

February 2006

BUSINESS SYSTEMS MODERNIZATION

Internal Revenue Service's Fiscal Year 2006 Expenditure Plan



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-06-360](#), a report to congressional committees

Why GAO Did This Study

The Internal Revenue Service's (IRS) Business Systems Modernization (BSM) program is a multibillion-dollar, high-risk, highly complex effort that involves the development and delivery of a number of modernized information systems intended to replace the agency's aging business and tax processing systems. As required by law, IRS submitted its fiscal year 2006 expenditure plan, in October 2005, to congressional appropriations committees, requesting \$199 million from the BSM account.

GAO's objectives in reviewing the plan were to (1) determine whether it satisfied the conditions specified in the law and (2) provide any other observations about the plan and IRS's BSM program.

What GAO Recommends

GAO recommends that the Commissioner of Internal Revenue ensure that future expenditure plans submitted to the congressional appropriations subcommittees provide current and complete program status information and report any changes to prior commitments concerning the delivery of BSM project functionality. In providing comments on a draft of this report, the Commissioner agreed with GAO's findings and described the actions that IRS is taking to address GAO's recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-06-360.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David A. Powner at (202) 512-9286 or pownerd@gao.gov.

BUSINESS SYSTEMS MODERNIZATION

Internal Revenue Service's Fiscal Year 2006 Expenditure Plan

What GAO Found

IRS's fiscal year 2006 expenditure plan satisfies the conditions specified in the law. These conditions include meeting the Office of Management and Budget's capital planning and investment control review requirements and complying with federal systems acquisition requirements and management practices.

GAO's observations on the expenditure plan and BSM program include the following:

- During 2005, IRS made further progress in implementing BSM, but some projects did not meet short-term cost and schedule commitments. IRS deployed additional releases of several modernized systems, including the Customer Account Data Engine (the new taxpayer information database), e-Services (a new Web portal and electronic services for tax practitioners), and Modernized e-File (a new electronic filing system). While three project releases were delivered within the cost and/or schedule commitments presented in the fiscal year 2005 expenditure plan, others experienced cost increases or schedule delays.
- IRS has identified significant risks and issues that confront future planned system deliveries. The agency recognizes the potential impact of these project risks and issues on its ability to deliver planned functionality within cost and schedule estimates, and, to its credit, has developed mitigation strategies to address them.
- IRS has made additional progress in addressing high-priority BSM program improvement initiatives. Its program improvement process appears to be an effective means of assessing, prioritizing, and addressing BSM issues and challenges. However, much more work remains for IRS to fully address these issues and challenges.
- In response to GAO's prior recommendation, IRS is developing a new Modernization Vision and Strategy to address BSM program changes and provide a modernization roadmap. IRS expects to complete a high-level Vision and Strategy, as well as a more detailed 5-year plan for the modernization program, by mid-March 2006.
- The expenditure plan submitted to the Congress contains outdated program status information and omits key details concerning deferred BSM functionality. IRS's fiscal year 2006 plan is substantially based on information describing the status of BSM projects and program management initiatives as of April 2005, and, therefore, in key areas did not adequately describe progress or provide information consistent with the program's status at the time the plan was submitted to the Congress in October 2005. Without current and complete information, effective congressional oversight of BSM progress and accountability is impaired.

Contents

Letter

	1
Recommendation for Executive Action	3
Agency Comments	4

Appendixes

Appendix I: Briefing Slides from the November 30, 2005, Briefing to the Senate and House Appropriations Subcommittee Staffs	5
Appendix II: Comments from the Internal Revenue Service	38
Appendix III: GAO Contact and Staff Acknowledgments	40

Abbreviations

BSM	Business Systems Modernization
IRS	Internal Revenue Service
OMB	Office of Management and Budget

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, D.C. 20548

February 21, 2006

The Honorable Christopher S. Bond
Chairman
The Honorable Patty Murray
Ranking Member
Subcommittee on Transportation, Treasury,
the Judiciary, Housing and Urban Development,
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Joe Knollenberg
Chairman
The Honorable John W. Olver
Ranking Member
Subcommittee on the Departments of Transportation,
Treasury, and Housing and Urban Development,
the Judiciary, District of Columbia,
and Independent Agencies
Committee on Appropriations
House of Representatives

As required by law, the Internal Revenue Service (IRS) submitted its fiscal year 2006 expenditure plan, in October 2005, to the congressional appropriations committees, requesting \$199 million from the Business Systems Modernization (BSM) account. Our objectives in reviewing the plan were to (1) determine whether the plan satisfied the conditions specified in the law¹ and (2) provide any other observations about the plan and IRS's BSM program.

On November 30, 2005, we briefed your respective offices on the results of our review. This report transmits the materials we used at the briefing and

¹BSM funds are unavailable until IRS submits to congressional appropriations committees for approval a modernization expenditure plan that (1) meets the Office of Management and Budget's (OMB) capital planning and investment control review requirements; (2) complies with IRS's enterprise architecture; (3) conforms with IRS's enterprise life-cycle methodology; (4) complies with federal acquisition rules, requirements, guidelines, and systems acquisition management practices; (5) is approved by IRS, the Department of the Treasury, and OMB; and (6) is reviewed by GAO. See Pub. Law No. 109-115, Div. A, Title II, November 30, 2005, for fiscal year 2006 funding.

provides the recommendation that we made to the Commissioner of Internal Revenue. The full briefing materials, including our scope and methodology, are reprinted as appendix I.

In summary, we made the following major points:

- IRS's fiscal year 2006 plan satisfies each of the six legislative conditions.
- IRS has made further progress in implementing BSM, but some projects did not meet short-term cost and schedule commitments. During 2005, IRS deployed additional releases of several systems, including the Customer Account Data Engine (the new taxpayer information database), e-Services (a new Web portal and electronic services for tax practitioners), and Modernized e-File (a new electronic filing system). While three project releases were delivered within the cost and/or schedule commitments presented in the fiscal year 2005 expenditure plan, others experienced cost increases or schedule delays. For example, our analysis shows that Release 1.3.1 of the Customer Account Data Engine was delivered at the estimated cost and that the e-Services upgrade was completed on time and within the estimated project cost. However, two project segments—Integrated Financial System Release 1, Milestone 5, and Modernized e-File Release 3.2, Milestone 4—experienced cost increases of 93 percent and 29 percent, respectively.
- Future BSM project deliveries face significant risks and issues, which IRS is addressing. IRS has identified significant risks and issues with its future planned system deliveries. For example, according to IRS, schedule delays associated with Release 1.3.1 of the Customer Account Data Engine, as well as contention for key resources between Releases 1.3.1 and 1.3.2, necessitated the deferral of some functionality to later releases. These requirements deferrals may negatively impact cost and schedule for Releases 2.1 and 2.2, which are currently scheduled to be deployed in August 2006 and December 2006, respectively. The agency, however, recognizes the potential impact of these project risks and issues on its ability to deliver planned functionality within cost and schedule estimates, and, to its credit, has developed mitigation strategies to address them.
- IRS has made additional progress in addressing high-priority BSM program improvement initiatives. Its high-priority improvement initiatives appear to be an effective means of assessing, prioritizing, and addressing BSM issues and challenges. However, much more work

remains for the agency to fully address these issues and challenges. IRS is currently focusing on 22 high-priority initiatives, which it plans to have completed by the end of March 2006. These initiatives include establishing requirements management standards and executing the implementation plan for integrated schedule and baseline management.

- In response to our prior recommendation, IRS reports having efforts under way to develop a new Modernization Vision and Strategy to address BSM changes and provide a modernization roadmap. IRS anticipates having an approved high-level Vision and Strategy in place in early fiscal year 2006, and expects to complete a more detailed 5-year plan for the modernization program by mid-March 2006.² We believe these actions represent good steps toward addressing our prior recommendation to fully revisit the vision and strategy for the BSM program and develop a new set of long-term goals, strategies, and plans consistent with the budgetary outlook and with IRS's management capabilities.
- The expenditure plan submitted to the Congress contains outdated program status information and omits key details concerning deferred BSM functionality. IRS's fiscal year 2006 expenditure plan is substantially based on information describing the status of BSM projects and program management initiatives as of April 2005, and, therefore, in key areas did not adequately describe progress or provide information consistent with the program's status at the time the plan was submitted to the Congress in October 2005. Specifically, the plan (1) does not disclose that planned functionality for two BSM project releases has been deferred to future releases and (2) contains a number of inconsistencies between project cost and schedule data shown throughout the document. Without current and complete information, effective congressional oversight of BSM progress and accountability is impaired.

Recommendation for Executive Action

To allow for effective congressional oversight of the BSM program, we recommend that the Commissioner of Internal Revenue direct the Chief Information Officer to take the following action:

²According to IRS, the high-level Vision and Strategy and the 5-year modernization plan are now both expected to be completed by mid-March 2006.

-
- ensure that future expenditure plans submitted to the congressional appropriations subcommittees provide current and complete program status information and report any changes to prior commitments concerning the delivery of BSM project functionality.

Agency Comments

In providing written comments on a draft of this report, the Commissioner of Internal Revenue agreed with our findings and stated that the report fairly represents BSM accomplishments as well as future risks. The Commissioner also described the actions that IRS is taking to implement our recommendation, including formulating a policy and initiating dialogue with the Department of the Treasury and the Office of Management and Budget to resolve expenditure plan development and review process issues. The Commissioner's written comments are reprinted in appendix II.

We are sending copies of this report to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for the Internal Revenue Service. We are also sending copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, the Chairman of the IRS Oversight Board, and the Director of the Office of Management and Budget. Copies are also available at no charge on the GAO Web site at <http://www.gao.gov>.

Should you or your offices have questions on matters discussed in this report, please contact me at (202) 512-9286 or pownerd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



David A. Powner
Director, Information Technology
Management Issues

Briefing Slides from the November 30, 2005, Briefing to the Senate and House Appropriations Subcommittee Staffs



Review of IRS's Fiscal Year 2006 Business Systems Modernization Expenditure Plan

**Briefing for the staffs of the
Subcommittee on Transportation, Treasury, the Judiciary,
Housing and Urban Development, and Related Agencies
Senate Committee on Appropriations
and
Subcommittee on the Departments of Transportation, Treasury, and
Housing and Urban Development, the Judiciary, District of Columbia,
and Independent Agencies
House Committee on Appropriations**

November 30, 2005

Page 1 of 33



Briefing Contents

- Introduction and Objectives
- Results in Brief
- Background
- Scope and Methodology
- Results
- Conclusions
- Recommendation for Executive Action
- Agency Comments
- Appendixes
 - I – Description of Business Systems Modernization (BSM) Projects and Program-Level Initiatives
 - II – Additional Detail on IRS’s Fiscal Year 2006 BSM Expenditure Plan
 - III – IRS Reported Project Cost/Schedule Changes



Introduction and Objectives

The Internal Revenue Service (IRS) has long relied on obsolete automated systems for key operational and financial management functions, and its attempts to modernize these computer systems span several decades. IRS's multibillion-dollar Business Systems Modernization (BSM) program, initiated in fiscal year 1999, is the agency's latest attempt to modernize its systems. IRS contracted with Computer Sciences Corporation (CSC) as the prime systems integration support (PRIME) contractor to assist with designing, developing, and integrating a new set of information systems that are intended to replace IRS's aging business and tax processing systems. BSM is a high-risk, highly complex program that involves the development and delivery of a number of modernized tax administration, internal management, and core infrastructure projects that are intended to provide improved and expanded service to taxpayers as well as IRS internal business efficiencies.

As mandated by IRS's fiscal year 2005 appropriations act,¹ BSM funds are not available until IRS submits a modernization expenditure plan for approval to the congressional appropriations committees. This plan must

- meet the capital planning and investment control review requirements established by the Office of Management and Budget (OMB);
- comply with IRS's enterprise architecture;²
- conform with IRS's enterprise life cycle methodology;³
- comply with federal acquisition rules, requirements, guidelines, and systems acquisition management practices;
- be approved by IRS, Treasury, and OMB; and
- be reviewed by GAO.

¹Pub. Law 108-447, Div. H, Title II, Dec. 8, 2004. Currently, IRS's fiscal year 2006 funding is provided under a Current Resolution, Pub. Law 109-77, Sept. 30, 2005, as amended by H.J. Res. 72, Nov. 19, 2005, which continues BSM's funding subject to the "authority and conditions" provided in the fiscal year 2005 appropriations act.

²An enterprise architecture (EA) is an institutional blueprint defining how an enterprise operates today, in both business and technology terms, and intends to operate in the future. An EA also includes a roadmap for transitioning between these environments.

³IRS refers to its life cycle management program as the enterprise life cycle (ELC).



Introduction and Objectives

Since mid-1999, IRS has submitted a series of expenditure or “spending” plans requesting release of BSM appropriated funds. To date, about \$1.9 billion has been appropriated and released for BSM.

On October 12, 2005, IRS submitted its fiscal year 2006 expenditure plan to the relevant House and Senate appropriations subcommittees, seeking release of \$199 million from the BSM account.

As agreed with IRS’s appropriations subcommittees, our objectives were to

- determine whether IRS’s fiscal year 2006 expenditure plan satisfies the legislative conditions specified in IRS’s appropriations act and
- provide any other observations about the plan and IRS’s BSM program.



Results in Brief

IRS's fiscal year 2006 plan satisfies each of the six legislative conditions.

We have five observations related to the BSM program and fiscal year 2006 expenditure plan:

- *IRS Has Made Further Progress in Implementing BSM, but Some Projects Did Not Meet Short-Term Cost and Schedule Commitments.* During 2005, IRS deployed additional releases of several systems, including the Customer Account Data Engine (the new taxpayer information database), e-Services (a new Web portal and electronic services for tax practitioners), and Modernized e-File (a new electronic filing system). While three project releases were delivered within the cost and/or schedule commitments presented in the fiscal year 2005 expenditure plan, others experienced cost increases or schedule delays.
- *Future BSM Project Deliveries Face Significant Risks and Issues, which IRS is Addressing.* IRS has identified significant risks and issues with its future planned system deliveries. The agency, however, recognizes the potential impact of these project risks and issues on its ability to deliver planned functionality within cost and schedule estimates, and, to its credit, has developed mitigation strategies to address them.
- *IRS Has Made Additional Progress in Addressing High-Priority BSM Program Improvement Initiatives.* IRS's high priority improvement initiatives appear to be an effective means of assessing, prioritizing, and addressing BSM issues and challenges. However, much more work remains for IRS to fully address these issues and challenges.
- *IRS is Developing a New Modernization Vision and Strategy.* In response to our prior recommendation, IRS reports having efforts underway to develop a new Modernization Vision and Strategy. IRS anticipates having an approved high-level Vision and Strategy in place in early fiscal year 2006, and expects to complete a more detailed 5-year plan for the modernization program by mid-March 2006.



Results in Brief

- *The Expenditure Plan Submitted to the Congress Contains Outdated Program Status Information and Omits Key Details Concerning Deferred BSM Project Functionality.* IRS's fiscal year 2006 expenditure plan is substantially based on information describing the status of BSM projects and program management initiatives as of April 2005, and, therefore, in key areas did not adequately describe progress or provide information consistent with the program's status at the time the plan was submitted to the Congress in October 2005. Specifically, the plan (1) does not disclose that planned functionality for two BSM project releases has been deferred to future releases and (2) contains a number of inconsistencies between project cost and schedule data shown throughout the document. Without current and complete information, effective congressional oversight of BSM progress and accountability is impaired.

To allow for effective congressional oversight of the BSM program, we are recommending that the Commissioner of Internal Revenue direct the Chief Information Officer (CIO) to ensure that future expenditure plans submitted to IRS's appropriations subcommittees provide current and complete program status information and report any changes to prior commitments concerning the delivery of BSM project functionality.

In commenting on a draft of this briefing, the Associate CIO for BSM stated that he appreciated the reasoned and balanced work of the GAO and believed that the briefing fairly represents BSM accomplishments as well as future risks. He also agreed with the recommendation and provided technical comments.



Background

To date, we have reviewed and reported on 12 requests for BSM funding releases:

- Since mid-1999, we have reported⁴ on the risks associated with IRS's approach of building systems while concurrently developing and implementing program management capabilities—for example, having a fully operational program management office and implementing its enterprise life cycle (ELC) methodology. IRS's ELC is a structured method for managing system modernization program and project investments throughout their life cycles. We reported that attempting to acquire modernized systems before having the requisite management capability increases the risk that systems will experience cost, schedule, and performance shortfalls. In addition, we have noted numerous modernization management control deficiencies and made recommendations to correct them.

We have also reported⁵ that the risk of cost increases and schedule delays associated with building systems without the requisite management controls is not as severe early in projects' life cycles when they are being planned (project definition and preliminary system design), but escalates as projects are built (detailed design and development) and implemented (deployment). In the case of IRS and its ELC, a key point of risk escalation is milestone 3, at the end of the system architecture phase. From this point through design and development (milestone 4) to system deployment (milestone 5), risk will increase significantly if requisite controls are not in place. In February 2002, we reported that as IRS moved forward with its BSM program, it faced increasing risks that it would be unable to deliver promised system capabilities on time and within budget. To address the escalating risks facing IRS, we recommended that the agency reconsider the planned scope and pace of the BSM program with the goal of better balancing the number of system acquisition projects underway and planned with IRS's capacity to manage the workload.

⁴For example, see GAO, *Business Systems Modernization: Results of Review of IRS' March 2001 Expenditure Plan*, GAO-01-716 (Washington, D.C.: June 29, 2001) and *Internal Revenue Service: Progress Continues But Serious Management Challenges Remain*, GAO-01-562T (Washington, D.C.: April 2, 2001).

⁵For example, see GAO, *Tax Systems Modernization: Results of Review of IRS' Third Expenditure Plan*, GAO-01-227 (Washington, D.C.: January 22, 2001) and *Business Systems Modernization: IRS Needs to Better Balance Management Capacity with Systems Acquisition Workload*, GAO-02-356 (Washington, D.C.: February 28, 2002).

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Background

- In our June 2003 report,⁶ we identified key IRS projects that were approaching or had passed milestone 4 that were experiencing cost, schedule, and performance shortfalls, and concluded that program risks were heightened. In our November 2004 report,⁷ we stated that key agency projects were continuing to incur significant cost increases and schedule delays, and that independent assessments of the BSM program had identified significant weaknesses and risks, consistent with our prior reviews.
- In our July 2005 report,⁸ we noted that IRS had made progress in implementing our prior recommendations to improve its modernization management controls and capabilities; however, certain controls and capabilities related to configuration management, human capital management, cost and schedule estimating, contract management, and post-implementation reviews had not yet been fully implemented or institutionalized. In addition, we noted that IRS had made progress toward addressing issues raised in independent BSM assessments and implementing program improvement initiatives, but significant challenges and high-priority risks remained.

We also reported that although IRS had deployed the initial phases of several modernized systems and met short-term cost and schedule estimates, much more work remained to be done to complete the modernization, and challenges confronted the agency in meeting its longer-term cost and schedule estimates. In addition, we reported that in response to its assessment of the PRIME contractor's performance and budget reductions, IRS (1) was shifting significant BSM program responsibilities from the contractor to the agency, and (2) had made adjustments to project funding allocations and future delivery schedules, including suspending work on the Custodial Accounting Project and postponing future releases of the Integrated Financial System indefinitely. Finally, we concluded that the BSM vision and strategy was no longer current given project delays, and recommended that the agency fully revisit it and develop a new set of long-term program goals, strategies, and plans that is consistent with the budgetary outlook and IRS's management capabilities.

⁶GAO, *Business Systems Modernization: IRS Has Made Significant Progress in Improving Its Management Controls, but Risks Remain*, GAO-03-768 (Washington, D.C.: June 27, 2003).

⁷GAO, *Business Systems Modernization: IRS's Fiscal Year 2004 Expenditure Plan*, GAO-05-46 (Washington, D.C.: November 17, 2004).

⁸GAO, *Business Systems Modernization: Internal Revenue Service's Fiscal Year 2005 Expenditure Plan*, GAO-05-774 (Washington, D.C.: July 22, 2005).



Background

IRS's fiscal year 2006 expenditure plan describes the agency's efforts to

- continue ongoing program-level initiatives (e.g., Architecture & Integration, Program Management) through the first week of November 2006 and core infrastructure projects (e.g., Infrastructure Shared Services) through the end of November 2006,
- continue five tax administration project releases (Filing and Payment Compliance Release 1.1, Modernized e-File Releases 3.2 and 4, and Customer Account Data Engine – Individual Master File Releases 1.3.2 and 2) to their next milestones, and
- begin three new tax administration project releases (Filing and Payment Compliance Release 1.2 and Customer Account Data Engine – Individual Master File Releases 2.1 and 2.2).

Table 1 shows a financial summary of the plan.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Background

Table 1: Summary of IRS's Fiscal Year 2006 BSM Expenditure Plan (in thousands of dollars)^a

	Amount requested
Project category^b	
Tax administration projects	\$100,000
Core infrastructure projects	47,000
Subtotal	147,000
Architecture, integration & management	
Architecture & integration	15,220
Business integration	5,250
Management processes	3,920
Federally funded research and development center—MITRE	7,600
Program management	4,270
Architecture, integration & management risk adjustment	740
Subtotal	37,000
Management reserve	15,000
Total	\$199,000

Source: IRS.

^aSee appendix I for a description of each BSM project and program-level initiative. See appendix II for additional detail on the plan.

^bThe two categories under this heading include seven separate projects or project releases.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Scope and Methodology

To accomplish our objectives, we

- reviewed the fiscal year 2006 expenditure plan submitted by IRS in October 2005;
- analyzed the plan against the legislative conditions to identify any variances;
- interviewed IRS program and project management officials to corroborate our understanding of the plan and other BSM activities;
- reviewed and analyzed modernization program review and project management reports, briefings, and related documentation to assess program/project status and associated issues and risks; and
- reviewed program management reports, briefings, and related documentation to assess the progress IRS has made in completing actions and implementing program management improvements related to the BSM Highest Priority Initiatives.

We did not assess IRS's progress in implementing our prior recommendations to improve its modernization management controls and capabilities (i.e., configuration management, human capital management, cost and schedule estimation, contract management, and post-implementation reviews) as a part of this review, since we recently reported on the status of IRS's ongoing actions to address them.⁹

To assess the reliability of the cost and schedule information contained in this expenditure plan, we interviewed IRS officials in order to gain an understanding of the data and discuss our use of the data. In addition, we checked that information in the plan was consistent with information contained in IRS internal briefings.

We performed our work from October through November 2005, in Washington, D.C., in accordance with generally accepted government auditing standards.

⁹ See GAO-05-774 for details.

**Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs**



Results

Objective 1: The plan satisfies the conditions in IRS's Fiscal Year 2006 appropriations act.

Table 2: Fiscal Year 2006 Expenditure Plan Provisions for Satisfying Legislative Conditions

Legislative conditions	Expenditure plan provisions
1. Meets OMB capital planning and investment control review requirements	IRS's fiscal year 2006 expenditure plan identifies funding required for managing information technology (IT) investments as part of a single portfolio through its capital planning and investment control process. This includes conducting periodic reviews to select, control, and evaluate IT investments.
2. Complies with IRS's enterprise architecture	The plan identifies funding required to continue definition and implementation of the enterprise architecture (EA). For example, it identifies funding needed for <ul style="list-style-type: none"> • finalizing and publishing updates to the EA based on change requests, • supporting the performance of EA compliance certification activities, and • improving the IRS enterprise transition strategies and release architecture.
3. Conforms with IRS's enterprise life cycle methodology	The plan identifies funding required for meeting the requirements in IRS's enterprise life cycle (ELC) management program. For example, the plan calls for <ul style="list-style-type: none"> • maintaining responsibility for coordinating, tracking, and integrating all programwide costs, schedules, releases, issues, and risks and • maintaining and enhancing the ELC.
4. Complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the federal government	As part of the ELC, IRS has defined processes, roles, and responsibilities for implementing Carnegie Mellon University's Software Engineering Institute (SEI) Software Acquisition Capability Maturity Model™ practices for the key process areas within the repeatable level (level 2) of the 5-stage model. ² These practices are consistent with federal acquisition requirements and management practices, and the plan calls for implementation of the ELC on all projects. Further, all PRIME contractor cost reimbursement task orders are subject to a final independent audit by the Defense Contract Audit Agency to ensure that costs are incurred only for tasks actually completed on the contract.
5. Approved by IRS, Treasury, and OMB	<ul style="list-style-type: none"> • IRS – July 22, 2005 • Treasury – September 7, 2005 • OMB – October 5, 2005
6. Reviewed by GAO	<ul style="list-style-type: none"> • GAO – November 30, 2005, briefing to IRS's appropriations subcommittees

Source: IRS's fiscal year 2005 appropriations act (Pub. Law 108-447), fiscal year 2006 Current Resolution (Pub. Law 109-77), and GAO analysis.

²These are acquisition planning, solicitation, requirements development and management, project management, contract tracking and oversight, evaluation, and transition to support.



Results

Objective 2: Observations about IRS's BSM Program and Expenditure Plan

Observation 1: IRS Has Made Further Progress in Implementing BSM, but Some Projects Did Not Meet Short-Term Cost and Schedule Commitments

During 2005, IRS's BSM program has deployed additional releases of several modernized systems that have delivered benefits to taxpayers and the agency, including the following:

- **Customer Account Data Engine (CADE) – Individual Master File¹⁰ Release 1.¹¹** CADE is intended to replace IRS's antiquated system that contains the repository of taxpayer information and, therefore, is the BSM program's linchpin and highest priority project. In January and September 2005, IRS implemented Releases 1.2 and 1.3.1 of CADE, respectively, which have been used to process filing year 2005 1040EZ returns for single taxpayers with refund or even-balance tax returns. According to IRS, CADE has processed over 1.4 million tax returns and generated over \$426 million in refunds so far this filing season (as of August 26, 2005), and has significantly reduced the cycle time for processing and issuing refunds for 1040EZs filed electronically.
- **e-Services.** This project created a Web portal and provided other electronic services to promote the goal of conducting most IRS transactions with taxpayers and tax practitioners electronically. In August 2005, IRS deployed an upgrade to the e-Services PeopleSoft software platform and approved the project's transition to operations and maintenance. According to IRS, as of early November 2005, over 93,000 users have

¹⁰CADE will include the modernized database foundation to replace the current master files processing systems, which are the agency's repository of taxpayer information. There are master files for individuals, businesses, and employer retirement plans. CADE is expected to facilitate faster refund processing and more timely response to taxpayer inquiries.

¹¹Release 1 includes five segments. Release 1.0, the base release of 1040 EZ functionality, was deployed in July 2004. Release 1.1, also deployed in July 2004 (concurrent with Release 1.0), contained filing season 2003 and 2004 tax law changes. Release 1.2, deployed in January 2005, included filing season 2005 changes. Release 1.3.1, deployed in September 2005, included new functionality to improve performance, allow address changes on tax returns, and implement initial filing season 2006 tax law changes. Release 1.3.2, scheduled to be deployed in January 2006, will include the remaining filing season 2006 tax law changes and some additional functionality such as processing basic 1040 returns with no Schedules.



Results

registered with this Web portal, and the use of on-line services by practitioners has resulted in IRS operational efficiencies estimated at nearly \$1.8 million.

- **Modernized e-File (MeF).** This project is intended to provide electronic filing for large corporations, small businesses, and tax-exempt organizations. In March 2005, IRS completed MeF Release 3.1, which allows for the electronic filing of Form 7004 (Application for Automatic Extension of Time to File Corporation Income Tax Return) and Form 990PF (Return of Private Foundation). IRS reported that, during the 2005 filing season, over 220,000 return submissions have been accepted using MeF.

In addition to these system deliveries, in March 2005, IRS launched the Submission and Settlement Harvesting Project, which is the agency's first business rules harvesting¹² initiative. This project was chartered to reengineer the submission and settlement process and to harvest business rules sets in support of CADE Release 3. According to IRS, the effort has harvested over 1000 business rules sets and identified several improvement opportunities to streamline the submission process and increase efficiency. This activity was completed in November 2005.

While IRS made progress in meeting cost and schedule commitments for completed and ongoing project releases during 2005, some projects experienced significant cost increases and schedule delays. For example, our comparison of IRS's reported costs and ELC milestone completion dates presented in the fiscal year 2005 (April 2005) and fiscal year 2006 (October 2005) expenditure plans shows that CADE Release 1.3.1 was delivered at the estimated cost and that the e-Services upgrade and Milestone 5 exit were completed on time and within the estimated project costs. However, two project segments—Integrated Financial System Release 1, Milestone 5 and MeF Release 3.2, Milestone 4—experienced significant cost increases of 93% and 29%, respectively, against commitments shown in the fiscal year 2005 plan. In addition, CADE Release 1.3.1 took 24% longer to complete than expected. Appendix III provides the complete list of BSM project cost and schedule changes reported by IRS.

¹²Business rules harvesting refers to the process of extracting, defining, and documenting tax processing criteria (e.g., income tax refunds of \$x or more are held for administrative review) from a variety of sources, including IRS subject matter experts, legacy system source code, the tax code, and various other paper documents.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Results

In July 2005, we reported¹³ that the BSM program has had a history of cost increases and schedule delays that have been due, at least in part, to deficiencies in various management controls and capabilities that have not yet been fully corrected. As noted earlier in this briefing, IRS is currently addressing our prior recommendations to correct these deficiencies.

¹³GAO-05-774.



Results

Observation 2: Future BSM Project Deliveries Face Significant Risks and Issues, which IRS is Addressing.

IRS has reported that significant challenges and risks confront future planned system deliveries. For example,

- **Customer Account Data Engine – Individual Master File Release 1.3.2.** IRS has reported that unanticipated tax law changes, including 2005 disaster-related legislation, could impact the development and testing schedules for Release 1.3.2, which is expected to be delivered in January 2006.
- **Customer Account Data Engine – Individual Master File Release 2.** According to IRS, schedule slippages associated with Release 1.3.1 as well as contention for key resources between Releases 1.3.1 and 1.3.2 necessitated the deferral of some Release 1.3.2 functionality to later releases. These requirements deferrals may negatively impact cost and schedule for Releases 2.1 and 2.2, which are currently scheduled to be deployed in August 2006 and December 2006, respectively. Also, IRS has indicated that contention for key development resources currently working on Release 1.3.2 may impact Release 2.1 development activities.
- **Filing and Payment Compliance Release 1.1.** As a result of a court-ordered delay in procuring private collection agencies (PCAs), IRS is implementing a two-phase approach for delivering Release 1.1. This consists of delivering (1) a Partial Production Environment in January 2006 (system software delivery) and (2) a Full Production Environment in July 2006 (PCAs begin collection efforts). The targeted delivery date for the Full Production Environment hinges on the timely award of the PCA contract. IRS reports that schedule delays could occur if (1) PCA evaluation, selection, and contract award is delayed and/or (2) PCA background investigations are not completed in a timely manner.
- **Filing and Payment Compliance Release 1.2.** IRS reports that Release 1.2, which is scheduled to be deployed in January 2007, faces a number of risks. For example, requirements for Release 1.2 are being developed using a new methodology/process that has not previously been utilized within the IRS modernization environment, thereby creating a risk to project schedule and cost should false starts be encountered during the refinement of this methodology.

Page 16 of 33



Results

- **Modernized e-File Release 3.2.** Release 3.2, which is scheduled for deployment in March 2006, also faces high priority issues and critical risks, including project staff resources, the system's ability to handle the projected volume for filing season 2006, and timely completion of transition/training activities.

IRS recognizes the potential impact of these project risks and issues on its ability to deliver planned functionality within cost and schedule estimates, and, to its credit, has developed mitigation strategies to address them.



Results

Observation 3: IRS Has Made Additional Progress in Addressing High-Priority BSM Program Improvement Initiatives.

As a result of continued cost overruns and schedule delays in the BSM program, during the summer of 2003, IRS and the PRIME contractor, CSC, initiated three external independent studies and one IRS internal analysis to assess the effectiveness of the BSM program and to review the CADE project.

During 2004, after assessing various aspects of the BSM program and reviewing the four BSM studies as well as prior GAO and TIGTA reports, the Associate CIO for BSM identified key barriers to success in the BSM program and created a plan to address these barriers.

The Associate CIO established the following seven key focus areas for improving IRS's capability to design, develop, and deliver modernized IT systems:

- Staffing and Skill Sets,
- Contractor Management,
- Requirements and Demand Management,
- Systems Engineering,
- Project Management Disciplines,
- Communication and Collaboration, and
- Empowerment/Accountability.

He then mapped (1) GAO/TIGTA recommended corrective actions for improving modernization management controls and processes, and (2) several additional IRS-defined improvement initiatives to these key focus areas to form a BSM program improvement framework.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Results

In August 2004, the Associate CIO identified 16 “highest priority initiatives” from the program improvement framework that were to be completed by the end of January 2005. In March 2005, IRS reported that 12 of the 16 initial highest priority initiatives had been completed and closed. The remaining 4 initiatives were carried forward with 13 newly selected highest priority improvement initiatives for a total of 17, which were planned to be completed by early September 2005.

In October 2005, IRS reported that 15 of the 17 highest priority initiatives had been completed and closed, including several initiatives related to the shift in the role of systems integrator from the PRIME contractor to IRS as well as efforts to complete a human capital strategy and recruiting plan, strengthen IRS’s systems engineering capability, hire a technical lead for the BSM program, and establish the requirements management and business rules management¹⁴ operations. The remaining 2 ongoing initiatives related to (1) ensuring that BSM staff are trained in required project management skills (e.g., schedule analysis, earned value, testing monitoring) and (2) revising the change request process to reflect IRS’s role as systems integrator have been carried over to the next 6-month cycle.

In addition to the 2 initiatives carried forward, IRS is currently focusing on 20 newly selected highest priority improvement initiatives for a total of 22, which are planned to be completed by the end of March 2006. These initiatives include

- building on the current effort to develop a new Modernization Vision and Strategy,
- establishing requirements management standards,
- upgrading the enterprise life cycle methodology to provide more guidance to projects,

¹⁴In conjunction with the business rules management initiative, IRS completed a Business Rules End-to-End Prototype project. The objectives of this effort were to (1) validate the business rules development and management methodology and (2) assess when a business rules engine is an appropriate solution for CADE and when other programming languages (e.g., C++) should be used. A business rules engine translates business rules or processing criteria into executable computer code that processes transactions related to a tax form, and selects and executes correct rules based on the tax year and tax form. The prototype project determined that applying the full business rules management methodology for harvesting business rules would significantly challenge IRS’s capacity, costs, and timelines to complete the CADE project (e.g., an estimated 100 staff years are required to do full harvesting and create the full set of models for the estimated 25,000 business rules embedded in the current individual master file), and recommended using a streamlined approach whenever possible to capture and document existing business rules. This effort also determined that business rules can be implemented effectively without a business rules engine, and recommended that a business rules engine not be used for any CADE applications, except for possibly implementing the fraud detection rules.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Results

- executing the implementation plan for integrated master schedule and baseline management, and
- awarding a contract to acquire a business rules management repository.

This program improvement process appears to be a reasonable means of regularly assessing and prioritizing and, hopefully, addressing BSM issues and challenges. It should be noted, however, that it is an incremental approach and that it can take several iterations of initiatives to fully address issues within the key focus areas for program improvement established by the Associate CIO for BSM. For example, as noted above, IRS reported that it recently completed and closed an initiative to establish a Requirements Management Office, and is currently focusing on a follow-on initiative to further develop its requirements management capabilities.



Results

Observation 4: IRS is Developing a New Modernization Vision and Strategy.

In July 2005, we reported¹⁵ that the significant delays and other substantive changes that the BSM program had experienced since the development of the initial BSM vision and strategy in 2000 and 2001 indicated a need for IRS to revisit its long-term goals, strategies, and plans for the modernization program. To address the many changes associated with the BSM and clearly describe what the modernization program is intended to accomplish, when it will be completed, and at what cost, we recommended that IRS fully revisit the vision and strategy for the BSM program and develop a new set of long-term goals, strategies, and plans consistent with the budgetary outlook and IRS's management capabilities.

In commenting on a draft of our report, IRS agreed with our recommendation and indicated that it had begun a planning effort to revise its IT modernization strategy and approach. The agency also stated that it would be updating the Enterprise Transition Strategy and Release Architecture portions of the IRS Enterprise Architecture as a part of this effort. At that time, IRS intended to have the high-level strategy, goals, and plans in place by the end of fiscal year 2005, and to complete a more detailed engineering analysis and sequencing strategies during the first quarter of fiscal year 2006.

As of October 2005, IRS reported that it had (1) developed a set of IT modernization goals for the year 2010 that align with and support the agency's strategic plan, and (2) formed a multi-disciplinary team of IT and business specialists to develop a modernization roadmap to guide the agency toward meeting its goals incrementally, while providing near-term business value. IRS stated that this roadmap will consider the current state of IRS's IT infrastructure and take a realistic view of the IT funding profile through 2010. Once approved, this plan is intended to enable IRS to move forward with a set of well-coordinated modernization initiatives, and will serve as the framework for approving new IT projects.

According to the Associate CIO for BSM, IRS's new Modernization Vision and Strategy focuses on promoting investments that provide value in smaller, incremental releases that are delivered more frequently, with the

¹⁵GAO-05-774



Results

goal of increasing business value while investing in solutions that reduce complexity and costs. It is organized and prioritized around “domains” that represent a functional, rather than organizational, view of the business. The domain priorities have been established to focus on front-line tax administration, emphasizing enforcement and customer service needs.

IRS’s new Vision and Strategy is intended to include a 5-year plan that will establish a technical strategy and identify investment priorities and a timeline for implementation. According to IRS, the business focus areas for modernization in the next five years include:

- addressing the tax gap;
- expanding electronic filing;
- increasing accuracy, maintaining service levels, and reducing customer service costs; and
- enabling IRS systems to change quickly in response to business needs.

From an IT perspective, the plan will focus on using existing systems to deliver business functions and capabilities, including:

- decision analytics;
- tools and data management capabilities to manage cases;
- applications that allow taxpayer self-service and communications with IRS via the Internet; and
- standard, reusable tools to access and update tax administration data.

IRS anticipates having an approved high-level Vision and Strategy in place in early fiscal year 2006, and expects to complete its more detailed 5-year plan for the modernization program by mid-March 2006. We believe these actions represent good steps towards addressing our prior recommendation to fully revisit the vision and strategy for the BSM program and develop a new set of long-term goals, strategies, and plans consistent with the budgetary outlook and IRS’s management capabilities.



Results

Observation 5: The Expenditure Plan Submitted to the Congress Contains Outdated Program Status Information and Omits Key Details Concerning Deferred BSM Project Functionality.

As we have previously reported,¹⁶ to permit meaningful congressional oversight, it is important that expenditure plans describe how well the BSM program is progressing against the commitments made in prior expenditure plans. However, IRS's fiscal year 2006 expenditure plan is substantially based on information describing the status of BSM projects and program management initiatives as of April 2005, and, therefore, in key areas did not adequately describe progress or provide information consistent with the program's status at the time the plan was submitted to the Congress in October 2005. In particular, the fiscal year 2006 expenditure plan:

- does not disclose that planned functionality for two major BSM project releases—CADE Release 1.3.2 and Modernized e-File Release 4—has been deferred to future releases, thereby postponing the delivery of taxpayer benefits.
- contains a number of inconsistencies between project cost and schedule data shown throughout the document. For example, the information provided in a program results summary table in the Executive Summary does not match the cost and schedule data provided in the plan's detailed project profiles for the Filing and Payment Compliance and Modernized e-File projects, respectively. In addition, changes to cost estimates for the Integrated Financial System and Custodial Accounting Project noted in a summary table at the end of the plan are not reflected in the respective project profiles.

IRS officials acknowledged the weaknesses we identified with their expenditure plan and subsequently revised the plan to include updated information, clarifications, and corrections where appropriate. However, they did not provide the updated plan to the Congress. IRS also acknowledged the importance of providing timely data and has initiated efforts to establish and implement a policy and process to allow for near real-time updating of

¹⁶See GAO, *Tax Systems Modernization: Results of Review of IRS' Initial Expenditure Plan*, GAO/AIMD-99-206 (Washington, D.C.: June 15, 1999), GAO-01-227, and GAO-02-356.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Results

the expenditure plan while it is being reviewed by both internal and external stakeholders. They did not, however, identify specific timeframes for putting this policy and process in place. Without current and complete program status information, meaningful congressional oversight of BSM progress and accountability is impaired.



Conclusions

IRS's fiscal year 2006 plan satisfies the legislative conditions.

IRS has made further progress in implementing BSM during 2005, but some projects did not meet short-term cost and schedule commitments. Future project deliveries face significant risks and issues, which the agency is actively working to mitigate. In addition, IRS has significant program challenges and issues that it must resolve, and has established an incremental program improvement process to assess, prioritize, and address them. The new vision and strategy that IRS is currently developing represents a good step towards developing information for the Congress on future plans for the modernization program. However, key information provided in the fiscal year 2006 expenditure plan submitted to the Congress is outdated and incomplete, which inhibits effective congressional oversight of BSM progress.



Recommendation for Executive Action

To allow for effective congressional oversight of the BSM program, we recommend that the Commissioner of Internal Revenue direct the CIO to take the following action:

- ensure that future expenditure plans submitted to IRS's appropriations subcommittees provide current and complete program status information and report any changes to prior commitments concerning the delivery of BSM project functionality.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Agency Comments

In providing oral comments on a draft of this briefing, the Associate CIO for BSM stated that he appreciated the reasoned and balanced work of the GAO and believed that the briefing fairly represents BSM accomplishments as well as future risks. He agreed with the recommendation addressing the timeliness and completeness of the expenditure plan data and the importance of timely data for meaningful oversight. He stated that IRS plans to propose a new policy to increase the visibility and timeliness of changes to the plan and expedite its review process. He also provided specific technical comments that we have incorporated into the briefing, as appropriate.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Appendix I: Description of Business Systems Modernization (BSM)
Projects and Program-Level Initiatives

Proposed modernization initiative	Description
Tax administration projects	
e-Services	Is to create a Web portal and other e-Services to promote the goal of conducting most IRS transactions with taxpayers and tax practitioners electronically.
Filing and Payment Compliance (F&PC)	Is a series of projects providing support for detecting, scoring, and working nonfiler (filing compliance) and delinquency (payment compliance) cases. The first phase of F&PC is Private Debt Collection, which will use advanced software to analyze tax collection cases and divide them into the complex cases requiring IRS involvement from the simpler ("balance due") cases that can be handled by private collection agencies.
Modernized e-File	Is to provide a single standard for filing electronic tax returns. Initial releases will address large corporations, small businesses, and tax-exempt organizations. Its ultimate goal is the conversion of IRS's 1040 e-file program.
Customer Account Data Engine – Individual Master File	Is to build the modernized database foundation to replace the existing master file processing systems that contain a repository of information on individual taxpayers.
Internal management projects	
Custodial Accounting Project	Is to provide integrated tax operations and internal management information to support evolving decision analytics, performance measurement, and management information needs.
Integrated Financial System	Is to provide a single ledger for administrative and financial data and a platform to integrate core financial data with budget, performance, and cost accounting data.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Appendix I: Description of Business Systems Modernization (BSM)
Projects and Program-Level Initiatives

(continued from previous page)

Proposed modernization initiative	Description
Core infrastructure projects	
Development, Integration, & Testing Environments	Is to provide oversight for laboratory environments that support evaluation, development, and testing of components from multiple projects: (1) Virtual Development Environment provides a software development environment and a standardized set of tools; (2) Enterprise Integration and Test Environment provides an integration and testing environment for all projects.
Infrastructure Shared Services	Is to establish a program to build and deliver an infrastructure that is scalable, interoperable, flexible, manageable, and features standardized operations and a single security and enterprise systems management framework.
Architecture, integration & management	
Architecture & Integration	Is to ensure that systems solutions meet IRS business needs and that the projects are effectively integrated.
Business Integration	Is to ensure that IRS's BSM program is aligned with the business units' vision and delivers the desired business results. It provides support to the business owners with key activities such as transition management, business rules enterprise management, and business transformation.
Management Processes	Is to provide sustaining support for program-level management processes, including quality assurance, process improvement, training, program control, and ELC maintenance and enhancements.
Federally Funded Research and Development Center—MITRE	Is to provide program management and systems engineering support to BSMO.
Program Management	Is to ensure that projects achieve their objectives; provide the management information and IT infrastructure that supports risk management, project cost and schedule estimating, and financial management; and provide procurement management for the CSC contract and associated task orders.

Source: IRS.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Appendix II: Additional Detail on IRS's Fiscal Year 2006 BSM
Expenditure Plan (in thousands of dollars)

Proposed modernization initiative	Release ^a	Milestone ^b	Milestone date	Amount requested
Tax administration projects				
Filing & Payment Compliance (F&PC)	R1.2	4b	Jan. 07	\$10,000
F&PC Risk Adjustment				0
Subtotal – F&PC project				10,000
Modernized e-File (MeF)	R4	4	Mar. 07	26,900
MeF Risk Adjustment				3,100
Subtotal – MeF project				30,000
Customer Account Data Engine – Individual Master File (CADE IMF)		Operations and Maintenance	N/A	7,500
CADE IMF	R2.1	4b	Aug. 06	25,800
CADE IMF	R2.2	4b	Dec. 06	13,955
CADE IMF		Program Mgmt. and Transition Mgmt.	N/A	9,045
CADE Risk Adjustment				3,700
Subtotal – CADE project				60,000
Subtotal – tax administration projects				100,000
Core infrastructure projects				
Development, Integration & Testing Environments (DITE)		FY 06 ^c	Nov. 06	14,934
Infrastructure Shared Services (ISS)		FY 06 ^c	Nov. 06	29,066
DITE/ISS Risk Adjustment				3,000
Subtotal – core infrastructure projects				47,000

**Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs**



**Appendix II: Additional Detail on IRS's Fiscal Year 2006 BSM
Expenditure Plan (in thousands of dollars)**

(continued from previous page)

Proposed modernization initiative	Release ^a	Milestone ^b	Milestone date	Amount requested
Architecture, integration, & management				
Architecture & Integration		FY 06 ^c	Nov. 06	\$15,220
Business Integration		FY 06 ^c	Nov. 06	5,250
Management Processes		FY 06 ^c	Nov. 06	3,920
Federally Funded Research and Development Center—MITRE		FY 06 ^c	Nov. 06	7,600
Program Management		FY 06 ^c	Nov. 06	4,270
Architecture, Integration & Management Risk Adjustment				740
Subtotal – architecture, integration, & management				37,000
Management reserve				
				15,000
Total fiscal year 2006 BSM program				\$199,000

Source: IRS.

^aReleases are software versions that provide a subset of the total planned project functionality.

^bMilestones correspond to phases within IRS's ELC (1 – Enterprise Architecture, 2 – Domain Architecture, 3 – System Architecture, 4a – System Design, 4b – System Development, 5 – System Deployment).

^cCore infrastructure projects and management initiatives are funded on a fiscal year (FY) basis rather than by milestone.

Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs



Appendix III: IRS Reported Project Cost/Schedule Changes

Project segment	Commitment date and funding as of 4/2005 (\$000)	Revised commitment date and funding as of 10/2005 (\$000)	Change (%)	IRS explanation of change
Modernized e-File Release 3.2 Milestone 4	3/31/06 \$23,773	3/31/06 \$30,623	 +\$6,850 (+29%)	Cost increase is due to unplanned functionality related to security and large file/mandate requirements. \$2.65 million has been transferred to the project from the FY 2005 Risk Adjustment. An additional \$4.2 million is expected to be realigned from FY 2005 Management Reserve to complete the development, testing, and implementation of Release 3.2.
Modernized e-File Release 4 Milestone 3	10/31/05 \$8,000	11/30/05 \$3,800	+1 month (+14%) -\$4,200 (-53%)	The start of Release 4, Milestone 3 was delayed by 2 months due to the uncertainty of FY 2005 BSM funding. However, the estimated time to complete this work was reduced from 7 months to 6 months. The initial \$8 million cost estimate was based on delivering the functionality for Forms 1065, 1041, and 990T. The subsequent budgetary decision to defer Forms 1041 and 990T to a later release resulted in the estimated cost being reduced to \$3.8 million.
Customer Account Data Engine Release 1.3.1	7/07/05 \$16,300	9/19/05 \$16,300	+2.4 months (+24%)	Schedule slippage was caused by problems with a variety of database conversion, requirements definition, documentation, and test environment issues.

**Appendix I
Briefing Slides from the November 30, 2005,
Briefing to the Senate and House
Appropriations Subcommittee Staffs**



Appendix III: IRS Reported Project Cost/Schedule Changes

Project segment	Commitment date and funding as of 4/2005 (\$000)	Revised commitment date and funding as of 10/2005 (\$000)	Change (%)	IRS explanation of change
Customer Account Data Engine (CADE) Business Rules (Currently referred to as CADE Requirements Management/ Engineering)	12/31/05 \$28,902	12/31/05 \$30,902	+\$2,000 (+7%)	\$2 million was transferred from the FY 2004 CADE Risk Adjustment to support Submission and Settlement Harvesting Project (SSHP) activities, which began in March 2005. The SSHP project's objective is to capture all of the business rules sets derived from the submission and settlement process and redesign this process to ensure business rules are executed in the most efficient manner, in support of CADE Release 3.
Integrated Financial System Release 1 Milestone 5	11/30/05 \$15,000	11/30/05 \$29,000	+\$14,000 (+93%)	Milestone 5 costs are higher than originally planned due to additional contractor hours required to address and respond to defect repairs and service requests, contractor efforts associated with legacy system related changes, and unplanned software maintenance costs. Realigned FY 2004 Milestone 4, Risk Adjustment, and Management Reserve funding.

Source: IRS.

Comments from the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

February 2, 2006

Mr. David Powner
Director, Information Technology Management Issues
United States Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Powner:

I have reviewed the Government Accountability Office (GAO) draft report titled "Review of Internal Revenue Service (IRS) Fiscal Year 2006 Business Systems Modernization Expenditure Plan" (GAO-03-360, 2006). We are pleased the GAO:

- Validated that we satisfied the six legislative conditions as specified in Congressional appropriations;
- Acknowledged the progress that the IRS has made in areas such as:
 - Implementing our Business Systems Modernization (BSM) program,
 - Mitigating risks,
 - Managing high priority initiatives, and
 - Developing a new modernization vision and strategy.

We continue to appreciate the sound and balanced work of the GAO and believe that this draft report fairly represents BSM accomplishments as well as future risks. We are in particular agreement with your recognition of the IRS' improved performance in meeting cost and schedule commitments on several of our modernized systems; your acknowledgement of the taxpayer and agency value our systems have begun to add; your affirmation of the effectiveness of our program improvement process; and your endorsement of the steps we have taken to develop a Modernization Vision and Strategy (MVS) for the BSM program.

It is worth noting that since the Expenditure Plan (EP) was submitted, we expect the Integrated Financial Systems (IFS) project to return between \$4 and \$5 million to the BSM management reserve. Therefore, the 93 percent reported overrun in the last EP will be reduced. This further demonstrates the noted improvement we have made in working to control costs within the BSM program.

2

We also agree with your observation that although we have in place an effective means of assessing, prioritizing, and addressing the BSM issues, risks and challenges, continued improvements are needed to fully address them.

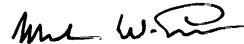
I would like to briefly comment on your report's recommendation: "To allow for effective Congressional oversight for the BSM program, we recommend that the Commissioner of the Internal Revenue Service direct the CIO to take the following action: Ensure that future Expenditure Plans submitted to IRS's appropriations subcommittees provide current and complete program status information and report any changes to prior commitments concerning the delivery of BSM project functionality."

The IRS agrees that timely data is important to meaningful oversight. In response to GAO's concerns, we provided GAO with an EP that all stakeholders, both internal and external to the IRS, had reviewed and approved. We also provided additional information in response to all of the questions raised by GAO during their review of the EP. This included providing documentation, clarifications, and corrections where appropriate.

Nevertheless, to ensure that near real-time updates are made to future EPs during the development and review process, we are formulating a policy to raise the visibility of changes to EP data, and requiring prompt notification that such changes are in process. Additionally, on January 24, 2006, the Committee on Appropriations directed the IRS to work with the Department of Treasury and Office of Management and Budget (OMB) on issues concerning EP timelines and processes. We have already initiated dialogue with Treasury and OMB on how we can proactively resolve timeline and process issues. We believe these steps will address your recommendation.

We appreciate your continued support and the assistance and guidance from your staff. If you have any questions, or if you would like to discuss our response in more detail, please contact W. Todd Grams, Chief Information Officer, at (202) 622-6800.

Sincerely,



Mark W. Everson

GAO Contact and Staff Acknowledgments

GAO Contact

David A. Powner, (202) 512-9286

**Staff
Acknowledgments**

In addition to the contact named above, Timothy D. Hopkins and Sabine R. Paul made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548