain states.

For example, the primary industries in different states present unique tax problems for IRS employees. Revenue Agents and Reviewers in Salt Lake City, which is scheduled to become a "Streamlined District," have developed an expertise in dealing with the laws governing tax exemption for religious institutions due to the widespread influence of the Mormon Church in Utah.

Under the reorganization, Reno will be the "Prime District" associated with Salt Lake City. Because of the importance of the gambling industry in Nevada, IRS employees in the state are highly proficient with those portions of the tax code, but may not be as familiar with the provisions concerning religious exemptions. If the Returns Program Manager in Reno was responsible for determining the audit plan for Salt Lake City, his or her unfamiliarity with the specific tax concerns of industries and citizens of Utah could result in unnecessary audits, misinterpretations of returns, or other needless difficulties for residents in this "Streamlined District."

Further problems for taxpayers and practitioners will result from the transfer of the Review function to the "Prime District." Employees performing these duties are responsible for reviewing the audits conducted by Revenue Agents to ensure that they are error free and comply with proper procedures.

Under the reorganization, the Review Staff will be supervised by the Examination Division Chief in the "Prime District" and will be answerable only to him or her, not the Director of the "Streamlined District." With the Review Staff located in the "Prime District," there is absolutely no question about the fact that crucial decisions concerning taxpayers in the "Streamlined District" will be made in another state.

Furthermore, under the current system, when a question arises during the Review process, it can be informally resolved between the reviewer and the Revenue Agent by simply walking across the hall. Under the "Streamlined" concept this will no longer be possible. The entire case file will have to be transferred between Districts. If a problem arises and cannot be solved over the telephone then the case files will have to be shuttled back and forth between the "Prime" and "Streamlined" Districts until final closure by the Audit Service Branch. This will result in a great deal of confusion and unnecessary delay for taxpayers and practitioners in a "Streamlined District."

Employees in the Providence District Office, which is scheduled to become "Streamlined," recently received a memorandum from their Regional Office in-

structuring that all audit cases with an agreed deficiency of \$10,000 or more are to be hand-delivered to the Review Staff. Under the reorganization, however, the Review Staff would be in the Hartford, Connecticut District Office. Once Review has completed its function, it is instructed to return the case to the Audit Service Branch for closing and filing. Under the reorganization, the Audit Service Branch will remain in Providence.

As a result, a case involving \$10,000 or more, audited in Providence, will have to be carried by hand to Hartford. After Review completes its work, the case must be hand carried back to Providence to the Audit Service Branch for closure. This is the minimum amount of required travel. If there is an error in the case files then the process becomes even more scrambled.

When an error is discussed that cannot be corrected by telephone, the case must be returned by hand to Providence where the Revenue Agent will make the necessary adjustments. After the correction is made, the case will again be hand carried to Hartford where it will again be reviewed and carried back to Providence for closure. Obviously, this "Rube Goldbergish" system will result in a tremendous waste of time and resources for the IRS, as well as frustration and anguish for the taxpayer and practitioner who are waiting for a final resolution of their case.

Even if the IRS were to allow these files to be sent by mail to the "Prime Districts," service to taxpayers would still suffer. The time associated with mailing them would be even greater than that involved in hand delivery and would further inconvenience the taxpayer. In addition, mailing increases the risk of loss and the concomitant possibility of disclosure of confidential information.

By transferring the Review function to the "Prime District" no one benefits. Employees will find it more difficult to perform their job, decisions concerning taxpayers in the "Streamlined District" will be made in other states, and an overall reduction in service to taxpayers and practitioners awaiting the finalization of an audit is guaranteed.

Whatever minimal dollar savings may accrue to the IRS by this transfer are far outweighed by the inconvenience that would be caused to everyone, particularly the public. For these reasons, we can see absolutely no justification for removing the Review Staff from the "Streamlined Districts."

While not part of the reorganization plan now before this Subcommittee, the IRS is also proposing the elimination of the Conference Staff in all District Offices. We do not wish to belabor the Subcommittee with a lengthy explanation of the adverse impact that this will have on taxpayers since this proposal will be subject to administrative hearings at which we intend to testify. We are calling it to your attention at this time simply to point out another example of the cutbacks in taxpayer service now being proposed by the IRS.

We also strenuously object to the piecemeal approach in which the IRS has chosen to unveil this reorganization rather than to honestly and forthrightly disclose its entire plan. Even though the Study Group issued a series of recommendations concerning the elimination of the Conference function from District Offices, we were not informed of this proposal on February 6 when we were briefed by the Deputy Commissioner on the remainder of the reorganization plan. It was not until a few days before April 3, when this proposal was printed in the Federal Register, that our union was informed that the IRS intended to proceed with the elimination of District Conferences. In addition, there are other proposals which are now under active consideration by the IRS that would impact adversely on the Conference function, but have not been disclosed to the public.

In its report, the IRS Study Group that devised the reorganization stated that the basic test of any change is that it must "maintain or improve levels of service to the public, regardless of any other benefits it might have." The report goes on to say, ". . . whenever feasible, the delivery of service is to be by the first line organizational units. This is consistent with placing services both physically and organizationally, close to the public being served."

Based upon this standard, the IRS reorganization proposals fall miserably. No matter what assurances Commissioner Kurtz may give, no matter what tinkering amendments to the plan he may offer, the removal of mid-level management and the Review Staff from the "Streamlined Districts" will guarantee a decrease in service to the residents of these twelve states.

In our opinion, there is absolutely no justification for this reorganization. Commissioner Kurtz has stated time and again that the "Streamlined District" will continue to function as they do today. We cannot possibly agree with these

assertions. District Directors have neither the background nor the expertise to compensate for the elimination of mid-level managers who are specifically trained within their special functions.

Because of this loss of technical ability and of the Review Staff within the "Streamlined District," there is absolutely no doubt that the real decision-making authority will be in "Prime Districts" located in other states. From the highly complex issues of audits and dispute resolution, to the simple matter of distribution of tax forms, taxpayers in the "Streamlined Districts" will be treated as second-class citizens.

In proposing this reorganization, the IRS has not only ignored the needs of taxpayers but of its own employees as well. As the exclusive representative of IRS employees in every District, we were not even consulted about the proposed reorganization until it was devised and ready for implementation. By ignoring its own employees, the IRS officials who composed the Study Group also turned their back on a great deal of experience and expertise that could have been of assistance to them.

The employees most directly affected by the reorganization are, of course, those in the "Streamlined Districts." With the elimination of certain clerical jobs and the transfer of the higher graded positions to the "Prime Districts" employees in the "Streamlined Districts" will be forced either to relocate in order to pursue their careers or leave the IRS altogether. In addition, removing the higher-level positions in the "Streamlined" Districts will result in a constant turnover and an influx of inexperienced personnel in these offices which will adversely impact on taxpayer service.

Employees will also suffer from the elimination of the Administration Division in the "Streamlined Districts." Though the IRS has claimed that the District Directors and their Administrative Officers in these Districts will be able to assume responsibility for this function, it is highly unlikely that either of these individuals will have the time or experience to perform the many and varied services presently provided by Administration, particularly in the areas of Training and Personnel.

The removal of the Training Staff will result in employees becoming caught in a bizarre "Catch-22" situation. Inexperienced employees who move into a "Streamlined District" that has no on-site training, will either be improperly prepared to handle their duties or take longer to become proficient at their positions. This lack of proper training will leave them vulnerable to unsatisfactory ratings, denial of promotions, or even the loss of their jobs.

Even if the IRS were to offer training sessions for these employees to be held in the "Prime District," this is no substitute for an on-site Training Staff. For example, in the Burlington District, there presently exists a District Learning Lab which offers a wide variety of courses designed to further career development for both management and employees. Without a Training Officer, no one will be available to coordinate the activities of the lab. Nor will there be anyone to inform management and employees of the training opportunities available to them or to coordinate and monitor local training and update training material.

If these functions are performed via telephone from the "Prime District," the delays and potential breakdown in communication will greatly limit their effectiveness. If the "Prime District" sends Training Officers to the "Streamlined District," the resultant travel time and expense will offset any conceivable advantage of the reorganization.

In like manner, the removal of the Personnel functions from the "Streamlined District" will also adversely affect employees. At present, the Personnel Staff in the District Offices handle a wide variety of duties which greatly facilitate the daily operation of the Office and employer-employee interaction.

For example, the Personnel staff provides a Centralized Timekeeper to advise both management and employees concerning leave regulations, leave taken and time worked, and ways to resolve problems concerning these matters. Personnel also provides on-site guidance concerning pay practices, maintains an up-to-date set of appropriate manuals and reference books, and provides technical advice to ranking panels and/or officials in promotion actions.

Besides the loss of these functions, "Streamlined Districts" will be faced with the prospect of having all employees' personnel files moved to the "Prime District." Under these circumstances, if an employee in a "Streamlined District" wished to review his or her personnel folder or a dispute arose concerning its contents, the file would have to be mailed or hand carried from the "Prime Dis-

trict." This will cause unnecessary delays in processing most personnel actions as well as increase the risks of losing a file which is virtually impossible to replace.

Equally important, the removal of the Training and Personnel Staff from the "Streamlined District" will hamper the system of labor-management relations that our union has developed with the IRS District Offices. The placement of the Personnel Function in the "Prime District" will deprive the managers left in the "Streamlined District" of the guidance and advice of an on-site labor relations specialist in interpreting both our contract and Federal personnel regulations. Problems which are now resolved informally under the present structure will be subject to extended delays, misinterpretation, and lack of communication.

The result will be more grievances, more arbitrations, and a general breakdown in labor-management relations.

We are told by the Study Group that the annualized cost savings which will accrue as a result of the "Streamlining" is a mere \$5,232,500. While in the abstract this sum may appear to be considerable, it is less than three hundredths of one percent of the total IRS budget. We believe that whatever cost savings may result from the reorganization will be more illusory than real. Such factors as increased mailing costs, travel time, and relocation of equipment and personnel will more than offset any alleged reduction in operating costs, not to mention the significant decrease in taxpayers service.

We are convinced that there is no logical basis to support the "Streamlining" of the twelve Districts. Obviously, the Commissioner and his top assistants disagree, and are determined to proceed with the reorganization. In the event that they cannot be convinced otherwise, we believe that the IRS should, at the very least, be required to test the concept of "Streamlined" and "Prime" Districts in one area, as they are doing with their proposed Regional reorganization.

In considering certain changes in the Regional Office structure, the Study Group concluded that, "because of the number of questions which the concept raised, it would be desirable to test the . . . (concept) in one region before making any decision concerning implementation in the other regions. The Group envisions the establishment of criteria against which results of the test would be matched to insure an objective evaluation of the concept's feasibility."

We can find little fault with this reasoning, and, as a matter of fact, we believe it should be applied to the "Streamlining" of a District Office. By conducting a test in one District, all affected parties will at least have the benefit of evaluating actual experience with the plan before millions of taxpayers would be subject to a severe reduction in the quality of their service.

Such a program is imminently fair, and the concept of testing a proposal before implementation is widely accepted throughout all sectors of our society. We urge this Subcommittee, as a service to taxpayers everywhere, to do all in its power to ensure that, if the reorganization cannot be reversed, that a thorough and careful test be conducted in one District before implementation begins anywhere else.

On behalf of the National Treasury Employees Union, I appreciate the opportunity to appear before you today. If there are any questions, my colleagues and I will be pleased to answer them at this time.

Senator HASKELL. Our next two witnesses, it is my understanding, will appear together. Mr. Charles B. Campbell, Jr., vice president in the trust department of Wilmington Trust. Co. and Thomas P. Sweeney, Esq.

Gentlemen, we are pleased to have you here. If you would just identify yourselves for the record—

Mr. CAMPBELL. Yes, sir. Thank you, Mr. Chairman.

I am Charles B. Campbell, Jr., vice president with the Wilmington Trust Co. in Wilmington and I manage the tax division within the trust department there.

You have, in the record, a copy of my complete statement.

Senator HASKELL. Yes; Both statements will be reproduced in full.

Mr. CAMPBELL. So I will confine myself to some highlights surrounding the problem.

Senator HASKELL. Thank you.



**STATEMENT OF CHARLES B. CAMPBELL, JR., VICE PRESIDENT,  
TRUST DEPARTMENT, WILMINGTON TRUST CO., WILMINGTON,  
DEL.**

Mr. CAMPBELL. I have been in tax practice for 30 years. Twenty-one of those have been with the trust company operations.

During the entire 30 years of my practice, I have always dealt with the Wilmington, Del., office—and, I might add, with some degree of success there.

For some reasons other than being selfish about our ability to deal at home, I am fearful that the streamlining of the local district office will adversely affect our ability to deal with the Internal Revenue Service operation there, and specifically in taxpayer service and review functions.

During my involvement in trust work, and because I am employed by one of the larger trust departments in the country, this tax involvement takes on an array of many forms of practice. We not only deal in estate tax returns, decedent returns, individual income tax returns, gift tax returns, all forms of fiduciary work, a number in the thousands; but we deal with a variety of people and a variety of problems.

Those of you who are familiar with Delaware realize that we have enormous wealth there, but I deal with not only wealthy people, but some very poor people as well. It is all classes of people that I have concern for in the attempt by the Internal Revenue Service to remove service from Delaware taxpayers.

We are particularly concerned with the shift in Review and in Taxpayer Service functions. The Commissioner, a little earlier, had indicated that he felt we did not have a proper definition of the reviewer function. I agree that my interpretation is different than the Commissioner's, because, in the past, we have had very good success in having a more expert individual, revenue agent, review the work of the less experienced person before making a decision involving taxpayer participation in the outcome of whatever problem we are trying to solve.

I think in dealing with the local office, we have also established—we practitioners in Delaware—the capability of saving taxpayers an enormous sum of money in that we do not have to, or have not had to in the past, make a lot of trips out of Delaware in order to resolve problems. I have only been to appellate in my 30 years of practice on three or four occasions, and I think this indicates a pretty good degree of success at the Wilmington level.

The reorganization, as I understand it, involves the removal of four division chiefs and a chief, in our area, is a decisionmaker with a great degree of expertise in many areas. Many of the areas are unique to Delaware taxpayers. You have mentioned some of them before; the broiler industry; we are the chemical capital of the world; we have enormous corporate activity in Delaware. So that we deal many, many areas of taxation, and we like to think that we would continue to have the availability of chiefs with the expertise required.

We would also think that we could continue to have a pretty successful practice locally without having the involvement of traveling to Philadelphia, even though the distance is not great. We, in Wilmington, over a period of years—most practitioners, that is—have built up a reputation for honesty and integrity which may not be acceptable at

face value in another town. We think that is important. We have earned it over a great number of years, and we would like to maintain it.

The Delaware taxpayers are like other taxpayers in the country in that they are all in favor of reduced Government spending, but we do not think it fair to penalize the taxpayers in our State by making this type of reorganization that we are faced with today.

In closing, I want like to say that we Delawareans, even though we are small in number, operate off the same tax chart as the other members of the community and the Nation. We would like to ask for, beg for, equal service and treatment.

I thank you all very much.

Senator HASKELL. Thank you, Mr. Campbell.

Now we will hear from Mr. Sweeney, and then if there are any questions, we will take them up.

#### STATEMENT OF THOMAS P. SWEENEY, ESQ.

Mr. SWEENEY. Thank you, Mr. Chairman. I appreciate the opportunity to be here. I will attempt to be brief, in view of the fact that what I have to say may be duplicitous of what has been said by those who go before me, except for Commissioner Kurtz—for whom I have a great deal of respect but with whom I respectfully disagree in connection with this proposal.

As Charlie said, we of the first State would like to be of equal treatment, and not be treated as if we came from the last State.

Senator HASKELL. In other words, the first shall not be last, is that it?

Mr. SWEENEY. Yes, Mr. Chairman, we understand. I think we all agree that people would like to see a decrease in Government spending and a greater efficiency in Government service. However, I think we have an overriding obligation which is the preservation of the belief in the self-assessment tax system.

I think that what is being proposed in the cutdown of Government service in this area where the individual person and the public is touched so closely, may be a starting—or a continuing—of the crumbling of the belief in the self-assessment tax system.

In our written statement, we refer to three specific areas of the proposed streamlining that dealt with the cut of personnel, the treatment of the removal of a portion of the taxpayer's service function and a treatment of the removal of the review function, and I would like to just touch on those three things very briefly.

We understand there are 14 positions to be eliminated: the four division chiefs—the organizational chart as Senator Roth explained, now reflects that in our area there will be eight people instead of four people reporting to the District Director. We wonder if in the eyes of the upper echelon of the Internal Revenue Service who propose this streamlining, whether they gave any thought to the efficiency of the current office, whether or not they feel that we do not have enough to do in Wilmington in the District Director's office. There is, and has been, a very busy District Director. He has done an excellent job representing the Internal Revenue Service to the public in our area. I think it is a grave mistake to overburden him with this sort of chore of eight people reporting to him, an individual who may not have the

expertise in establishing the collection programs, the audit programs, that are now established by the division chiefs.

Supervision of the employees is very important in the efficiency of the service and I think that we should not cut that down.

As to the real question of who is going and who is not going, we do not care about that. We are not dealing in our presentation, either Charlie or I, or I do not think anybody here, is questioning the removal of a certain person. We are not dealing with personalities, we are dealing with functions and we want to make that very clear.

We also want to make clear the reference that Senator Roth made to the article which appeared in the Wilmington newspapers that there was a press release issued by the Internal Revenue Service on April 19 that stated that the services in Kent and Sussex County would be cut, and that is contrary to what Commissioner Kurtz said to us in a meeting in Senator Roth's office on February 23 and what he said this morning, and what he said in a letter dated March 31, 1978.

If we are overstaffed, let's cut the people out. Let's not remove the functions.

As to the taxpayer's service function, I think it is a very important function. It provides the facility of resolving interest computation problems, and other computational problems. The poor person on the street who may be paying \$25 or \$30 in Federal tax can go in and get some decent treatment, have somebody who is sympathetic to his particular problem. It is an area of the Internal Revenue Service that is important because you cannot write to a computer and get an answer, and we get deluged with sheets of paper from the Internal Revenue Service Center at Cornwell Heights, and it is impossible to write back and deal with the computer.

-But we have spent, in our office, literally years trying to resolve problems that have come out of the service center where you can go to the District Director's office, they have someone there who is in direct contact with the service center and can get to the people in the service center to resolve the problem or explain to you why your computation or their computation is in error.

Remove that from the taxpayer and say he has got to go to Philadelphia to do that is nonsense. The poor person, the person who is paying \$25 or \$30 or \$100 or \$200 is not going to be afforded the ability to go to Philadelphia and deal with the problem at the prime district level.

I think the greatest problem is in the area of review and I think the review process has been misstated by some of the people who have gone before us. As we understand—as practitioners, as we understand the review process, it is where a more experienced agent reviews the collection or audit report of a field agent, an office auditor or a collection officer. It is at that point where someone of experience has had the first opportunity to review carefully the position of the taxpayer and the position of the Government and decide: Are they both off base? Is there something that can be done? Can they get to the agent and say, You have to go back and get more facts, or you have to take a harder line with the taxpayer and tell him he is not looking at this case or that case or that particular statutory provision or you, agent, have overlooked a specific statutory position?

It has been our experience over the years that that review process is very important in expediting the treatment of the taxpayer, in resolving his case in a more timely fashion. To eliminate that from the local level and put that in a prime district is a deprivation of equal treatment to all the taxpayers and it is a deprivation of the timeliness of treatment of taxpayers and I think it is really a disservice to the self-assessment system.

My own view is that timelines is just as important as the correct treatment on the merits of the issue. We have more clients who complain about the fact that they cannot get their case over with the Internal Revenue Service than we do about the treatment that we get from the Internal Revenue Service.

I would like to say one thing about the estate and gift tax review process that goes on in the Philadelphia District Director's Office, at least in the 11 years that I have been in the active practice of tax law in the Wilmington District Director's office of the 18 years that I have practiced tax law. We have had, as far as I am concerned, a very second-class treatment in the estate and gift tax review. It has been protracted. We know of a number of cases in our own office that have ended up in litigation because the statute of limitations has come very close to running out and agents and the estate and gift tax examiners have no other opportunity to review the matter. We had no opportunity to take it to appellate because of delays and they had to issue the statutory notice, and that is second-class treatment, as far as I am concerned, when the cost of litigation in those cases could have been eliminated.

In summary, I would like to say that it is my own view that the removal of the supervisory personnel, the reduction of the taxpayer service function and the removal of the review function will cause unneeded and unfair treatment to the Federal taxpayers located in Delaware because they will increase the time required to service those taxpayers and will reduce the efficiency of the service provided to the taxpayer.

All taxpayers, whether in a small or large District Director's area, are entitled to the same timely, efficient service by the Government in collecting their tax dollars because they are the people who are paying for the governmental function.

Thank you.

Senator HASSELL. Thank you, gentlemen. You both have made a very persuasive case. Mr. Sweeney, there is absolutely no question about your point. I could not agree with you more, that timeliness is a part of substance and is a very, very important element. We will take your testimony into very careful consideration.

I thank you. I do not have any questions at the moment.

Senator Roth?

Senator ROTH. I just have two or three questions, Mr. Chairman.

First of all, I think it would be worthwhile to put into the record at the appropriate place in Mr. Sweeney's testimony the current organizational chart which shows four group supervisors reporting to the Director and then the proposed modification where you have eight individuals.

Senator HASKELL. These, I would think, would be appropriate in the record following the testimony of Mr. Sweeney, since he was the second person, and they will be so received and reproduced.

Senator ROTH. Mr. Sweeney, or Mr. Campbell; the removal of these supervisors cannot help but affect the efficiency of that office, or is it your personal observation that these individuals are not doing anything at the present time?

Mr. SWEENEY. Senator Roth, it has been my experience that these individuals, at least the four that are there presently and the people who have preceded them in my 11 years have been extremely busy. We have an active district. We have major chemical corporations which are headquartered there, major holding corporations which are headquartered there. Mr. Campbell's bank which administers very large trusts and large estates, and it has been my experience that the chief of the four divisions has been very busy setting up audit programs, collection programs. The Chief of the Intelligence Division has been extremely busy and so has the Chief of the Taxpayer's Service.

Senator ROTH. Is the District Director going to be able to take over all of those functions, or is that going to have—

Mr. SWEENEY. I do not see how the District Director, Senator Roth, is going to have the expertise. The Division Chiefs are—at least it is my understanding—are people who have become expert, or gathered greater expertise in the four areas and have developed management programs in these areas. How one man can have the expertise of those four areas and the other things that he must be, which is the public relations man for the Internal Revenue Service in the district, the spokesman in the district for the Internal Revenue Service and the overall administrative and executive control of the Internal Revenue Service in the district, I do not think it would be a helpful thing.

Senator ROTH. It seems to me what you are saying is that in essence, whether intended or not, this proposal is going to subordinate the Wilmington Office to the Philadelphia Office, because the expertise will not be there.

Mr. SWEENEY. That is right. We will be a branch office of the Philadelphia District Director's Office just as we are in the estate and gift tax area and just as we are in the exempt organizations branch area, with respect to which you have heard complaints from me before.

Senator ROTH. The only other question I have relates to the expertise of agents in Delaware and their knowledge of the chemical industry which is, of course, a major industry in Delaware or the agricultural interests, particularly the broiler industry, which is a unique kind of agricultural pursuit. If the review function is transferred to Philadelphia can that help but delay the consideration of taxpayer problems?

Mr. SWEENEY. Not only will it delay in the consideration of taxpayer problems, in my opinion, but it will also cause, I think, unfair treatment because the people in Philadelphia do not understand the unique situations in Delaware. They do not—you have to have somebody on the scene who understands the problems that relate to that geographical area, and that was the complaint of Senator Pell as it

relates to Rhode Island, and that is the same complaint we have as it relates to Delaware.

We have our own unique problems, just as Senator Haskell does out in Colorado. And we are entitled to people who are in that area, who are aware of those unique problems, who can treat them on a fair basis in interpreting the Internal Revenue laws, in my opinion.

Senator ROTH. I want to thank both of you gentlemen for taking the time to appear here and testify. It was very helpful indeed.

Senator HASKELL. Thank you gentlemen, very much indeed. I think your testimony was particularly thoughtful. Thank you.

[The prepared statements of Charles B. Campbell and Thomas P. Sweney and organizational charts follow:]

STATEMENT OF CHARLES B. CAMPBELL, JR., VICE PRESIDENT, TRUST DEPARTMENT, WILMINGTON TRUST CO., TAX DIVISION MANAGER, WILMINGTON, DEL.

#### SUMMARY

It is my feeling that with respect to the proposed streamlining of the Wilmington District Director's Office, our ability to deal with the Internal Revenue Service on behalf of the customers for whom we have filed returns may be substantially affected by the proposed changes dealing with the Taxpayer Service function and with the Review function.

The removal from the Wilmington District Director's Office of the Taxpayer Service Division Chief and a number of his support personnel will, we feel, greatly reduce our ability to deal with problems which have previously been solved by the Taxpayer Service function personnel in the Wilmington District Director's Office.

With regard to the transfer of the Review function from the Wilmington District Director's Office to the Philadelphia District Director's Office, we feel that the location of the Review function in Delaware is enhanced by the Reviewers' ability to understand and deal with Delaware's unique problems. To remove the three Reviewers from Wilmington will cause great inefficiencies and inconvenience to the Delaware taxpayers they serve and will reduce the effectiveness and timeliness of service to them by the Internal Revenue Service.

#### STATEMENT

Mr. Chairman and Members of the Subcommittee, thank you very much for permitting me the opportunity to come before you to express my concerns with respect to the proposed Internal Revenue Service reorganization of the twelve smallest Internal Revenue Service Districts as that particular proposal relates to the District in which my employer is located, i.e. the Wilmington District Director's Office, Wilmington, Delaware. It should be noted that I speak in my capacity as Tax Division Manager and express my concerns in view of my experience in dealing with the Wilmington District Director's Office.

#### INTRODUCTION

As background for my remarks, and in order to put them in the proper perspective for the Subcommittee, it should be noted that I have been actively engaged in Federal tax practice for approximately thirty years, primarily as an employee of the Trust Department of banks located in Wilmington, Delaware. During that period of time only on three or four occasions have I found it necessary to remove the case from the jurisdiction of the Wilmington District Director's Office by protesting the actions of the Wilmington District Director's Office to the Appellate Division of the Mid-Atlantic Region.

For your information it should be noted that the Wilmington Trust Company files with the Wilmington District Director's Office a variety of returns. We file the Federal Estate Tax Returns, Decedents' Final Income Tax Returns, Income Tax Returns for a widow or widower, Domestic Social Security Tax Returns, Estimated Tax Returns, Estate Income Tax Returns, Trust Income Tax Returns, Federal Gift Tax Returns, and a number of Applications for Identification

Numbers. In addition to the returns referred to above, we do prepare and file a number of Individual Income Tax Returns for trust customers of the Bank.

In the area of Income Tax Returns, for calendar year, 1978, the Bank filed with the Wilmington District Director's Office approximately 4,400 Fiduciary Income Tax Returns of which appropriately 2,000 reflected a tax liability which aggregated approximately \$5,500,000.

It should be noted that with respect to the Individual Income Tax Returns filed, a number of them related to individuals with incomes of \$15,000 or less. Consequently, our dealings have not been solely for customers of the upper income tax bracket. In fact, for calendar year, 1978, of the total Individual Income Tax Returns filed by our Bank for Delaware residents, approximately 22 percent of the number of returns so filed related to individuals with incomes of \$15,000 or less.

It is my feeling that with respect to the proposed streamlining of the Wilmington District Director's Office, our ability to deal with the Internal Revenue Service on behalf of the customers for whom we have filed returns, as indicated above, may be substantially affected by virtue of the proposed changes dealing with the taxpayer Service function and with the Review function.

I would like to deal with those two categories with respect to the rest of my testimony.

#### TAXPAYER SERVICE FUNCTION

It has been our experience that we constantly have problems by virtue of documents received from the Internal Revenue Service Center located in Philadelphia. As the Committee Members may know, it is very difficult to communicate with a computer. Our experience has been that in dealing with the Wilmington District Director's Taxpayer Service personnel, we have been able to resolve almost uniformly the problems which have come about as a result of the constant flow of paper work from the Service Center.

It is my view that both the Internal Revenue Service and our customers have had mutual satisfaction with respect to the resolution of the problems at the level of the Wilmington District Director's Taxpayer function personnel.

We note that under the proposal not only will the Taxpayer Service Division Chief be removed, but a number of his support personnel will also be removed with the result that we are extremely concerned about our ability to continue to deal with problems which have previously been solved by the Taxpayer Service function personnel in the Wilmington District Director's Office.

The removal of the Division Heads in this area, as well as the removal of the Division Heads in other areas, may deter qualified personnel from being willing to come to Wilmington because of the lack of promotional opportunity in the Wilmington District Director's Office.

As you can tell from the foregoing, our experience, which has generally been extremely satisfactory, causes us to want to bring to your attention our concern with respect to the anticipated detrimental effect to the Taxpayer Service function by virtue of the proposed changes.

#### REVIEW FUNCTION

As I noted in my introductory remarks, in my thirty years' experience in the Wilmington, Delaware, area, we have been able to resolve most of the cases at the local level. Obviously, the ability to resolve the cases at the local level has a great deal to do with the way the Review function has been handled in the Wilmington District Director's Office. As the Subcommittee knows, the Review function is an Interoffice function of the Internal Revenue Service whereby more sophisticated agents are assigned to review the Audit Reports or Collection Reports of Auditing Agents or Collection Officers. These Reviewers then make either written reports, approving the report of the Auditing Agent or the Collection Officer, or return the case to the Auditing Agent or Collection Officer for further processing with a number of suggestions as to what might be done.

The proposal to remove the Review function to Philadelphia causes grave concern because Reviewers who are on the scene in Delaware recognize the unique problems of Delaware such as it being the "chemical capital of the world" and having heavy concentration of the broiler industry in the two southern counties of Delaware.

The ability to understand the unique problems by being in the physical location where those problems and circumstances exist obviously saves both the Govern-

ment's money and the taxpayer's money. Efficiency is achieved by the resolution of problems at the local level resulting from careful review at that level. I must attribute our ability to resolve all but a few cases at the local level in part to Reviewers located in the Wilmington District Director's Office who have returned cases to agents for settlement on an amicable basis.

To propose to remove that function from Wilmington, by taking the three Reviewers and doing whatever is proposed with them, seems to indicate that either they did not have enough work to do in Wilmington, or that the removal thereof will cause great inefficiencies and inconvenience to the Delaware taxpayers. We must believe, based on our experience that it is the latter situation since it has been our understanding that the Reviewers in the Wilmington District Director's Office have been fully occupied.

As a sidelight, before I conclude, I would like to observe that in connection with the filing of our Fiduciary Income Tax Returns we physically deliver them to the Wilmington District Director's Office and obtain a receipt for the payments. We have been advised by Commissioner Kurtz that the availability of pursuing that procedure in the future will not be changed, but we are concerned that a problem would be created by the removal of Collection personnel from the Wilmington District Director's Office which is to be reduced by a net of three.

#### CONCLUSION

In conclusion I would like to reiterate that it is my strong feeling that the proposals in their present posture, as they relate to the removal of a portion of the Taxpayer Service function and the Review function from the Wilmington District Director's Office and a reduction of the Collection Staff, will cause the Delaware Federal taxpayers an inconvenience and will reduce the effectiveness and the timeliness of the service they will receive by the Internal Revenue Service.

STATEMENT OF THOMAS P. SWEENEY, ESQ., PARTNER, RICHARDS, LAYTON & FINGER,  
WILMINGTON, DEL.

#### SUMMARY

The proposals to streamline the Wilmington District Director's Office, as they relate to the removal of supervisory personnel, the requirement for more people to report to the District Director, the reduction of the Taxpayers Service function, and the removal of the Review function will all cause unneeded and unfair treatment to the Federal taxpayers located in Delaware because they will increase the time required to service those taxpayers and will reduce the efficiency of the service provided to the taxpayer. All taxpayers, whether in a small or a large District Director's area, are entitled to the same timely, efficient service by the Government collecting their tax dollars because they are the taxpayers paying for the government function.

#### STATEMENT

Mr. Chairman and Members of the Subcommittee :

I thank you for the opportunity to come before you to present my views with respect to the proposed Internal Revenue Service reorganization of the twelve smallest Internal Revenue Service Districts as that proposal relates to the Wilmington, Delaware, District Director's Office. It should be indicated at the outset that I speak for myself as a private practitioner having been actively engaged in the practice of tax law for approximately eighteen years, eleven of which have been with the firm of Richards, Layton & Finger in Wilmington, Delaware.

#### INTRODUCTION

It is my belief that almost all taxpayers favor action which would result in a more efficient operation of Government by virtue of expeditious treatment of his or her affairs by a governmental body reviewing the same.

It is believed that all concerned would support actions from within Government which result in a decrease in Government expenditures, more efficient governmental operations, and expedited treatment of taxpayers' matters.

However, in certain respects it appears to us that the proposal of the Internal



Revenue Service to streamline the Wilmington, Delaware, District Director's Office does not accomplish these purposes and will result in substantial delays with respect to the audit and collection function carried on by that Office.

Since the Internal Revenue Service is the agency of the United States Government with which most of its citizens are familiar, it seems to us extremely important that steps not be taken which will ultimately delay or deter the efficient and expeditious treatment of the taxpayers of our State.

We believe that in three areas, as originally enunciated in the Summary of IRS Organizational Review Adopted Recommendations published in February, 1978, and as further supplemented by the Summary of Positions Affected by Organizational Changes promulgated by Jerome Kurtz, Commissioner of Internal Revenue, on March 31, 1978, the effect is destruction of the effectiveness, the timeliness and the efficient treatment of the audit and collection matters of United States taxpayers residing in Delaware. The areas to which we direct our attention deal with the decrease in personnel, the removal of the Review function, and the removal of the Taxpayer Service function.

#### REMOVAL OF PERSONNEL

In the Summary of Positions Affected by Organizational Charts, promulgated on March 31, 1978, the Commissioner reflects that the total positions eliminated would be fourteen. Of those fourteen positions four are Division Chiefs, i.e. Administrative Division, Collection and Taxpayer Service Division, Audit Division and Intelligence Division. In a meeting with taxpayer representatives in Senator Roth's office, held on February 23, 1978, Commissioner Kurtz indicated that the various Division Chiefs eliminated are managers of people and of work flow with the result that the elimination of these positions would have no impact on front-line treatment to Delaware taxpayers. The two positions stated in that sentence seem to be inconsistent in that the individuals in charge of assigning the cases and supervising the work flow are now being removed so that the priorities of the front-line people might be left up in the air. Undoubtedly, a reduction of supervision can have a deleterious effect upon the timeliness and the effectiveness of the service to the taxpayer by the front-line IRS employees.

One is forced to conclude that either the Internal Revenue Service, under its present composition in the Wilmington District Director's Office, is extremely inefficient and does not have enough work to do, or, if it does have enough work to do—and it seems to be extremely busy from my experience—the proposal is going to cause it to become inefficient.

I think this is further illustrated by the fact that under the present Organizational Chart, the District Director has, essentially, the four Division Chiefs reporting to him. Under the proposed Organizational Chart, rather than having four individuals report to him, the District Director will have an Administrative Officer, Chief of Audit Section, two Collection Group Managers, a Taxpayer Service Group Manager, a Service Procedures Review, Chiefs of Centralized Services, and an Intelligence Group Manager reporting directly to him.

One wonders whether or not the proposal indicates that at the present the Wilmington District Director himself does not have enough to do. From our experience in the area it appears that the present District Director is extremely busy and has done a very fine job in representing the Internal Revenue Service in Delaware.

Let me emphasize that our complaint does not deal with the removal or the changing of position of any particular individual. Our complaint deals with the removal of functions from the Wilmington District Director's Office which will cause a decrease in efficient service to the Federal taxpayers of Delaware.

In this latter connection we draw to your attention a press release which appeared in the Wilmington Evening Journal on April 19, 1978, which states that the Internal Revenue Service intends to cut the hours of its available service in Kent and Sussex Counties. That article appeared on Page 15 of the Evening Journal on Wednesday, April 19, 1978.

The April 19, 1978, news release is directly contrary to the comments made by Commissioner Kurtz at the meeting in Senator Roth's office on February 23, 1978. Also, it is directly contrary to the statement made in the third paragraph of a letter dated March 31, 1978, of Commissioner Kurtz directed to Senator Roth. Undoubtedly, there may be some overstaffing in the Wilmington District Director's Office as there is throughout the entire Internal Revenue Service, but where

that overstaffing may be has not been pointed out in the conferences with Commissioner Kurtz, in communications from Commissioner Kurtz, or in the Summary of IRS Organization Review of Adopted Recommendations published in February of 1978. Our view would be that, certainly, we favor the elimination of overstaffing to cut Government costs, but do not let that be an excuse to remove functions and reduce the effectiveness and the timeliness and the efficiency of the service to the Delaware taxpayers.

#### TAXPAYER SERVICE FUNCTION

In the Summary of Positions Affected by Organizational Changes, the Chief of Collection and Taxpayer Service is removed, as well as some ancillary personnel, including the Chief of the Office Branch.

It has been our experience that in matters involving interest computation, location of returns, and correctness of line entries on returns, the contact with the Taxpayer Service Division can expeditiously resolve these matters. If the Delaware taxpayers are now forced to go to the prime District, i.e. Philadelphia, to deal with these minor, but very irritating, problems, which seem to grow in magnitude by virtue of their nature, it seems extremely unfair. Further, since the type of taxpayers who generally have these problems, which can be solved by the Taxpayer Service Division, are low-income individuals, it is apparent that they may be unwilling or unable to transport themselves to Philadelphia to contact the appropriate person in the Philadelphia District Director's Office who can handle their particular problem. Thus this segment of the tax-paying Delaware public will not be entitled to equal treatment under the law or equal application, or the same application, of the tax law as will the taxpayers located in Philadelphia. For these reasons, the taxpayer service function should be carefully scrutinized before removing any portion of it from the Wilmington District Director's Offices.

#### REVIEW FUNCTION

As the members of the Subcommittee know, the Review function is entirely an Interoffice function of a District Director's Office of the Internal Revenue Service. The Review process involves the situation where an older and more talented and knowledgeable Internal Revenue Service employee reviews the proposed Audit Report or Collection Report of an agent who has been dealing with the taxpayer or the tax practitioner representing the taxpayer. It is in the Review process that for the first time careful consideration is given to the position taken by the agent with respect to the various issues and the positions taken by the taxpayer or the taxpayer's representative.

It has been our experience that in a number of cases, as the result of the Review, the Internal Revenue Agent's position is modified in such a fashion that the case is then amicably resolved at the local level.

In his letter of March 31, 1978, Commissioner Kurtz indicated that because of the need to maintain specialized expertise, the Review process will be transferred to the prime District of Philadelphia. Further, the Summary of Positions Affected by Organizational Changes indicates that the three Review positions would be eliminated in the Wilmington District Director's Office.

It is our belief that Commissioner Kurtz overlooks the fact that Delaware, as does every other geographical location, has its own unique factual situations. For example, Wilmington, Delaware, has been called the "chemical capital of the world". Further, the second largest industry in Delaware, which is located in the two lower counties, is the broiler industry. One wonders what sort of specialized expertise would be located in the Philadelphia District Director's Office with an understanding of the unique factual situations arising in Delaware when the Reviewer is not on the scene.

Carried to the extreme, almost every issue which arises in a tax controversy, including such issues as unreasonable compensation, unreasonable accumulation of earnings, travel and entertainment issues, useful lives of buildings, etc., may not be resolved in dealing with Field Agents without recourse to specialists. However, that does not mean that the review of reports needs to take place outside of the District where the audit is taking place, nor does it mean that in every instance a specialist is necessary. These specialists are available to the Auditing Agents, when needed, through technical advice as well as informally by telephone, etc.

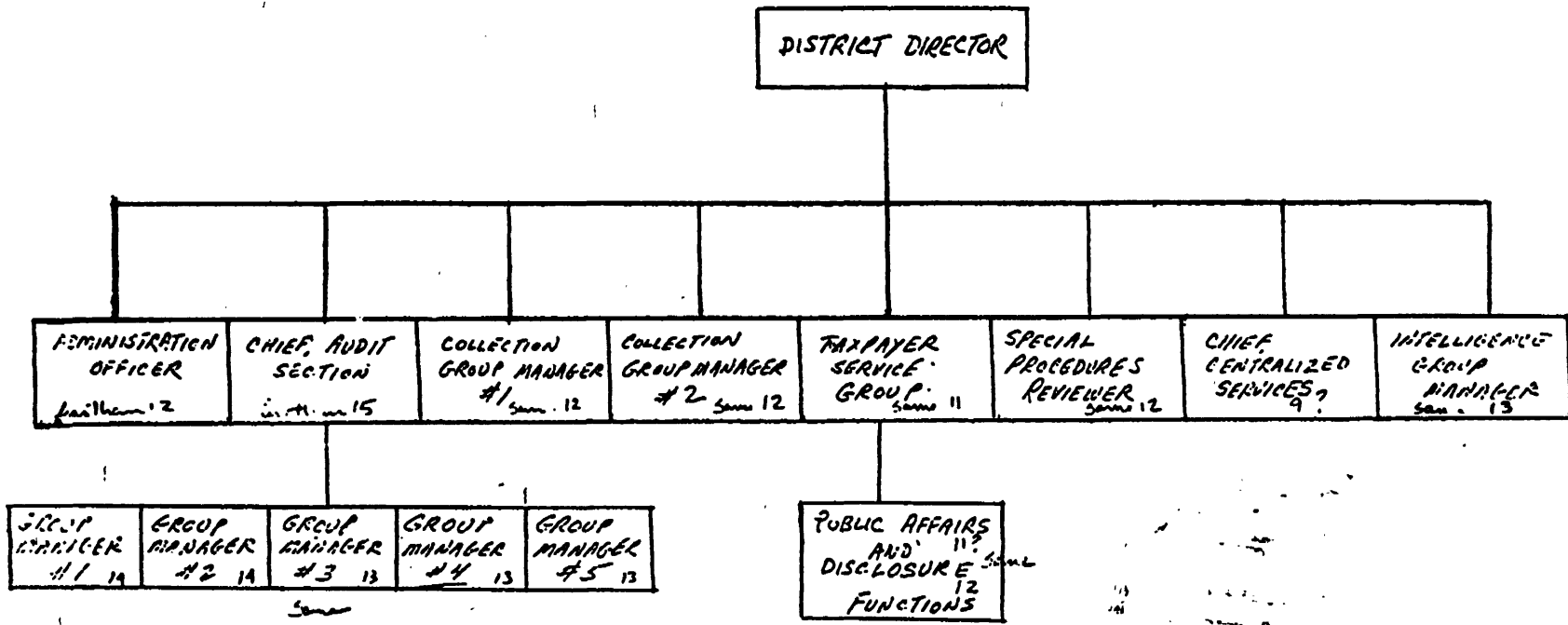
Obviously, the removal of the Review function will cause communication gaps because the Auditing Agent or the Collection Agent will be located in the Wil-

mington District Director's Office, and the Reviewer in Philadelphia; and the Reviewer under normal IRS procedures will have to communicate in writing with the Agent. Further, with the Review function in Philadelphia, the Delaware taxpayers will have to take their number as it is aggregated with the taxpayers served by the Philadelphia District Director's Office. Obviously, as a satellite District there would be a tendency to give less preferential treatment to those cases arising in Delaware than there would be to those cases arising within the Philadelphia District Director's Office.

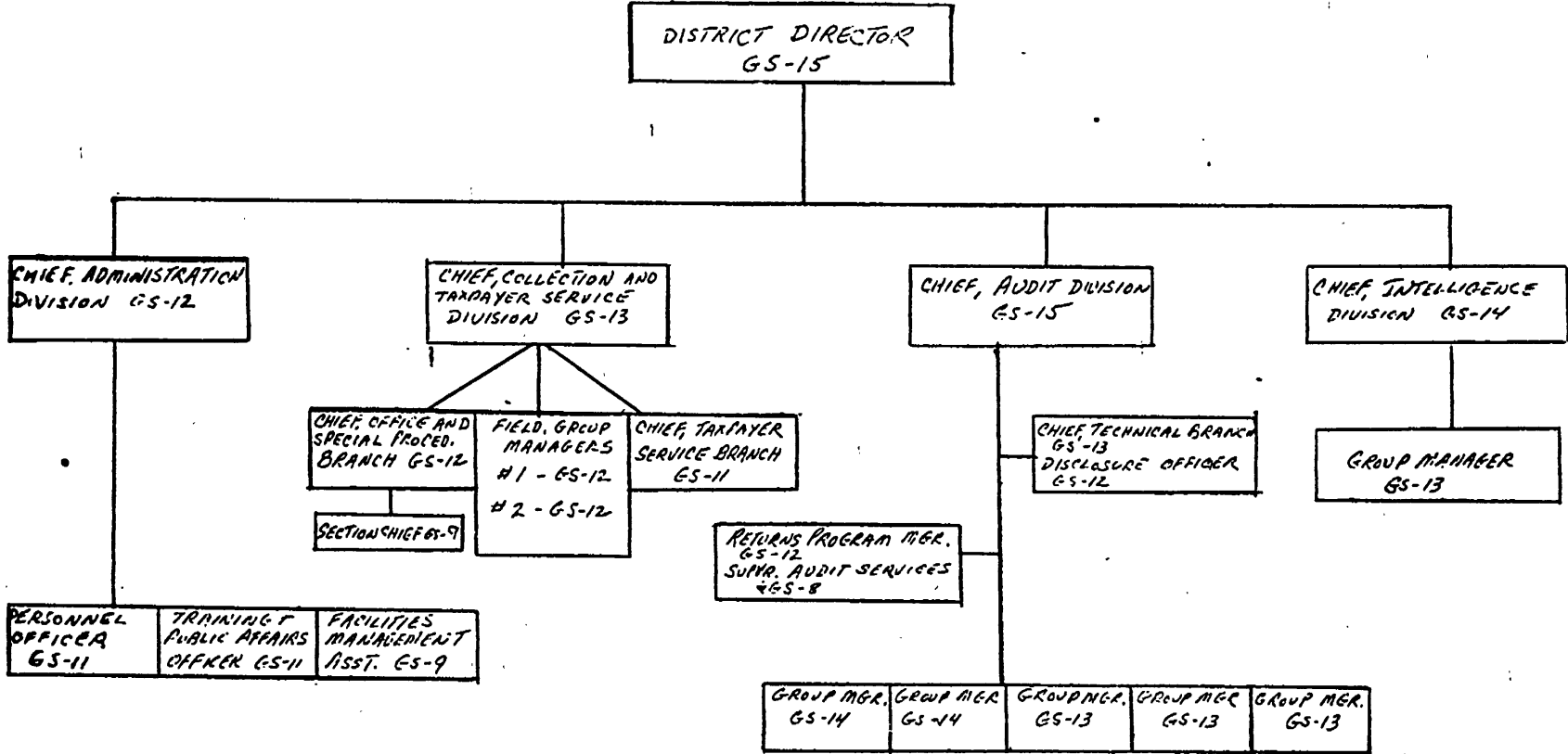
All of the foregoing leads to inefficient and less timely service to the Federal taxpayers located within the geographical area served by the Wilmington District Director's Office.

#### CONCLUSION

In conclusion it is my view that the proposals to streamline the Wilmington District Director's Office, as they relate to the removal of supervisory personnel, the requirement for more people to report to the District Director, the reduction of the Taxpayers Service function, and the removal of the Review function will all cause unneeded and unfair treatment to the Federal taxpayers located in Delaware because they will increase the time required to service those taxpayers and will reduce the efficiency of the service provided to the taxpayer. All taxpayers, whether in a small or a large District Director's area, are entitled to the same timely, efficient service by the Government collecting their tax dollars because they are the taxpayers paying for the governmental function.



WILMINGTON DISTRICT  
PROPOSED "STREAMLINED"  
ORGANIZATION



50

WILMINGTON DISTRICT  
PRESENT ORGANIZATION

Senator HASKELL. Our last witness is Harold C. Arcaro. We are delighted to see that the Senator from Rhode Island is with him and we look forward to hearing from both of you.

Senator CHAFEE. Thank you very much, Mr. Chairman and Senator Roth. It is my privilege today to introduce a practitioner from our State—actually, I thought that would be probably more effective than my testifying alone, because my view is that probably you look on Senators who come here from States which are affected with a realization that they are battling to preserve the status quo, if you would, the jobs.

Furthermore, I am not a tax practitioner. I never have been, and therefore, I felt to have somebody who was a practitioner, just as the two gentlemen from Delaware who were here before, would be effective.

Harold Arcaro has been a practicing attorney for 20 years nearly exclusively in the Federal tax field. He has been a member of the IRS Service—he worked for the IRS actually—and is presently on the regional liaison committee to the IRS in the northeast region.

He is a professor in the graduate tax program at one of our colleges and, to show you this is a bipartisan effort, he was a former Democratic senator in our State legislature.

Senator HASKELL. I hope his registration remains the same.

Senator CHAFEE. His registration, I assure you, is valid and he has not deviated from the straight and narrow path.

It is a pleasure to introduce Harold C. Arcaro, Jr., a member of the Rhode Island bar.

Senator HASKELL. Thank you very much, Senator Chafee, and we look forward to hearing from you, sir.

#### STATEMENT OF HAROLD C. ARCARO, JR., ESQ.

Mr. ARCARO. Thank you, Senator Chafee. Mr. Chairman, Senator Roth, I did prepare a written statement—

Senator HASKELL. That has been received and will be reproduced in full.

Mr. ARCARO. Rather than alluding to it, I would really rather conversationally and extemporaneously cover some of the points that were raised today, at the risk of being somewhat disjointed.

I would like to say at the outset that there is no question in my mind that this so-called streamlining does constitute the elimination of, certainly, the Providence district and I would assume the other district, as really effective working districts within the Internal Revenue Service structure. I think there was a comment—I think Mr. Kurtz is a quite competent person, but I think you get tipoffs from the way people talk—and he used the expression, "There are absolutely no present plans for further reorganization."

It seems to me as someone who was, myself, involved in politics and who has been sort of a student of it since that time, that that is exactly what a candidate for office in November or September says in February, that I have no present plans to run for another office.

So I think that is pretty much of a tipoff, and, beyond that, on the plane this morning I went through and read all of the position profiles

of the functions that are affected in this reorganization, and I would liken the Chiefs of Intelligence, of Collection, of Administration, of Audit, to chief petty officers on a ship. And what we are doing is saying, well, we are still going to have two ships, but we are going to take the chief petty officers from one ship and we are going to put them on another ship and they will run both ships, and frankly, that is not the way you can run a ship, and I think Rhode Island and the other districts quite clearly are going to be second-class districts, and they are not really going to be, and have the functions, that districts do.

I think this program, this plan, perhaps looks well on paper, but in terms of operations, in terms of its reality, I do not think it works at all, and I would like to point out one thing that sort of demonstrates that. If you are in Washington, you can look at a map and see that Rhode Island and Connecticut are really close by, and you can look at the figures of employees in the Boston district and the Hartford district and say, gee, it would really work well to include the people from Rhode Island in with Hartford and have a balanced number of people in each of those districts.

Well, the fact of the matter is that I do not consider myself to be a world traveler at all, by any standard, but I have been outside the country more times than I have been to Hartford.

That is really not a downplay to Hartford, it is just that historically, Massachusetts and Rhode Island have been connected. Rhode Island was a part of the Massachusetts Bay Colony. And so there are ties between Boston and Providence that are constant and continuing; the transportation system is there, there is good train service. There is no train service between Hartford and Providence.

Senator ROTH. That sounds like between Wilmington and Washington.

Mr. ARCARO. What I am attempting to say is if that someone really looked at and did the intensive factfinding that the Commissioner says was done, they could not connect the functions with Providence and Hartford; they would connect the functions with Providence and Boston.

The other thing that I would say is that if these initial changes are implemented, I would be the first one to stand up and say that to make that process—given those changes—to make that process more effective, you would have to eliminate Providence as a district. And I say this in my own particular area, and I come from a firm that does nothing but tax work. All of us have been previously with the Government. I am with regional liaison group and I might say that practitioners and taxpayers have not been brought into this process by the Internal Revenue Service to find out how they are affected. At no meetings of the Regional Liaison Committee has this subject ever been broached; and I think it is just a rehash, and it is sort of a sugar-coating to say that we will have a district director when, in reality, we are not going to have a functioning district office in Providence and I assume any one of the other districts.

Now, when you talk in terms of travel and saying that taxpayers will not have to travel to Hartford, that may well be the case in most instances, but if the government employee himself has to do that traveling to Hartford, the impact is ultimately upon that same taxpayer.

whether he is doing it or not. I am talking in terms of turnaround time. I am talking in terms of paper shuffling. I am talking in terms of the fact that if someone is sitting in the Hartford office, or has an appointment in the Hartford office with a problem that just arose, he is going to get the treatment, he is going to get the consideration, and the telephone messages that emanate from Providence to Hartford are not going to be taken care of.

As someone who was part of the IRS structure, part of the IRS bureaucracy, I would also like to say that I think that when you take away the ultimate decisionmaker, the chief, the guts of the operation, somebody you can second-guess a decision that is made at the local level and remove him from where he would be part of, very informally, a decision as it arose, you put people in a situation of stultifying them where they take more rigid positions, they do not want to be second-guessed; they do not want to be told later on by someone in Hartford or Boston or Washington, "Why did you do this."

Reference to the review function was made. I think we are going to involve ourselves with lots of additional paperwork, lots of additional travel. The review function, an agent can be called from downstairs or around the corner and asked, what is this item in your work papers, what is this item in your report, and it takes maybe 5 minutes to accomplish that.

Now, if you are doing that on the telephone, each one of those people has to have before him that particular document that they are speaking of, and I think we all know that telephone communication does not, in any way, have the same impact or effect that does personal conversation and face to face conversation.

I think there is an analogy, when we centralized in the service centers and did, you know, recordkeeping and put that in the service centers, and I think this has been alluded to by the representatives from Delaware, that you just do not get effective taxpayers service, and, as a result, the Internal Revenue Service set up taxpayers service people in each one of these districts.

Now, the advantage of that is that you are dealing with the same person every time you call up on one of these very vexing problems, the turning out of the computer of an erroneous bill is a very good example. It is a very simple thing, but it takes an awful lot of time to do it from a centralized point.

We have a taxpayer's service representative, and when we call him, he gets the job done and if it does not get done we can call up and speak to the same person. Now, that was implemented, because, in the past, you would call up a service center and you would talk to Mr. A on Monday and you would tell the same story to Mr. B on Tuesday and third to Mr. C on Wednesday, and really, you would not get the job done.

I would like to point out that the Rhode Island Bar Association has come out—and I will see to it that their resolutions are sent to the committee in opposition to this. The Society of Certified Public Accountants has come out against this so-called streamlining.

I would like to point out something else that was alluded to previously. I think the last election demonstrated, if nothing else, one thing, that the people have felt alienated from their Government and



distant from their Government. And when people feel alienated and distant from their Government, they do very strange things. And when you are dealing in the revenue-raising function, if a taxpayer is alienated, I think you have a lesser amount of compliance, or a greater cost, in encouraging and developing compliance, and I think that, particularly in this function, that we ought to be very sensitive to not cutting back on service.

I did not set up the jurisdictional lines of Rhode Island, but I can tell you that Rhode Islanders are very different from the people in Massachusetts, they are very different from people in Connecticut and I think they are entitled to the same kind of service and review that people from other States do have.

In the intelligence function, which is one that I am involved with a good deal, there are requirements in the manual, there are requirements in the regulations that a chief of intelligence shall pass on a prosecution recommendation, and that is a very serious thing, a recommendation for prosecution:

Now, we are not going to have a chief of intelligence in Rhode Island. We are going to have a number of people who might have different points of view, and ultimately that man is the one who decides that very important decision. If it is going to go in Hartford, you are going to have a situation where the chief of intelligence will be passing on Rhode Island cases but be responsible to the district director in Hartford—not be familiar with the local situations, not be familiar with the industries that we have and the peculiarities that we do, in fact, have.

I just want to, again, use the analogy that we are taking our chief petty officers, the guts of a management team, and we are transferring them to another ship, and I think that is what the Commissioner is doing. I think he is playing numbers games. I do not think that the people who did that very intensive factfinding have any idea of the situation in Rhode Island, the lack of connection between Providence and Hartford.

I think that this is a sugar-coated situation and I think, without any question, we are going to see very shortly down the line a proposal to eliminate those districts, and to have a district director who is really not a district director is fooling you, it is fooling the taxpayer, and it is fooling the employees and I might just say in closing, that we happen to have had the other evening, just by coincidence, a retirement party for the district director in Rhode Island.

That was attended by all kinds of people in the Rhode Island community, and he has become a very respected member of that community. In the course of that gathering, and in the course of my own dealing with people in the district, I have yet to meet one member, one representative of the Providence district, most of whom will not be affected in any way personally by this reorganization, who feels that this reorganization will improve efficiency and give greater service to taxpayers, and indeed, most of them feel otherwise.

I can say the same thing for people on the regional level. At regional council, which is the office of attorneys who serve New England, located in Boston, there are presently plans to locate a Hartford office, and I think, this together with—

Senator HASKELL. Sir, the bell has rung. Could you please try to wind up your your testimony.

Mr. ARCARO. Certainly. I would like to merely finish that thought, that the original proposal by the Commissioner to eliminate many more positions, the reality of this proposal and the fact that there are now plans underway to establish a Hartford office or regional council which will serve Rhode Island, will make it abundantly clear that Rhode Island is going to be considered, and will be, just a step-child and that the people in Rhode Island will not get the same service to which they have been accustomed and to which I believe they are entitled.

Any cutback in service to Rhode Island is going to have an adverse effect on the revenue and an adverse effect upon taxpayer respect for the system and, frankly, that is the most important part of a self-assessment system of taxation.

I appreciate the opportunity and I will see to it that additional comments, both of those two societies and myself, will be forwarded to the committee.

Senator HASKELL. Fine.

If the record stays open for a week, will that be time enough for you to get those down?

Mr. ARCARO. Absolutely.

Senator HASKELL. The record will stay open for a week for the submission of that information, plus the answering of questions that will be submitted.

[The following was subsequently supplied for the record:]

THE RHODE ISLAND SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS,  
Providence, R.I., May 2, 1978.

Hon. JOHN H. CHAFEE,  
Dirksen Senate Office Building,  
Washington, D.C.  
U.S. Senate,

DEAR SENATOR CHAFEE: The Society, through recent news articles and other sources, is aware the Internal Revenue Service contemplates streamlining its New England District offices. This letter addresses itself to the impact of the proposed streamlining on the Providence District offices.

Initially we understood the changes involved eight or nine positions. Recently, information has come to our attention that the work force reduction may involve approximately twenty-five positions. Such a major reduction, in our opinion, would have a major negative impact on the excellent relations that exist between the Society membership, its clients and the Internal Revenue Service.

It is our estimate if the proposed reductions reach the top number mentioned, the loss of annual payroll to the R.I. economy approaches a significant level. The loss of these people to the civic and cultural life in the State is, of course, immeasurable.

The R. I. practitioners have found it much more efficient in dealing with problems locally, in person, rather than by long distance telephone communication or by letter writing. In past years, we have frequently encountered problems in several of our dealings which are processed in Andover. As practitioners, we are concerned with servicing our clients on a timely and economic basis. As laws become more complex, this becomes more difficult. We believe that such a decision regarding streamlining would, most definitely, effect the timely and economical resolution of the problems of the Rhode Island taxpayer.

Further compounding the situation, the proposed work force reduction appears to center on middle and top level management personnel which, it would appear, leaves a gap between the District Director and first line people, resulting in delays and increased travel to other District offices for Rhode Islanders. Con-

versely, other District offices would need to increase their top level capabilities to handle the travelling Rhode Island taxpayers.

To summarize the proposed R.I. manpower reduction would in our opinion, contribute to inefficiencies and delay, increase demands on the taxpayer and have a negative impact on the viability of the R.I. economy which should be avoided.

The Providence District office and this Society have built, over the years, mutual respect and demonstrated a willingness to work together in solving common problems at a high professional level. It is our hope nothing will be done to adversely affect that relationship or, more important, impose an additional burden on the Rhode Island taxpayer.

Very truly yours,

CARL WEINBERG,  
*CPA. Chairman.*

Senator HASKELL. Well, I want to thank you very much and I am sure that Senator Roth undoubtedly feels the same way. I think it is terribly important to hear directly from people who deal on a day to day basis with the Internal Revenue Service; I think this is the best way of knowing what the true effects of a possible shift such as this are. I want to thank you and compliment you on your testimony.

Senator Roth?

Senator ROTH. I, too, would like to say that it was most informative. I think you hit the nail on the head, that this study or these recommendations appear to have been made from an ivory tower and do not consider the most essential criteria, service to the taxpayer.

Thank you very much.

Mr. ARCARO. Thank you very much.

[The prepared statement of Harold C. Arcaro follows:]

STATEMENT OF HAROLD C. ARCARO, JR.

As an attorney in a law firm with a practice limited to taxation, I feel compelled to express my strong objection to the proposed "reorganization" of the Providence, Rhode Island district office of the Internal Revenue Service and to point out its likely adverse impact upon the government and taxpayers alike.

By way of demonstrating the requisite background and experience upon which my judgments are based, I believe it is appropriate for me to point out that the firm in which I am a partner, in addition to devoting itself exclusively to matters of taxation, regularly represents, by the expressed estimates of Internal Revenue Service personnel, perhaps 90 percent of the taxpayers investigated by the Intelligence Division and is also involved with a substantial portion of the audit, conference and litigation emanating from the Providence District. Our practice also involves activity in the other districts in the Northeast region. Further, each of my partners and I have previously been Internal Revenue Service employees, for the most part in various offices and functions of Regional Counsel. My own designation and participation as one of the two Rhode Island representatives on the Internal Revenue Service Regional Liaison Committee (Northeast Region) gives me continuing insight into the internal workings of the Internal Revenue Service and its impact upon taxpayers. Finally, the fact that I am an adjunct professor in the newly established Bryant College Graduate Tax Program where my course of instruction is Internal Revenue Service practice and procedure, compels me to make known by views on the proposed reorganization.

Specifically, it is my feeling that the proposed changes probably will not result in overall cost reduction to the government and in any event will increase the direct costs to the taxpayers involved. Additionally, it is submitted that efficiency will not be improved by the proposed changes and that, by the same token, taxpayers will be subjected to inconvenience and imposition if the reorganization is implemented. Furthermore, although the severity of the originally proposed changes was reduced, it is submitted that the original proposal gives insight into the ultimate direction the Internal Revenue Service intends to pursue, and that

implementation of these currently proposed lesser changes will be an opening of the door to further change and provide bootstrap justification for subsequent, more drastic curtailments. Finally, it is clear to me that the most recent general election demonstrated quite clearly that the citizenry feels alienated and distant from their government and that they are insistent upon a more personal, direct connection with it; it is particularly important that this reality be addressed by the Internal Revenue Service, for under our self-assessment system of taxation, any alienation of taxpayers can be expected to have an adverse impact upon the effective determination and collection of the revenue.

(1) *Government cost.*—At the outset I wish to point out that any reduction of personnel can be justified on paper as a cost saving measure. However, the hidden undisclosed costs of centralization are a basic truism of bureaucracy.

While a representative of the Treasury Employees Union is probably the more appropriate person to address himself to this issue, I do wish to point out that overall, few positions seem to be eliminated, and that the initial relocation costs and subsequent travel implementation and transmission costs are among those that should be considered in determining the overall cost impact.

(2) *Cost to the taxpayer.*—In terms of more direct cost to affected taxpayers, there is no question in my mind that they will bear a higher burden. Since the taxpayer is the ultimate payor of the cost of government, directly and indirectly, it is most inappropriate not to factor into the economic equation any resulting increased direct taxpayer costs.

In this regard travel to Hartford or Boston, as opposed to Providence, by the overwhelming majority of Rhode Island taxpayers constitutes a hardship, particularly when an unrepresented taxpayer is required to take additional time out from work. By the same token, the additional time consumed by a practitioner necessarily increases costs to taxpayers with representation. The proposed reorganization, coupled with the concurrently proposed opening of a new Regional Counsel office in Hartford which will service many Rhode Island taxpayers, does not take into account the additional cost to both taxpayers and the government.

Providence is most accessible to all Rhode Islanders by road or public transportation. Hartford is accessible only with great difficulty. The distance of 75 miles from Providence is deceptive, when one considers the poor road conditions. Travel by rail is academic and unreal for one must connect through New Haven which is approximately 100 miles from Providence. Insofar as the concurrent transfer of functions from Boston to Hartford is concerned, I note that Amtrack runs 10 trips daily from Providence to Boston. The highway to Boston is much superior to the road to Hartford. As for bus transportation, there are 13 trips per day to Boston at a round trip cost of \$6.95 but only five to Hartford at a cost of \$14.35.

These figures give some insight into the added cost and travel time that will be involved for both taxpayers, practitioners and government personnel.

(3) *Government efficiency.*—"Efficiency" is a subjective term and the same circumstances or structure may arguably be described as efficient or inefficient.

In applying such a standard to I.R.S. procedure, even internally, it seems imperative that the impact upon the taxpayer be considered. And, as in any service organization, the equally subjective issue of "morale" must be considered.

As to the latter, I can represent that in the discussions I have had with scores of I.R.S. employees at both local and regional levels, I have yet to find one who believes that the proposed reorganization would result in actual or overall improvement of efficiency. Indeed, most say it would undercut efficiency by making the system more cumbersome, less personal, more bureaucratic. The objectivity of these opinions is supported by the fact that most of the individuals would not personally be affected by the cutbacks.

By way of illustration, I would like to set forth some examples of reduced efficiency that would result from the specific position transfers that are contemplated.

Discussion of the proposed conference procedure changes will be left to the overall review of that change since it is a nationwide proposal and its merits are best discussed separately.

As to the Review Staff, a function which involves daily activity with Revenue Agents, quite often Review asks an agent to explain a specific item in his report or work papers, a situation which is easily resolved by a trip around the corner or up a flight of stairs, but most difficult over the telephone. To implement the reorganization in this respect a great deal of paper shuffling, reproduction of

reports or unnecessary personal travel will be involved. Review also provides technical assistance within the District and centralization of that function will make it more cumbersome, less responsive and quite ineffective.

Insofar as the relocation of Chiefs is concerned, I strongly believe the resulting impact in the Providence office will be to depersonalize and stultify operations. It is my general feeling that the unusual or oddball situations, which become in some Divisions, particularly the Intelligence function, the rule rather than the exception, are best dealt with when the person ultimately responsible is on the scene and part of the process when the situation arises. If the person (Chief) responsible is thought by an agent to be able to "second-guess" a decision some months down the line, the agent will usually be inclined to "go by the book" in adopting a rigid or strict interpretation of his authority, with a less efficient and more time-consuming result.

This situation is a basic characteristic of structured bureaucracy and results in a breakdown of team effort. Public reaction against bureaucracy parallels that of the "branch office" government employee. "My hands are tied; this is the way Washington (and now, Hartford) says I have to do it," is all too frequently heard and is a natural result of what is proposed.

The IRS has often recognized this problem in the past. For example, in Providence, as in other districts, it became necessary to set up taxpayer service representatives to unravel the confusion and rigidity that resulted from the centralization of such functions as the Service Centers. It is submitted that if centralization of such impersonal matters as computations has such adverse impact, the centralization of more personal functions will have a much greater adverse effect.

The elimination of the Return Programs Manager will result in longer turnaround time in the resolution of problems. That individual is one who is most helpful in resolving taxpayer problems for he has a handle on all the returns under inquiry. Additionally, since he is involved with the selection of returns for audit the centralization of his function is likely to eliminate the knowledge of the sociological and economic characteristics peculiar to Rhode Island, thereby making the function less efficient. In short, centralization will reduce knowledge of local flavor or color which very often is a critical factor in decisions such as those performed in the returns program management function.

By the same token, elimination of the Administration function from the Providence district and centralizing the function will depersonalize such vitally personal functions as personnel management. Even the simple function of providing ample supplies of requisite forms becomes more difficult when requests are centrally funnelled. In short, paper and turnaround time will necessarily increase.

One situation which repeats itself in managing a governmental organization or a personal household is that the real costs of a move, project, reorganization, or similar effort, tend to be unconsciously "hidden" by those seeking the particular action. In government one recurring example is that the best planned centralization often becomes most inefficient when subsequent budget restrictions are taken out on travel, which is necessary to effectively implement the plan. When this happens, resort is had to the telephone or to having a person unfamiliar with the facts of a case substitute when he travels on one of his own case. This sort of situation with resulting inefficiency, is built into the proposed reorganization.

A general criticism of the proposed centralization involves the basic and normal distinction in reaction of individuals in their response to personal presentation, and telephone requests. Thus, if the responsible individual is faced with agents, practitioners, taxpayers or others personally waiting in his office or calling on him in Hartford, he will naturally be more likely to respond to them than to a number of telephone requests emanating from Providence. This result is inevitable and necessarily will deny Rhode Islanders equality of consideration and treatment within the serviced area.

(4) *Impact upon the taxpayers.*—The unrepresented taxpayer is often the victim of the system or of the fact that he cannot afford representation. Notwithstanding the recent expressions of opinion to the contrary, I believe that the professions are attempting to resolve the latter.

I know that our office does extensive *pro bono* work either in conjunction with the legal Services Program or directly for indigent parties, and I believe an increasing number of practitioners recognize their responsibilities in this regard.

However, the more centralized, the more impersonal the system is made, the more difficult the resulting burden becomes for such practitioners, and the more victimized are the unrepresented.

The IRS itself recognized this dilemma in setting up the Small Tax Case procedure within the Tax Court. I am sure that critics of the program call it too costly and can attack it on paper as inefficient. However, it gives an outlet to otherwise alienated taxpayers. When an agency is concerned with the collection of the revenue it is pennywise and pound foolish to reduce manpower in the name of efficiency and cost reduction, if the natural result is inconvenience, delay or other factors which alienate a taxpayer.

All of the aforementioned examples will result in greater delay, cost or inconvenience to Rhode Island taxpayers. Whether travel, paperwork, turnaround time and other inconvenience is initially borne by a government employee, a practitioner or the taxpayer himself, the person who ultimately bears the real impact is the taxpayer. As indicated above, additional burdens are inherent in the proposed changes.

There is being created a psychological and geographic distance, as well as an operational one for Rhode Island taxpayers. This is particularly adverse in a State such as Rhode Island where historically two of the basic characteristics of its people have been individual independence and a closeness to and familiarity with Government.

Considered in that light, the impact of the proposed reorganization is even greater in its implementation than it is in its planning.

(5) *The first step toward elimination of districts.*—In my judgment, no statistics, rhetoric or representations can hide the reality from those who are close to the situation, that this reorganization is the first step to total elimination of smaller districts. Indeed, implementation of the initial step will serve to further justify and support the ultimate elimination of Providence as a District.

Accordingly, the validity of eliminating the District is appropriately and necessarily considered at this time.

The depersonalization resulting from elimination of Providence as a District, the de-emphasis of factoring into decision making the peculiarities of an area, and the mere change of the seat of power, as it were, spell nothing less than reduced service for Rhode Island taxpayers.

The resulting delays, hidden costs to taxpayers and Government alike, and inconvenience to taxpayers, will necessarily result in an alienation of taxpayers and an adverse impact on the revenue.

It is clear to all practitioners and IRS personnel that establishment of the Taxpayer Service function was necessitated by prior centralization, a necessary measure to reintroduce a personal touch to solution of taxpayer problems. While doing this on a local level is arguably more costly in terms of direct and readily ascertained costs, to do it any other way makes it less efficient and more costly overall. It is the "problem solving" function which becomes most inefficient when the taxpayer involved is treated like a number rather than a person, or when the Government representative who responds to a followup telephone request is a different person.

The utter failure of Service Center personnel to perform similar functions, on a regional level, is testimony to this fact. Nonetheless, it is my understanding that the IRS has in mind transferring the Taxpayer Service telephone function in New Hampshire, to Massachusetts. It seems apparent that such moves as this portend greater centralization that now proposed and also will necessarily result in ineffective resolution of problems that require more direct and personal approaches.

Doubtless the argument can be made that Rhode Islanders now get more personal service than New Yorkers and that we must therefore eliminate smaller districts to provide uniformity. This same argument can be applied to the makeup of the U.S. Senate.

In each instance, however, the citizens of individual States have become accustomed to a degree of government service that is suited to their own circumstance. A New Yorker is attuned to depersonalization because it becomes part of his everyday life. On the other hand, Rhode Islanders, by virtue of the size of their State, have different social patterns. It seems clear, then, that to apply a uniformity to areas otherwise different in social patterns and other respects, results not in equity but in inequity. There is nothing more inequitable than applying uniform concepts to different factual and social settings.

Indeed, if a similarity in approach is deemed appropriate, it seems desirable to opt for a greater personalization of depersonalized areas than to attempt the opposite.

The natural conclusion that I believe should be reached from the above is the conclusion of many who analyzed the last election results. There seems to be

general recognition of the fact that centralized bureaucracy often makes for front-end economy and long term waste; for planning-board efficiency but real-life redtape; and for alienation of the people rather than service. It is my strong belief that the proposed "reorganization" of the Providence (and other) IRS District(s) is a classic example of this bureaucratic syndrome. Most importantly, however, when the alienation is created by the "tax collector", the natural result is an unnecessary degree of noncompliance by taxpayers which in a self-assessment system of taxation, undermines the very specific revenue responsibility with which the agency is charged. All this spells trouble for taxpayer and government alike.

Senator CHAFEE. Mr. Chairman, I just want to thank both you and Senator Roth for your patience. We have gone beyond the time, a little bit, and we are the last witnesses and I am sure you have luncheon appointments and different things and I am sure very grateful to you for taking the time to hear a matter that is of considerable importance to us.

Senator HASKELL. Well, it certainly is, Senator Chafee, and thank you for appearing with your fellow Rhode Islander.

Senator CHAFEE. Thank you.

Senator HASKELL. The hearing is adjourned, but the record will stay open for a week.

[Thereupon, at 12:10 p.m., the hearing in the above-entitled matter was adjourned.]

[By direction of the chairman the following communications were made a part of the record:]

U.S. SENATE,  
COMMITTEE ON APPROPRIATIONS,  
Washington, D.C., May 12, 1978.

Hon. FLOYD HASKELL,  
*Chairman, Subcommittee on Administration of the Internal Revenue Service,  
Senate Finance Committee, U.S. Senate, Washington, D.C.*

DEAR SENATOR HASKELL: Enclosed is a copy of a resolution I have just received from the Cass County, North Dakota, Bar Association, very strongly objecting to the proposed reorganization of the North Dakota District Office of the Internal Revenue Service.

I deeply regret that this resolution was not received in time for me to present it in person at your hearings earlier this week. I would appreciate it, however, if it could be made a part of the record of those hearings. The Cass County Bar Association is the largest County Bar Association in the State of North Dakota and one which has many members practicing before the IRS's District Office in Fargo. I believe the Executive Committee of this Bar Association makes an excellent case for disapproving this reorganization.

With kind regards,  
Sincerely,

MILTON R. YOUNG.

Enclosure.

#### RESOLUTION

Whereas, The Cass County Bar Association is an organization of attorneys whose members live and practice mostly in Cass County of North Dakota and Clay County of Minnesota, and

Whereas, The Executive Committee of the Cass County Bar Association is authorized by the By-laws of the Association to promulgate certain positions, statements and resolutions on behalf of all members of the Association, and

Whereas, It has been proposed by the Commissioner of Internal Revenue to reduce the personnel at the North Dakota District Office of the IRS at Fargo, and generally to reorganize the Fargo office, and

Whereas, The members of the Cass County Bar Association represent and advise clients and have had numerous dealings with the representatives of the Internal Revenue Service who work in the North Dakota District Office, and

Whereas, The Association is genuinely concerned on its own behalf, that of its clients and on behalf of other legal practitioners in the State of North Dakota about the possible consequences of a reduction of the staff of the Fargo office.

Now, therefore, be it resolved That the members of the Cass County Bar Association are opposed to the proposed "reorganization" of the North Dakota District Office of the Internal Revenue Service, located in Fargo, to the extent that any or all of the following detrimental situations might arise as a result of the proposed changes:

1. That the transfer and elimination of various division chiefs, particularly the review chief, and other upper level decision making personnel dilutes and delays the decision making powers which are currently being exercised by employees at the Fargo office;

2. That the transfer of personnel causes additional expense and lost time to North Dakota attorneys and their clients in the pursuit of solutions to the same problems which are currently negotiated in the Fargo office;

3. That files currently reviewed, analyzed and major decisions decided upon in the Fargo office at present are transferred to St. Paul or elsewhere to persons who would lack the sufficient firsthand knowledge to make important decisions involving problems which are peculiarly of a regional or local nature;

4. That a material number of day-to-day personal contacts between attorneys and IRS personnel would be conducted with the St. Paul office rather than the current personal contact which is available from the Fargo office; and

5. That the current staff reduction and reorganization of the Fargo office is only the beginning of a formal or informal plan or policy to make further reductions in the Fargo office with the eventual result that Fargo would be made a subdistrict of the St. Paul District Office;

Be it further resolved That the members of the Cass County Bar Association are generally satisfied with the service provided to them and their clients by the Internal Revenue Service from its Fargo District Office and that any changes in the current structure which would have the effect of reducing or impairing that service to the taxpayers of Cass County and elsewhere in North Dakota should be vigorously opposed as contrary to the best interests of all taxpayers residing in the State of North Dakota.

Dated this 5th day of May, 1978.

THOMAS C. WOLD,  
President of the Cass County Bar  
Association Executive Committee.

U.S. SENATE,  
COMMITTEE ON APPROPRIATIONS,  
Washington, D.C., May 15, 1978.

HON. FLOYD HASKELL,  
Chairman, Subcommittee on Administration of the Internal Revenue Service,  
Senate Finance Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR HASKELL: On Saturday I received the enclosed letter from an attorney practicing in West Fargo, North Dakota, who, you will note, is a former employee of the Internal Revenue Service.

Mr. Rosenvold makes an excellent case against the proposed reorganization of the Fargo District Office of the Internal Revenue Service. His thoughts are particularly meaningful to me inasmuch as he is a former employee of the Internal Revenue Service and understands better than anyone else the operations not only of the Fargo District Office but of their entire establishment. He makes a good point, too, when he expresses the fear that we may be "streamlined" out of business on a piece-meal basis.

If your hearings are still open, I would greatly appreciate it if this letter from Mr. Robert E. Rosenvold could be included.

With kind regards,  
Sincerely,

MILTON R. YOUNG.

Enclosure.



OHNSTAD, TWICHELL, BREITLING, ARNTSON & HAGEN,  
*West Fargo, N. Dak., May 8, 1978.*

Re: Proposed reorganization of the Fargo District Office of the Internal Revenue Service.

Hon. MILTON R. YOUNG,  
*U.S. Senate*  
*Washington, D.C.*

DEAR SENATOR YOUNG: This morning I and four other attorneys who are members of the Cass County Bar Association met with Gerald Esposito, who is the District Director of the Fargo office of the Internal Revenue Service. The meeting was arranged to enable us to get a better understanding of the proposed reorganization and "streamlining" of the Fargo District Office and, in particular, aid us in the determination as to how it affects ourselves and our clients in our practice of law. As a former employee of the Fargo office of the Internal Revenue Service, I was particularly interested in the recent events relative to the reorganization.

As you will remember, the original plan for the Fargo office was either to eliminate or transfer at least 40 employees. Not only were most top levels of management to be eliminated or transferred to St. Paul, but also the initial proposal would have created large reductions in staff in the Service section.

Mr. Esposito did an excellent job of explaining the difference between the initial plan and the latest plan which, in effect, would result in the loss of approximately thirteen employees. He also explained, to the fullest extent possible, what jobs would be affected and what steps would be taken to see that other personnel would fill the void left by the departing individuals.

After meeting with the District Director, I am still concerned as to the effects the latest proposal will have on the taxpayers and attorneys in North Dakota.

My greatest concern is that this latest proposal is the first in a number of later steps which will be taken which will have the effect of minimizing, and possibly eliminating, Fargo as a district office of the Internal Revenue Service. The general tone of the latest proposal is to attempt to make the Fargo district a subdistrict out of St. Paul. Indeed, the administrative division will be entirely under St. Paul's control. The loss of the top level of management in the Fargo district would also, in my opinion, inevitably lead to the Fargo district relying heavily on St. Paul management for its decisions and policies.

Of particular concern to myself is the elimination entirely in the Fargo district office of the Chief of Review. The Chief of Review, among many other duties, has the job of providing the technical backup to taxpayers' service. Such technical backup, in my opinion, is of extreme importance to all tax practitioners. Furthermore, the Chief of Review is in charge of providing technical advice and serving as a liaison between the District Office and the National Office. In these days of very technical tax questions, it is important that the taxpayers and practitioners in North Dakota have a vehicle in obtaining National Office advice on our questions. Finally, the Chief of Review also has the duty of assisting revenue agents and examiners with the proper interpretation of the law, regulations or rulings. I feel it is important to have an individual in North Dakota assisting IRS personnel on these issues as often it is important to have an individual who is familiar with North Dakota law and North Dakota concerns. Such an individual should be based in the Fargo District Office. Incidentally, I have met with a number of local Internal Revenue Service employees and they feel that it is very important to have a Review Chief in North Dakota.

My greatest concern, as indicated earlier, is that the proposed reorganization will have the effect of ultimately reducing the Fargo District Office's stature and effectiveness. I see no reason why the St. Paul district and Minnesotans should have a better representation by the Internal Revenue Service than North Dakotans. I particularly envision a situation, based on my experience as an employee of the Internal Revenue Service, whereby the Fargo District Office is "streamlined" on a piece-meal basis in such a manner and in such small doses so that the practitioners and taxpayers of North Dakota are not aware of the consequences. I feel that it is of extreme importance that this, in fact, never happens. I feel that the Commissioner of the Internal Revenue Service and the Regional Commissioner should be made aware of our feelings so that any further "streamlining" does not occur until the public is made aware of the reasons and the plan itself.

In closing, it is also my feeling that the Federal government should be making an effort to decentralize rather than centralize the decision making process so as to take into better consideration the local taxpayers' views and wishes.

Thank you.

Sincerely yours,

ROBERT E. ROSENVOLD.

U.S. SENATE,  
COMMITTEE ON APPROPRIATIONS,  
Washington, D.C., May 17, 1978.

Hon. FLOYD HASKELL,  
Chairman, Subcommittee on Administration of the Internal Revenue Service,  
Senate Finance Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR HASKELL: Enclosed is a copy of a letter I have just received from Mr. Alton A. Nitschke, president of the Bismarck-Mandan Chapter of Certified Public Accountants.

In his letter, you will note, Mr. Nitschke quotes the body of a resolution adopted by that chapter of CPAs, opposing the proposed reorganization of the Fargo District Office of the Internal Revenue Service. This professional association, I think, makes an excellent case against this reorganization and I would greatly appreciate it if this resolution too could be included in your hearing record.

I regret that I did not have these letters and resolutions which I have sent you the past few days prior to your hearings. For some time I had been encouraging professional groups to adopt resolutions expressing their views on this matter, but, unfortunately, I didn't begin receiving them until late last week.

With kind regards,

Sincerely,

MILTON R. YOUNG,

BISMARCK, N. DAK., May 10, 1978.

Re: Reorganization of the Fargo IRS District.

Senator MILTON R. YOUNG,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR YOUNG: The Bismarck-Mandan Chapter of CPA's, consisting of approximately 35 members, on Friday, May 5, 1978, passed the following resolution:

"The Bismarck-Mandan Chapter of Certified Public Accountants are opposed to the reorganization of the Fargo District of IRS. We feel that the entire reorganization was brought about in haste without proper public input. We feel that the IRS has been misinforming not only the general public but also Congress about the effects of the reorganization. We have noted that the number of positions being eliminated has greatly decreased. However, we have also noticed that part of the decrease in numbers was due to eliminating the conference staff from the reorganization and placing it under public hearing as a temporary postponement to eliminating a conferee in our State. We have also noted that the IRS has informed Congress that they are not eliminating the technical and review section when all indication indicate otherwise. We are all for efficiency in government, and undoubtedly the reorganization may bring about a certain amount of cost efficiency however, we feel very strongly about losing the functions of a conferee and the technical and review sections in the Fargo District. We feel that by losing these two functions, we are creating a gigantic detriment to the taxpayers of North Dakota. This we feel is intolerable. We hereby further resolve, that our congressional delegation shall receive a copy of this resolution."

In light of the above resolution, we would greatly appreciate your assistance in saving at least our review and technical section and our conference staff.

Sincerely,

ALTON A. NITSCHE,  
President, Bismarck-Mandan Chapter of CPA's.