United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Oversight,
Committee on Ways and Means,
House of Representatives

For Release on Delivery
Expected at
1:00 p.m. EST
Tuesday,
March 30, 1993

TAX SYSTEMS MODERNIZATION

Program Status and Comments on IRS' Portion of President's Request For Fiscal Year 1993 Supplemental Funds

Statement of
Howard G. Rhile, Director
General Government Information Systems
Information Management and Technology Division

GAO/T-IMTEC-93-3

GAO Form 160 (12/91)
OPR:OIMC/PCC

Mr. Chairman and Members of the Subcommittee:

In our recent transition report on the Internal Revenue Service (IRS), we discussed a number of issues facing the agency, Congress, and the new administration.[1] We are pleased to be here today to talk about one of the most critical issues facing the IRS--managing the $23-billion Tax Systems Modernization (TSM) program. Existing systems do not provide ready access to needed information or allow for modern work processes. In fact, IRS believes that by the mid-1990s, these systems will seriously threaten the agency's ability to carry out its mission.

TSM is the cornerstone to modernizing IRS' information systems to provide the right information, at the right time, in the right place--enabling IRS to effectively use new business processes to accomplish its vision of the future. IRS' antiquated systems must be modernized. Electronic filing provides evidence of the kinds of benefits we can expect from modernization: better service to taxpayers and more efficient IRS work processes.

Today I would like to make two points about TSM, as well as provide observations on IRS' portion of the President's request for fiscal year 1993 supplemental funds, a portion of which will go toward TSM.

-- First, IRS has made progress in implementing several interim TSM systems, such as electronic filing. However, other interim systems now under development have experienced significant problems and delays, calling for a reevaluation of their costs and benefits.

-- Second, IRS has progressed more slowly than we would have expected in building the foundation necessary for the long-term modernization. This foundation includes such items as planning improvements which can effectively be supported by new technology, developing the detailed managerial and technical infrastructure necessary for success, and addressing the major human resources implications of TSM.

-- Lastly, IRS' portion of the proposed Emergency Supplemental Appropriations Act of 1993 is $148.4 million.[2] IRS intends to spend this money primarily for computer hardware and software that it had planned to buy in fiscal year 1994.

INTERIM TSM SYSTEMS--EARLY BENEFITS BUT REEVALUATION NEEDED

Two kinds of systems comprise TSM: interim and long-term. Interim systems are stand-alone systems that were generally

---

[1]Transition Series: Internal Revenue Service (GAO/OCG-93-24TR, December 1992).

[2]H.R. 1335, 103rd Congress.

initiated in the mid- to late-1980s to bring about immediate improvements in IRS' tax processing and compliance operations. Long-term systems are intended to replace the interim systems and share information with each other, a vast improvement over current systems.

Some Interim Systems Are Benefiting IRS and Taxpayers

Both IRS and taxpayers have begun to realize tangible benefits from some interim TSM projects. Probably the best known of those projects is the Electronic Filing System. In 1992 about 11 million taxpayers filed their returns electronically, with 14 million expected to do so this year. For taxpayers, filing electronically generally means faster refunds than if they filed paper returns, and greater assurance that their returns are correct. For IRS, electronic filing means that returns can be processed more cheaply and more accurately.

Other Interim Systems Need To Be Reassessed

While some interim systems are beginning to realize benefits, others, in earlier stages of development, are falling behind schedule. Because the later phases of these systems will overlap with the long-term TSM projects, we recommended in February that IRS reassess and rejustify them.[3] IRS is beginning to move on this recommendation.

TSM FOUNDATION--SLOWER THAN EXPECTED PROGRESS

Most of the long-term systems--what we consider the "real TSM"--are in the early stages of design and development. The majority of these will not be fully operational until the beginning of the 21st century. IRS has produced a technical plan for the modernized environment. However, its progress has been slower than expected in completing the foundation for TSM. In particular, 6 years after the start of TSM, we find unfinished studies of IRS' business operations that, as we previously reported, should have been performed before issuance of TSM's master plan in May 1991.[4] We also find the lack of a firm managerial and technical foundation--including such components as development standards and procedures needed to control and oversee the modernization. Finally, IRS has only recently begun to consider the human resources implications of TSM, to ensure that its more than 100,000 employees are ready for the major changes that are forthcoming.

---

[3]Tax Administration: Status of Tax Systems Modernization, Tax Delinquencies, and the Tax Gap (GAO/T-GGD-93-4, Feb. 3, 1993).

[4]Tax Systems Modernization: IRS' Challenge for the 21st Century (GAO/IMTEC-90-13, Feb. 8, 1990).

Accordingly, we have recommended that IRS (1) finalize its business plans soon, and make appropriate adjustments to its technical plans; and (2) develop a sound managerial and technical foundation for TSM. This foundation must include, for example, standards to allow data to be exchanged among systems and key building blocks such as security and privacy procedures, telecommunications requirements, and physical facilities.[5]

In our opinion, these conditions also suggest a need for stronger technical management. A Chief Architect at the senior executive level with the responsibility and the authority required to lead the development of the essential technical building blocks would provide an important boost in accountability for TSM. IRS also needs to ensure that it is in a position to monitor progress on the technical activities related to TSM in order to proactively detect and correct problems. IRS has recently created a Systems Architect Office and is in the process of staffing this office. We have not yet completed our evaluation of these actions.

We have also recommended that IRS pay close attention to the significant human resources changes that are sure to come as the agency redesigns the way it does business to transform itself into an agency that depends less on manual labor and more on technology-based skills.[6] IRS has recently taken a critical step toward addressing this problem by drafting a much-needed human resources plan; it must now start taking steps to prepare its workforce for the modernization.[7]

PROPOSED 1993 SUPPLEMENTAL FUNDING--NO SURPRISES

As you know, IRS has requested $148.4 million primarily for hardware and software acquisitions, as part of the President's request for fiscal year 1993 supplemental funds. While we have not fully evaluated IRS' proposed acquisitions, it appears that they are not spur-of-the-moment purchases. Most are purchases of computer hardware and software that IRS had originally planned for fiscal year 1994.

Three of the acquisitions, totalling about $41 million, will directly support TSM. About $15.7 million of this amount is for two short-term TSM projects--the Automated Inventory Control System ($10 million) and the Automated Criminal Investigation System ($5.7 million). These are among the systems currently experiencing schedule delays to the point where they are expected

---

[5]GAO/T-GGD-93-4.

[6]GAO/T-GGD-93-4.

[7]Additional information on our concerns and recommendations for TSM can be found in GAO/T-GGD-93-4.

to be completed about the same time as when the replacement TSM systems should become operational. We have not had an opportunity to determine the effect of this money on their schedules. The remaining $25.3 million is for short-term improvements to IRS' telecommunications network. These improvements are also intended to also support TSM.

The bulk of the proposed acquisitions ($107.4 million) will support IRS' current information processing operations. Based on IRS' plans, most of this is to accelerate the replacement of obsolete equipment, originally planned for fiscal year 1994. For example, $48.2 million is to replace obsolete minicomputers in IRS' district offices, and $20.6 million is for personal computers to be used by IRS examiners.

Finally, although the contracts are in place to carry out the proposal, IRS will need to obtain expeditious approval of the acquisitions from the Department of the Treasury. IRS procurement officials anticipate obtaining such approval by June 1, and are planning to have the funds obligated by the end of this fiscal year.[8]

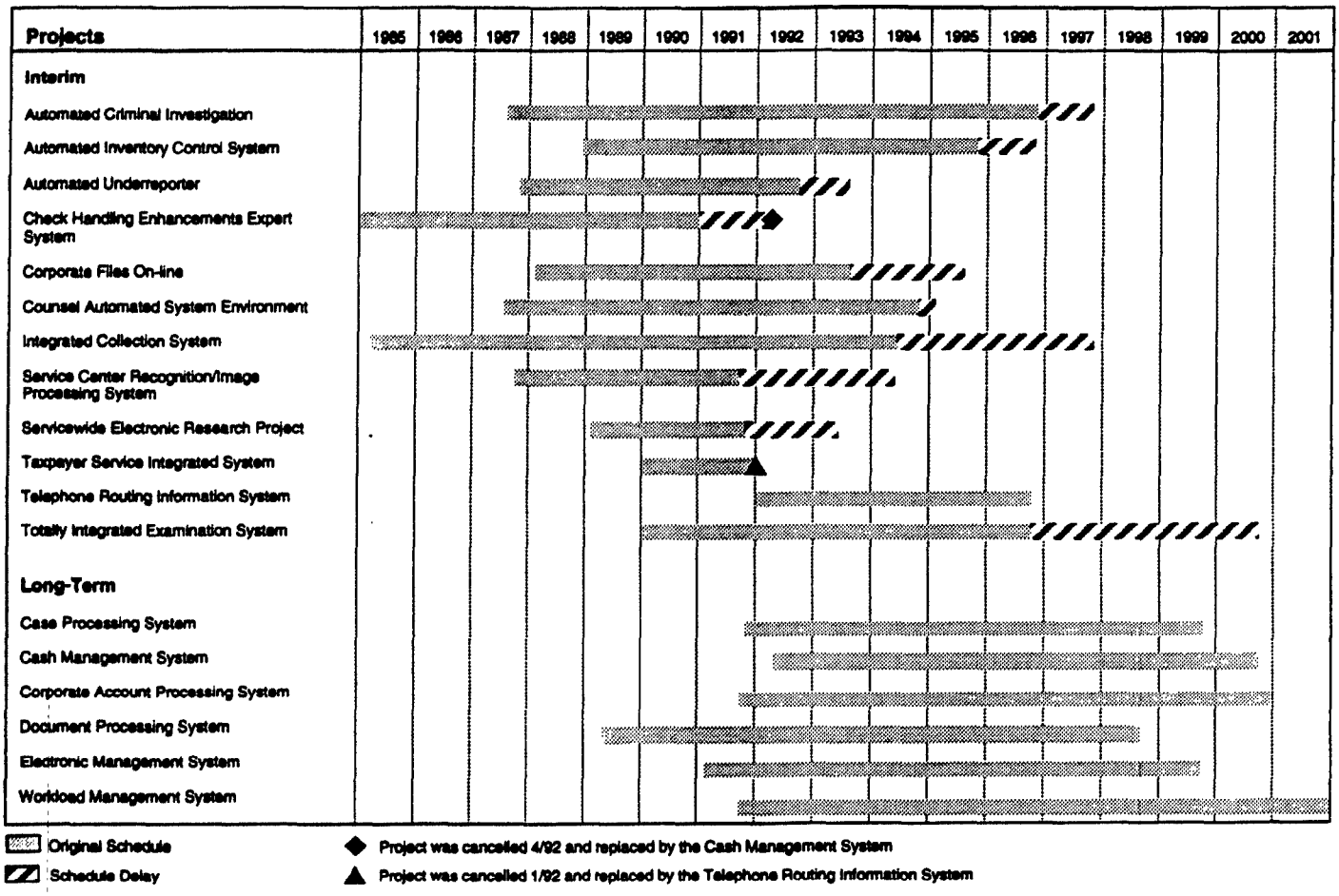
- - - - -

That concludes my statement, Mr. Chairman. I would be pleased to respond to any questions you or any other members of the Committee may have at this time.

---

[8]Additional information on our views about the proposed supplemental funding appear in Tax Systems Modernization: Comments on IRS' Portion of the President's Request for Fiscal Year 1993 Supplemental Funds (GAO/T-IMTEC-93-1, Feb. 24, 1993).

ORIGINAL AND CURRENT SCHEDULES FOR TSM PROJECTS



Note: A timeline for another project, the Electronic Filing System, is not shown because IRS considers it to be fully operational. This project began in 1986 and was made available to taxpayers nationwide in 1990.

Source: IRS' Quarterly Performance Tracking System Reports for the 4th quarter of fiscal year 1992 and other IRS documents. We did not verify the accuracy of these data.

(510932)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.

PRINTED ON RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548