



*The Excise Files Information Retrieval
System Has Not Been Effectively
Implemented*

October 2005

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

October 18, 2005

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
CHIEF INFORMATION OFFICER

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Excise Files Information Retrieval System
Has Not Been Effectively Implemented (Audit # 200520030)

This report presents the results of our review of the management of funds received by the Internal Revenue Service (IRS) to prevent and reduce motor fuel excise tax evasion. The overall objective of this review was to determine whether the IRS is effectively managing Motor Fuel Tax Evasion Project funds to develop the Excise Files Information Retrieval System (ExFIRS) and enhance motor fuel excise tax enforcement.

Synopsis

The Highway Trust Fund is a critical source of funding for Department of Transportation programs financing Federal Government highway construction. Motor fuel excise taxes account for over 90 percent of the Highway Trust Fund receipts. In Fiscal Year 2004, motor fuel excise taxes totaled nearly \$36 billion. The IRS developed the ExFIRS to identify areas with the highest risk for nonpayment of motor fuel excise tax liabilities.¹ The most critical ExFIRS subsystem is the Excise Summary Terminal Activity Reporting System (ExSTARS), which was designed to track the movement of motor fuel to and from approved terminals by requiring the monthly submission of information documents to the IRS reflecting fuel quantity and type. This information can be used to compare the quarterly fuel volumes reported on the information documents to the information taxpayers entered on their quarterly excise tax returns to identify for examination those returns on which taxpayers appear to be in noncompliance. Since 1999, the ExFIRS Project Office has received approximately \$39 million from the Department of

¹ See Appendix IV for a description of the ExFIRS subsystems.



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Transportation and an additional \$20 million in IRS funds for the development and implementation of the ExFIRS.

However, the IRS has not effectively implemented the ExFIRS or maximized its return on investment by using the ExSTARS data analysis to identify and research potential tax compliance issues for referral to the Examination function. Reporting gaps in the movement of motor fuel also hinder the effectiveness of the ExSTARS to completely monitor fuel production and sales. The lack of certain data fields in the information documents submitted to the IRS prevents the elimination of duplicate filing of fuel transaction data to both the IRS and the States. In addition, the IRS has worked with information document filers for several years to improve their reporting accuracy, and indications are the data perfection issue will continue to pose a significant problem when mandated electronic filing becomes effective on January 1, 2006.

There has also been a lack of sufficient executive oversight and project management documentation, which has contributed to the ExFIRS Project experiencing cost overruns and schedule delays. Although classified as a nonmajor information technology investment, the ExFIRS Project meets the IRS' cost thresholds for a major information technology investment. The importance of the ExFIRS to the IRS' mission and the high external visibility of the development effort warrant a more stringent capital planning and investment control process. In addition, the Federal Highway Administration has relied on the IRS and its contractors to design, develop, implement, and provide program oversight for the ExFIRS Project. While the ExFIRS Project Office maintained documents considered essential to effective project management and prepared monthly status reports addressing issues and problems, some key project management documents were not initially prepared and are still incomplete. A capacity study and stress test were also not completed for the ExSTARS to ensure system capacity will be sufficient prior to the electronic filing mandate, effective January 1, 2006.

In addition, the task orders² awarded to the primary contractor for the ExFIRS Project are cost-plus-fixed-fee contracts³ and the contracts awarded to the secondary contractor are time and materials contracts;⁴ however, such contracts are generally not appropriate once it is determined the development of a system is achievable and the duration and extent of work and anticipated costs can be accurately estimated. Performance standards and acceptable quality levels were also not consistently documented and measurable for the statements of work.⁵ In addition, the acceptance criteria section generally defined requirements for the format, accuracy, clarity, and

² A task order is an order for services placed against an established contract or with Federal Government sources.

³ A cost-plus-fixed-fee contract is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost but may be adjusted as a result of changes in the work to be performed under the contract.

⁴ A time and materials contract provides for direct labor hours at specified fixed hourly rates (wages, overhead, general and administrative expenses) and for materials (including handling costs) at cost.

⁵ A statement of work is a written description of the IRS' minimum requirements that are to be met by contract.



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timeliness of the deliverables in nonmeasurable terms, and the due dates were generally not specific.

Recommendations

We recommended the Commissioner, Small Business/Self-Employed (SB/SE) Division, develop a plan and schedule as soon as possible for initiating an examination program based on identified discrepancies; clarify whether or not an objective of the ExSTARS is to eliminate the requirement for duplicate filing of fuel transaction data by the motor fuel industry to both the IRS and the States by either identifying and addressing the issues that prevent single point of filing or removing the stated objective from IRS publications; develop a schedule for converting all filers to the new data transmission format and begin assessing the \$10,000 penalty for failure to file complete and accurate information documents; and ensure the ExFIRS Project Office updates appropriate project management documents, conducts a stress test to ensure sufficient system capacity, completes a transition plan for moving the Project to operations and maintenance status, and schedules a postimplementation review. In addition, we recommended the Commissioner, SB/SE Division, work with the Chief Information Officer (CIO) to include Federal Highway Administration representation on the executive steering committee responsible for the ExFIRS Project, including involvement with program management and executive oversight when the ExFIRS Project moves from development to operations and maintenance status, and provide periodic status reports as requested by the Federal Highway Administration to assess the progress of the ExFIRS Project and support continued funding. We also recommended the Commissioner, SB/SE Division, coordinate with the CIO and the Director, Procurement, to ensure the ExFIRS Project Office includes measurable performance standards in statements of work, clearly defines deliverables, implements an effective plan for monitoring contractor performance, and changes to firm fixed-price contracts.⁶ Finally, we recommended the CIO elevate the ExFIRS to a major information technology investment.

Response

IRS management agreed with five of our seven recommendations presented. The IRS is currently establishing an ExFIRS Compliance Operation to conduct preliminary analysis and screening of questionable transactions for referral to revenue agents specialized in fuel tax compliance beginning in Fiscal Year 2006. In addition, the Commissioner, SB/SE Division, will remove any references to single point of filing in their publications. The IRS has also completed development, testing, and installation of the upgraded ExSTARS and is currently developing a

⁶ A firm fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type places maximum risk and full responsibility on the contractor for all costs and resulting profit or loss.



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schedule for converting all filers to the new data transmission format. In addition, the IRS is identifying entities that should be subjected to the \$10,000 penalty for failure to file complete and accurate information and will immediately assess penalties in appropriate situations. Additionally, the CIO will reclassify the ExFIRS as a major project, and the Modernization and Information Technology Services (MITS) organization will identify and correct gaps in project management documentation, as well as ensure new development is managed under the appropriate life cycle discipline and follow appropriate tailoring plans to ensure the appropriate project management, transition, and systems management documentation is developed.

IRS management partially agreed with our recommendation to include Federal Highway Administration representation on the executive steering committee responsible for the ExFIRS Project, including involvement with program management and executive oversight when the ExFIRS Project moves from development to operations and maintenance status. The IRS stated a representative from the Federal Highway Administration will participate as a member of the appropriate executive steering committee for the ExFIRS Project and the requirements of the partnership between the IRS and Federal Highway Administration will be reflected in the revised Memorandum of Understanding to ensure the needs of both agencies are considered. IRS management also partially agreed with our recommendation to ensure the ExFIRS Project Office includes measurable performance standards in statements of work, clearly defines deliverables, implements an effective contractor monitoring plan, and moves to firm fixed-price contracts. The IRS stated the MITS organization will ensure statements of work include measurable performance standards and deliverables are clearly defined. In addition, the MITS organization will enter firm fixed-price contracts when possible and seek to use the appropriate performance-based contracting approach if a firm fixed-price contract is not possible.

Office of Audit Comment

IRS management did not specifically comment on our recommendation to complete a transition plan, conduct a stress test, and schedule a postimplementation review. We believe these actions are needed to assure an effective transition to the MITS organization and to verify the ExFIRS system is working properly. On those recommendations where IRS management partially agreed with our recommendations, we believe the corrective actions they plan to take will address the recommendations. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Program), at (202) 622-8510.



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Background

The Fiscal Year (FY) 2005 Department of the Treasury Congressional Directives included a request that the Treasury Inspector General for Tax Administration, in consultation with the Inspector General, Department of Transportation, conduct an audit to evaluate Internal Revenue Service (IRS) management of funds received from the Department of Transportation to prevent and reduce motor fuel excise tax evasion by developing an excise fuel reporting system and enhancing motor fuel excise tax examinations and criminal investigations. This request was based on the continued existence of motor fuel excise tax evasion despite prior investments in IRS enforcement activities and the concern that the IRS has previously experienced problems in developing information systems.

The IRS administers more than 40 separate excise taxes that finance 6 separate trust funds.¹ The Highway Trust Fund, which is a critical source of funding for Department of Transportation programs, was established as a mechanism to provide dependable financing for Federal Government highway construction. The Highway Trust Fund receives its revenue from highway user taxes, including excise taxes on motor fuels and truck-related taxes on truck tires, sales of trucks and trailers, and heavy vehicle use. The Highway Trust Fund is the largest of the 6 trust funds administered by the IRS and represents 70 percent of all excise taxes collected. Motor fuel excise taxes account for over 90 percent of the Highway Trust Fund receipts. In FY 2004, motor fuel excise taxes totaled nearly \$36 billion.

Prior to 1982, evasion of motor fuel excise taxes was not a significant problem because the Federal tax on gasoline and diesel fuels was only \$0.04 per gallon. However, significant increases in Federal and State excise tax rates over the years have increased incentives for tax evasion. To reduce the opportunities for taxpayers to evade motor fuel excise taxes, the point of taxation for motor fuels was changed. Motor fuel is now taxed, or dyed red if it is intended for nontaxable purposes, when it moves out of the bulk transportation system (pipeline and vessel) and storage network (refinery² and terminal³) and into tanker trucks at the terminal rack.⁴ The owner of the fuel, referred to as the registered position holder, is liable for payment of the tax as fuel passes the terminal rack. Taxpayers report their excise tax liabilities on Quarterly Federal Excise Tax Returns (Form 720), which are due 1 month following the close of the quarter.

¹ Trust funds are accounts established by law to hold receipts, such as specific taxes or revenue, collected by the Federal Government for financing special programs.

² A refinery is a facility used to produce taxable fuel from crude oil, unfinished oils, natural gas liquids, or other hydrocarbons.

³ A terminal is a storage and distribution facility for taxable fuel that is supplied by pipeline or vessel.

⁴ A terminal rack is a location at the terminal consisting of a series of valves, pipes, and meters where motor fuel is dispensed.



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While shifting the point of taxation on motor fuel to the terminal rack and requiring untaxed motor fuels to be dyed red have increased Highway Trust Fund revenue, opportunities continue to exist to avoid or underpay excise taxes. The IRS estimates that \$1 billion in Highway Trust Fund revenue is being lost each year due to the mixing of motor fuel with other products to increase the fuel volume and reduce the effective tax rate. Another study completed by private industry in 2002 estimated the diversion of untaxed aviation jet fuel to highway use is costing the Highway Trust Fund an additional \$1 billion annually. At the same time, the Department of Transportation reports demands on highway capacity have reached unprecedented levels, and replacement and rehabilitation costs for existing infrastructure have greatly increased. As a result, the Department of Transportation and the IRS consider the evasion of motor fuel excise taxes a serious and growing problem that is creating a significant drain on Highway Trust Fund receipts.

To enhance the IRS' excise tax enforcement and compliance activities, Congress passed the Transportation Equity Act for the 21st Century⁵ (TEA-21) in June 1998, which authorized monies to be appropriated out of the Highway Trust Fund and given to the IRS for Motor Fuel Tax Evasion Projects. The TEA-21 authorized \$5 million to be given to the IRS in each of FYs 1998 through 2003 to expand enforcement efforts, supplement examinations and criminal investigations, and develop an excise fuel reporting system. To meet the legislative requirements, the IRS developed the Excise Files Information Retrieval System (ExFIRS), which is an umbrella system comprised of nine subsystems⁶ that support the collection of motor fuel industry information, allow automated analysis of this information, and help identify areas with the highest risk for nonpayment of motor fuel excise tax liabilities. The most critical ExFIRS subsystem is the Excise Summary Terminal Activity Reporting System (ExSTARS), which was designed through a collaborative effort among the IRS, the Federal Highway Administration, and State and industry stakeholders⁷ to prevent and detect the existence of illegal tax evasion schemes by tracking the movement of motor fuel to and from approved terminals. The IRS began development of the ExSTARS in 1998 and reported to Congress that the subsystem was implemented in April 2001.⁸

Since the expiration of the TEA-21 on September 30, 2003, several extensions have been passed by Congress authorizing \$5 million from the Highway Trust Fund for FY 2004. For FY 2005, Congress authorized \$4 million through July 19, 2005. As illustrated in Figure 1, the ExFIRS Project Office, which is responsible for overseeing the technical, administrative, and management aspects for the development and implementation of the ExFIRS and providing

⁵ Pub. L. No. 105-178, 112 Stat. 107 (1998).

⁶ See Appendix IV for a description of the subsystems.

⁷ A stakeholder is a group or individual affected by, or in some way accountable for, the outcome of an undertaking. Stakeholders may include project members, suppliers, customers, and end users.

⁸ The ExFIRS Project Office explained that, although the ExSTARS was implemented in April 2001, the subsystem was not considered fully operational at that time and the participation by information document filers was limited.



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funds to supplement motor fuel excise tax enforcement activities and criminal investigations, received approximately \$59 million in Department of Transportation and IRS funds between FYs 1999 and 2005. The annual amounts provided from the Highway Trust Fund were adjusted since the TEA-21 was not passed in time to provide funding to the IRS for FY 1998; the amounts received each year from the Department of Transportation were based on actual funding requirements determined by the IRS. Recent legislation continues substantial Highway Trust Fund funding to the ExFIRS Project Office through FY 2009,⁹ and additional IRS funding is expected through the end of FY 2008.

Figure 1: ExFIRS Project Office Funding Between FYs 1999 and 2005

Fiscal Year	Amount Provided by the Department of Transportation	Amount Provided by the IRS	Annual Amount	Cumulative Amount
1999	\$9,250,000	\$2,417,662	\$11,667,662	\$11,667,662
2000	\$7,923,000	\$2,101,000	\$10,024,000	\$21,691,662
2001	\$4,468,000	\$2,720,531	\$7,188,531	\$28,880,193
2002	\$4,609,000	\$1,798,000	\$6,407,000	\$35,287,193
2003	\$4,706,500	\$1,886,000	\$6,592,500	\$41,879,693
2004	\$4,800,000	\$4,959,000	\$9,759,000	\$51,638,693
2005	\$3,600,000	\$3,613,000	\$7,213,000	\$58,851,693
Totals	\$39,356,500	\$19,495,193	\$58,851,693	

Source: ExFIRS Project Office spending plans.

⁹ House of Representatives Bill (H.R.3), which passed the Senate with amendment on May 17, 2005, and was signed by the President on August 10, 2005, provides additional funds from the Highway Trust Fund to the IRS for FYs 2006 through 2009.



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Figure 2 provides a breakdown of the actual expenditures between FYs 1999 and 2004, which reflects that most of the funding received by the ExFIRS Project Office was associated with the development and implementation of the ExFIRS.

Figure 2: ExFIRS Project Office Expenditures in FYs 1999 Through 2004

Expenditure Category	Amount
1. Development and Implementation of the ExFIRS	\$39,897,755
2. Research and Development Related to Fuel Evasion Detection Methods and Equipment and Analysis of Fuel Samples	\$10,990,938
3. Supplement of Criminal Investigations	\$750,000
Total	\$51,638,693

Source: ExFIRS Project Office spending plans.

This audit was performed at the IRS Office of Excise Tax Operations within the Small Business/Self Employed (SB/SE) Division and the Department of Transportation Offices of the Federal Highway Administration and Inspector General in Washington, D.C., during the period January through June 2005. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

Excise Files Information Retrieval System Information Should Be Used to Enhance Tax Enforcement Activities and Increase Highway Trust Fund Revenue

One of the goals in the IRS Strategic Plan 2005 – 2009 is to enhance enforcement of the tax law to collect the taxes due from taxpayers that do not fulfill their tax obligations. The IRS Office of Excise Tax Operations within the SB/SE Division is responsible for the enforcement and compliance activities associated with motor fuel excise taxes. To accomplish the IRS goal, there are approximately 120 fuel compliance officers, whose responsibilities include conducting periodic inspections of onroad vehicles on highways for misuse of dyed diesel fuels. The IRS also has approximately 244 revenue agents, considered to be excise tax specialists, who spend approximately 19 percent of their time examining Forms 720 to ensure motor fuel excise tax compliance. Figures 3 and 4 illustrate the results of the fuel compliance officers' and revenue agents' activities for FYs 2000 through 2004.

Figure 3: Fuel Compliance Officer Results

FY	Inspections	Violations	Penalty Amount
2000	77,005	1,260	\$2,320,930
2001	72,266	1,026	\$2,467,060
2002	98,117	1,081	\$2,815,530
2003	121,244	1,418	\$3,875,740
2004	122,489	1,263	\$4,684,240

Source: IRS Office of Excise Tax Operations.

Figure 4: Revenue Agent Results

FY	Form 720 Examinations	Taxes Assessed
2000	1,791	\$179,966,047
2001	1,067	\$107,895,276
2002	994	\$56,142,040
2003	1,350	\$18,040,076
2004	1,293	\$90,151,206

Source: IRS Office of Excise Tax Operations.

The IRS Criminal Investigation Division is responsible for investigating potential criminal violations of the Internal Revenue Code and related financial crimes to foster confidence in the tax system and compliance with the law. However, the passage of legislation in 1993 changing the point of taxation on motor fuels (from retail outlets to the terminal rack where fuel is loaded into tanker trucks) resulted in a dramatic decrease in the number of criminal investigations and



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assessments. For example, Congressional testimony indicates the Criminal Investigation Division uncovered fuel excise tax evasion activity in the hundreds of millions of dollars prior to 1993; however, in FY 2004, the IRS initiated only 2 criminal investigations and assessed only \$719,790 in criminal deficiencies.

Implementation of the ExSTARS was to increase Highway Trust Fund revenue by providing an efficient and accurate way to identify potentially noncompliant taxpayers to ensure collection of the appropriate excise tax revenue. The ExSTARS tracks the movement of fuel to and from approved terminals by requiring the monthly submission of a Terminal Operator Report (Form 720-TO) and a Carrier Summary Report (Form 720-CS) to the IRS reflecting fuel quantity and type. According to the IRS, the data on these information documents could be used to compare the quarterly fuel volumes to the data taxpayers entered on their Forms 720. Significant discrepancies would be referred to the IRS Excise Tax Program for further analysis to identify for examination those Forms 720 on which taxpayers appear to be in noncompliance. This compliance process is similar to the IRS Underreporter Program, which matches income and deduction amounts on income tax returns submitted by taxpayers to the information provided to the IRS by third parties on information documents, such as the Wage and Tax Statement (Form W-2). When these amounts do not match, potential underreporter cases are referred for examination. The information documents for the Underreporter Program can be submitted by third parties to the IRS either on paper or electronically. The paper information documents are scanned using the Service Center Recognition Image Processing System.¹⁰

The IRS reported to Congress that the ExSTARS was implemented in April 2001 and it planned to begin the compliance process of matching the information document data against data on Forms 720 filed for the quarter beginning January 1, 2004. The ExSTARS was intended to permit both the receipt of electronic submissions and the scanning of paper submissions to create a complete picture of fuel movements, but the detailed transactions are not being scanned and cannot be included in the matching process. In April 2005, the IRS reported to Congress that the use of the ExSTARS to detect underreported tax on individual Forms 720 and generate additional Highway Trust Fund revenue has been limited because only 70 percent of the 6 to 9 million monthly fuel transactions are received electronically and it is cost prohibitive to transcribe the detailed information associated with the remaining transactions filed on paper Forms 720-TO and 720-CS. While the IRS is using the ExSTARS to conduct the matching of the electronically filed information document data to the Form 720 data, it elected not to refer identified potential exception cases for examination until electronic filing is mandated to substantially increase the number of information documents being received electronically. Although it is not generating examination cases, the IRS maintains it has been able to identify failures to comply with the information reporting requirements, unusual and/or questionable movements of fuel, and leads for possible noncompliance. The IRS was unable to provide

¹⁰ The Service Center Recognition Image Processing System uses character recognition and imaging technologies to process high volumes of documents with few unrecognized characters.



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information showing the results of these activities; however, the ExFIRS Project Office stated 1 lead identified from the analysis of ExSTARS data for excise tax noncompliance could result in a \$6 million assessment.

The Chief, Excise Tax Operations, explained the cases are not being referred for examination because 1) it is unfair to treat taxpayers who file their tax returns electronically different from taxpayers who file on paper and 2) the data used in the matching process are still being perfected. The Chief could not specifically tell us when exception cases would begin to be referred for examination. However, our review of the ExSTARS matching process determined all Forms 720 would be subjected to the compliance process of matching the tax return information against the data contained on the electronically filed information documents, regardless of whether taxpayers filed their Forms 720 electronically.

The results of 1 matching analysis completed by the ExFIRS Project Office on the information documents filed electronically on the ExSTARS and the Form 720 tax returns submitted for the second quarter of FY 2003 reflected that 11 entities had potentially underreported the taxable gasoline on their Forms 720 by nearly 110 million gallons. At the current excise tax rate of \$0.184 per gallon, the underreported gasoline would represent excise tax evasion of approximately \$20 million.¹¹ In addition, our review of the matching results for the second, third, and fourth quarters of 2004 provided by the ExFIRS Project Office identified potential underreporting of motor fuel excise taxes. However, the Chief, Excise Tax Operations, explained that the ExFIRS Project Office does not currently use Form 720 data from the Master File¹² in the information matching process but instead used a preliminary data file that has not yet posted to the Master File. Therefore, the matching results are not reliable. In addition, the ExFIRS Project Office has identified instances where the IRS Master File reflects a Form 720 was filed while the matching routine erroneously reflects a Form 720 was not filed. We understand the IRS' concern that the data are not perfected and, therefore, may not represent an actual noncompliance situation. However, when the information indicates a potential tax noncompliance situation, the IRS should further research the information to determine whether a noncompliance situation does exist and, if so, refer it for examination, while the IRS continues to improve the ExSTARS and increase the number of electronically filed information documents. On August 4, 2005, the Chief, Excise Tax Operations, indicated there are plans to revise the matching process so that the ExFIRS data is matched against actual Master File data which should result in an improved matching process to identify actual noncompliance.

Stakeholders alerted the ExFIRS Project Office in October 2000 that the lack of mandated electronic filing and the IRS' decision not to key enter the data from the paper-filed information

¹¹ The ExFIRS Project Office explained that the amount of actual tax evasion may not be as high as \$20 million because the Form 720 data used in the compliance process are obtained prior to the complete processing of the Forms 720 by the IRS.

¹² The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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documents were major issues that would significantly affect the usefulness of the ExSTARS to the States and not provide the full national terminal reporting system as promised in 1998. The stakeholders also commented that the lack of mandated electronic filing will affect the capability of the IRS to match the submitted information documents to the Forms 720. With passage of the American Jobs Creation Act of 2004,¹³ electronic filing was mandated beginning January 1, 2006, for Forms 720-TO and 720-CS with 25 or more transactions. The IRS now reports that, once the information document database is populated sufficiently throughout 2006, it will be in a position to begin fully using the ExSTARS to detect unreported transactions subject to excise taxes and to verify the tax liabilities reported on the quarterly Forms 720. However, by not currently using the ExSTARS data analysis to identify potential tax compliance issues, the IRS is not maximizing the return on investment of the ExFIRS.

Recommendation

Recommendation 1: The Commissioner, SB/SE Division, should develop a plan and schedule as soon as possible for initiating an examination program based on identified discrepancies between the information documents and the tax returns.

Management's Response: The Commissioner, SB/SE Division, agreed with this recommendation, stating the IRS is currently establishing an ExFIRS Compliance Operation to conduct preliminary analysis and screening of questionable transactions. The ExFIRS Compliance Operation will refer questionable transactions to revenue agents specialized in fuel tax compliance beginning the first quarter of FY 2006.

Significant Issues Require Management Attention to Successfully Implement a System to Prevent and Detect the Existence of Motor Fuel Excise Tax Evasion and Enhance Compliance Enforcement Activities

The Department of the Treasury *Information Technology Manual* and the IRS system development guidelines stipulate that, as part of the information system life cycle¹⁴ management process, project management should identify project risks early and manage them before they become problems. The risk management process encompasses the identification of risk issues, assessment of risk to define probability and impact, preparation and implementation of risk mitigation and risk contingency plans, and continuous monitoring of those actions to ensure

¹³ Pub. L. No. 108-357, 118 Stat. 1418 (2004).

¹⁴ The information system life cycle involves the phases through which an information system passes from beginning to end.



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effectiveness. Risk management is used to ensure critical areas of uncertainty are surfaced early enough to be addressed without adversely affecting cost, schedule, technical, or programmatic performance.

The ExFIRS Project Office established a risk management process to identify and track risks for resolution. For example, the ExFIRS Project Office developed a Risk Management Plan containing the procedures for performing the identification, assessment, containment, and closure of performance risks and related management issues. In addition, the ExFIRS Project Office prepares monthly status reports addressing issues and problems, developed a risk management database tool to track risks to resolution, and established a stakeholder team to address stakeholder issues surrounding development of the ExSTARS. Although the IRS reported the ExSTARS was implemented in April 2001, significant issues still requiring management attention preclude the ExSTARS from effectively preventing and detecting the existence of motor fuel excise tax evasion. These risks include reporting gaps in the movement of motor fuel and continued data perfection problems with submitted returns.

Reporting gaps in the movement of motor fuel

The ExSTARS was designed to track all motor fuel movements in and out of approved terminals and to share the information with State taxing agencies. However, reporting gaps in the movement of motor fuel hinder the effectiveness of the ExSTARS to completely monitor fuel production and sales. For example, at the onset of the ExSTARS development effort, the stakeholders and the ExFIRS Project Office recognized that certain carriers (i.e., truck, rail, and foreign vessel) would be exempted from reporting deliveries to the terminal. The ExSTARS also would not include fuel distribution reporting at the refineries, unregulated terminals, and bulk storage facilities.

In addition, one of the objectives of the IRS Excise Tax Program according to Publication 3536, *Motor Fuel Excise Tax EDI Guide*, is to eliminate the requirement for duplicate filing of fuel transaction data by the motor fuel industry to both the IRS and the States. In order to facilitate single point of filing, filers submitting information documents on the ExSTARS are encouraged to sign consents to allow the IRS to disseminate the motor fuel information to the State agencies responsible for motor fuel taxes. However, the information documents submitted to the IRS lack certain data fields required by some States, such as the name of the distributor and buyer and seller information. Therefore, the ExSTARS has not provided a single point of filing, and several States have developed their own electronic filing systems to receive the fuel transaction data. On August 4, 2005, the Chief, Excise Tax Operations, advised us that the ExSTARS can only facilitate single point of filing if fuel is taxed at the terminal rack by the State; however, the IRS cannot build a system to meet the needs of all States and did not intend for the ExSTARS to provide single point of filing. The Chief explained the IRS does not require the additional data



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fields required by some States and has no legal authority to require the motor fuel industry to provide the additional data fields.

Continued data perfection problems with submitted returns

Although companies with 25 or more transactions in a month will be required to file Forms 720-TO and 720-CS electronically starting January 1, 2006, indications are the data perfection issue will continue to pose a significant problem with submitted documents when the electronic filing mandate becomes effective. In 2003, the ExFIRS Project Office formed the Data Perfection Team to correct inaccuracies associated with information documents received by the ExSTARS and to ensure future documents were transmitted accurately. The monthly status reports submitted by the Data Perfection Team reflected that several companies continue to submit inaccurate information documents month after month. Although the American Jobs Creation Act of 2004 established a \$10,000 penalty for failure to file complete and accurate information documents (effective January 1, 2005), the IRS elected not to assess the penalty while working with the filers to perfect their information documents on the ExSTARS prior to the January 1, 2006, electronic filing deadline.

In addition, management reports were not periodically generated to identify the magnitude of the data perfection problem and to ensure the effective tracking of the progress in resolving the data integrity issues. The inaccuracies in the data occurred because most filers transmitting the information documents electronically use an older Electronic Data Interchange (EDI)¹⁵ format (EDI 4010), which does not provide error messages alerting filers of the failure to transmit the information document or inaccuracies in the data. Prior to January 1, 2006, the IRS plans to implement an updated data transmission format (EDI 4030) that will alert filers of errors in filing; however, the IRS plans to run both data transmission formats simultaneously. As a result, the data inaccuracies will continue because filers can continue to use the older format to transmit motor fuel information documents after January 2006 and the Chief, Excise Tax Operations, has not prepared a transition strategy and schedule to convert all filers to the new data transmission format.

The IRS has also experienced a recent decline in electronic filing participation on the ExSTARS, which will hamper its efforts to address the data integrity issue since new electronic information document filers will likely encounter data perfection problems. The IRS reported that, when the ExSTARS was first implemented in April 2001, it received information documents from only 894 (66 percent) of 1,346 registered terminals. As a result of outreach efforts with industry groups and individual taxpayers, in April 2004 the IRS reported it had received information documents from over 96 percent of registered terminals. However, the IRS also reported it receives 30 percent of the monthly fuel transactions on paper. While the electronic filing

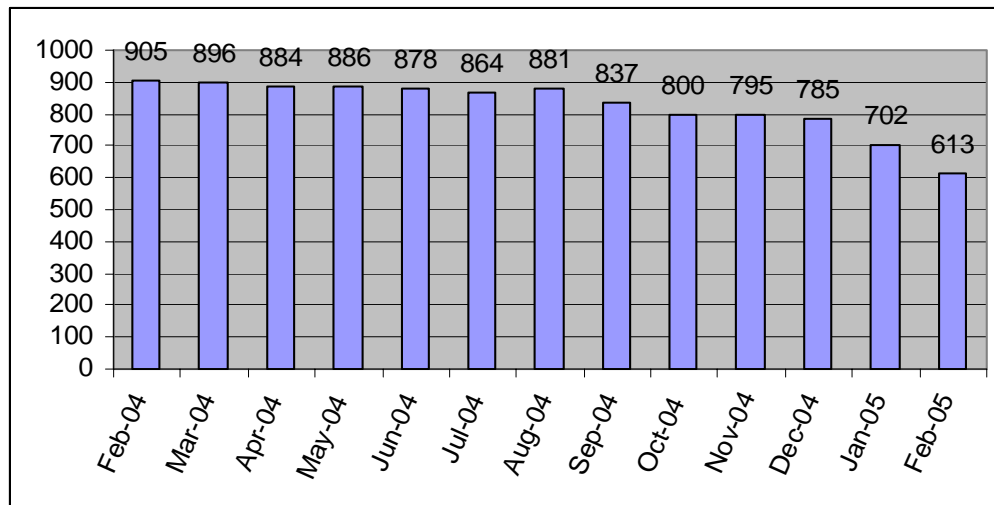
¹⁵ EDI is a computer-to-computer exchange of routine business data in a standard format.



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mandate will become effective January 1, 2006, the number of terminals filing electronically to report fuel deliveries is actually decreasing as the deadline approaches. For example, Figure 5 illustrates the number of terminals filing electronically to report deliveries decreased from 905 in February 2004 to only 613 in February 2005, a decrease of over 32 percent. The IRS attributes the decrease in electronic filing to the selling off of terminals by the larger entities to new and smaller operators that are filing paper information documents.

Figure 5: Number of Terminals Filing Electronically Between February 2004 and February 2005



Source: IRS Office of Excise Tax Operations.

By addressing these outstanding issues, the IRS could improve the effectiveness of the ExSTARS to completely monitor fuel production and sales, promote a single point of filing for the motor fuel industry, enhance the usefulness of the ExSTARS to the States, and facilitate the IRS' efforts to match the submitted information documents to the Forms 720. Although the IRS communicated to Congress that establishment of a significant penalty for failure to file information documents, coupled with the mandated electronic filing effective January 1, 2006, will enable it to successfully implement the ExSTARS as it was designed, the continued data perfection problems will prevent the ExSTARS from reliably detecting unreported motor fuel transactions subject to excise taxes. As a result, in January 2006 excise tax evasion may not be detected to increase revenue for the Highway Trust Fund, and expected gains in efficiency may not be realized.



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Recommendations

Recommendation 2: The Commissioner, SB/SE Division, should clarify whether or not an objective of the ExSTARS is to eliminate the requirement for duplicate filing of fuel transaction data by the motor fuel industry to both the IRS and the States by either identifying and addressing the issues that prevent single point of filing or removing the stated objective from Publication 3536.

Management's Response: The Commissioner, SB/SE Division, agreed to remove any references to single point of filing in their publications to avoid any confusion since the IRS is not authorized to direct single point of filing.

Recommendation 3: The Commissioner, SB/SE Division, should develop a schedule for converting all filers to the new data transmission format and begin assessing the \$10,000 penalty for failure to file complete and accurate information documents, as authorized by the American Jobs Creation Act of 2004.

Management's Response: The Commissioner, SB/SE Division, agreed with this recommendation, stating the IRS has completed development, testing, and installation of the upgraded ExSTARS using EDI 4030 and is currently developing a schedule for converting all filers to the new data transmission format. To ensure all filers can begin electronically filing by January 1, 2006, the IRS will initiate broad-based and individual outreach and education to the entities currently filing paper returns. In addition, the IRS is currently identifying entities that should be subjected to the \$10,000 penalty for failure to file and/or failure to file accurate information as mandated by the American Jobs Creation Act of 2004 and will immediately assess penalties in appropriate situations.

Project Oversight and Management Need to Be Improved for the Development and Implementation of the Excise Files Information Retrieval System

The TEA-21 required the Department of Transportation to enter into a Memorandum of Understanding with the IRS regarding the development and maintenance of an excise fuel reporting system by the IRS. The Memorandum of Understanding established that the priority for the use of available funding by the IRS was to establish and operate the ExFIRS. Although the ExFIRS Project Office was unable to provide an initial cost estimate and implementation schedule, indications are the Project has experienced considerable cost overruns and schedule delays. For example, the expectation was the over \$30 million initially provided by the Highway Trust Fund through FY 2003 would be sufficient to develop the ExFIRS. However, by the end



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of FY 2004, the Project Office had spent nearly \$40 million on ExFIRS development. An October 2000 ExFIRS Project status report also stated the ExFIRS was on target to be completed by September 2003. However, the implementation date for the ExFIRS is currently scheduled for September 30, 2008.

The cost overruns and schedule delays signify a need for improved project oversight and monitoring for the development and implementation of the ExFIRS. Specifically, the ExFIRS Project should be classified as a major information technology investment by the IRS to ensure increased executive oversight, the Federal Highway Administration should have increased involvement in program management and financial oversight, and key project management documents should be improved to meet system development life cycle requirements.

The ExFIRS Project should be classified as a major information technology investment to ensure increased executive oversight

The Clinger-Cohen Act of 1996¹⁶ requires agencies to use a disciplined Capital Planning and Investment Control (CPIC)¹⁷ process to acquire, use, maintain, and dispose of information technology assets. In addition, Office of Management and Budget (OMB) Circular A-11, *Preparation, Execution, and Submission of the Budget*, requires each agency to include an information technology Investment Portfolio, commonly referred to as an Exhibit 53, with its annual budget submission to the OMB containing the information technology investment title, description, amount, and funding source. The required information allows the OMB to review and evaluate each agency's information technology spending and to compare information technology spending across the Federal Government.

For the Exhibit 53, the agency should classify each information technology investment as either major or nonmajor. The OMB defines a major information technology investment as one that requires special management attention because of certain attributes, including the importance to an agency's mission; external visibility; and high development, operating, or maintenance cost. According to the IRS' CPIC process for acquiring and maintaining information technology property, the IRS classifies a project as a major information technology investment if the annual investment exceeds \$5 million or the total life cycle cost exceeds \$50 million. Major information technology investments require a more stringent CPIC process, including increased executive oversight and the preparation of a detailed Capital Asset Plan and Business Case, commonly referred to as an Exhibit 300.

¹⁶ Pub. L. No. 104-106, 110 Stat. 642 (codified in scattered sections of 5 U.S.C., 5 U.S.C. app., 10 U.S.C., 15 U.S.C., 16 U.S.C., 18 U.S.C., 22 U.S.C., 28 U.S.C., 29 U.S.C., 31 U.S.C., 38 U.S.C., 40 U.S.C., 41 U.S.C., 42 U.S.C., 44 U.S.C., 49 U.S.C., 50 U.S.C.).

¹⁷ The CPIC is a management process for the ongoing identification, selection, control, and evaluation of investments in information resources focused on agency missions and achieving specific program outcomes.



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The IRS currently classifies the ExFIRS as a nonmajor information technology investment on its Exhibit 53 because the Highway Trust Fund investment amounts were not considered during the CPIC classification process. However, once the Highway Trust Fund monies are combined with the IRS investments, the ExFIRS Project meets the IRS' CPIC cost thresholds for a major information technology investment. For example, the ExFIRS Project Office spent over \$6 million in FY 2004 on ExFIRS development and the total life cycle cost of the ExFIRS Project will exceed \$50 million. In addition, the importance of the ExFIRS to the IRS' mission and the high external visibility of the development effort warrant its consideration as a major information technology investment for OMB reporting purposes.

Since the ExFIRS Project involves intragovernmental payments (i.e., Department of Transportation payments to the IRS from the Highway Trust Fund), the Department of Transportation should have included the ExFIRS on its Exhibit 53 and reflected the reimbursement amount provided from the Highway Trust Fund to the IRS. To avoid double counting, the IRS should have inserted a narrative in its Exhibit 53 to reflect the reimbursable amount received from the Highway Trust Fund. The IRS should also be responsible for preparing and submitting the Exhibit 300 to the OMB, while the Department of Transportation would reflect a line item on its Exhibit 53 indicating the funds are part of a multiagency business case. By not being properly classified, the ExFIRS Project development effort is not receiving the necessary level of IRS executive oversight and monitoring to ensure efficient resource use and maximized rates of return.

The Federal Highway Administration should have increased involvement in program management and financial oversight

In September 1998, the IRS and the Department of Transportation signed a Memorandum of Understanding that assigned joint oversight responsibility to the Federal Highway Administration Director, Office of Transportation Policy Studies, and the IRS Director, Specialty Taxes, for reviewing the development and implementation of Motor Fuel Tax Evasion Project activity. In addition, the IRS was required to form a stakeholder workgroup on ExFIRS design and development by October 1, 1998, that would include the Federal Highway Administration as a participant. The Federal Highway Administration has also issued policies establishing general stewardship¹⁸ and oversight responsibilities for projects, including process reviews, project evaluations, and program management activities.

Since the TEA-21 contained limitations on the Department of Transportation involvement in the development and implementation of the ExFIRS (i.e., the Department of Transportation could not impose any conditions on the use of funds by the IRS, the IRS would develop and maintain

¹⁸ Stewardship activities include continuous process improvement initiatives, performance measurement, and project involvement activities to ensure the efficient and effective management of the public funds.



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the ExFIRS through contracts, and the ExFIRS would be under the control of the IRS), the Federal Highway Administration did not consider the ExFIRS to be a Federal Highway Administration system development activity. Aside from providing the funding, Federal Highway Administration management viewed their role as encouraging the development of a relationship between the IRS and external stakeholders (i.e., State revenue and transportation departments and industry). As a result, the Federal Highway Administration relied on the IRS and its contractors to design, develop, implement, and provide program oversight for the ExFIRS Project. For example, the Federal Highway Administration has attended only a limited number of the required ExFIRS working group sessions headed by the IRS, does not maintain any formal project management and oversight documents, and did not establish any performance measures to assess the ExFIRS' effectiveness or return on investment. The Associate Administrator for Policy and Governmental Affairs, Federal Highway Administration, explained that since the IRS is responsible for the collection of the fuel-related excise taxes, the Federal Highway Administration believed the IRS would have the best understanding of what would be required of the ExFIRS to become an enforcement tool for Federal and State excise tax compliance efforts, including the establishment of performance measures that would be more appropriately developed as the system was closer to becoming fully operational. The Associate Administrator for Policy and Governmental Affairs also explained the Federal Highway Administration attended those ExFIRS working group sessions where specific Federal Highway Administration activities were planned, received yearly updates on the ExFIRS Project as part of the Joint Federal/State Motor Fuel Tax Compliance Steering Committee and through meetings of the Federation of Tax Administration Motor Fuel Tax Section, and was in regular contact with the IRS and members of the ExFIRS working group.

In addition, the IRS has not included the Federal Highway Administration as a participant in IRS executive oversight committees responsible for monitoring the development and implementation of the ExFIRS or provided program evaluations of the ExFIRS development effort. The IRS' accounting to the Federal Highway Administration on how the Highway Trust Fund monies have been spent has also been limited. The recent legislation that will continue providing funding from the Highway Trust Fund to the IRS through FY 2009 for the Motor Fuel Tax Evasion Projects increases the IRS' reporting requirements to the Department of Transportation. Federal Highway Administration management believes the financial accountability and ExFIRS Project status reporting provisions included in the legislation will make the IRS more accountable and enhance their oversight of the ExFIRS Project. For example, the legislation requires the IRS to submit to the Secretary of the Department of Transportation an annual report describing the current status of the Motor Fuel Tax Evasion Projects and specifying the estimated annual yields.



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Key project management documents should be improved to meet system development life cycle requirements

A key goal of the Clinger-Cohen Act of 1996 is that organizations should have processes and information in place to help ensure information technology projects are being implemented at acceptable costs and within reasonable and expected time periods. Department of the Treasury Publication 84-01, *Information System Life Cycle Manual*, issued in July 1994 states project management documentation is an integral part of the system development process. For example, a realistic schedule and cost estimate is essential so goals can be set and measured based on a comparison between planned and actual costs and completion dates. In addition, project plans are necessary to communicate status and direction and to allow management to verify if appropriate progress is being made during the development process. The IRS Internal Revenue Manual section containing the policies and procedures for system development efforts states the IRS will follow the guidance specified by the Department of the Treasury.

The Chief, Excise Tax Operations, advised us that the ExFIRS Project Office prepared the project management documentation required by the IRS at the time the project was initiated. The ExFIRS Project Office explained the project management documentation was prepared following military standards and was tailored to meet both IRS and Carnegie Mellon Software Engineering Institute¹⁹ Capability Maturity Model Integration²⁰ requirements. A recent review by the Carnegie Mellon Software Engineering Institute found the primary contractor for the ExFIRS Project met level 2²¹ of the Capability Maturity Model Integration requirements. The ExFIRS Project Office also maintained information system life cycle documents considered essential to effective project management. For example, the ExFIRS Project Office developed a Risk Management Plan and prepared monthly status reports. However, some key project management documents required by Department of the Treasury Publication 84-01 were not initially prepared for the ExFIRS Project and are still incomplete and/or inaccurate. For example:

- **Project Management Plan:** The ExFIRS Project Office prepared a project management plan, but the plan does not contain all the required elements, including the life cycle

¹⁹ The Carnegie Mellon Software Engineering Institute is a Federally funded research and development center sponsored by the Department of Defense. Its core purpose is to help others make measured improvements in their software engineering capabilities.

²⁰ The purpose of the Capability Maturity Model Integration is to provide guidance for improving an organization's processes and the ability to manage the development, acquisition, and maintenance of products or services.

²¹ A capability level 2 process is characterized as a "managed process," which is a performed process that is also planned and executed in accordance with policy; employs skilled people having adequate resources to produce controlled outputs; involves relevant stakeholders; is monitored, controlled, and reviewed; and is evaluated for adherence to its process description.



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methodology, life cycle phases and milestones, and project schedule and target completion dates.

- **Work Breakdown Structure:** The work breakdown structure does not reflect all current project activities and shows the earliest start date for the ExSTARS as June 25, 2001, although development activities began in FY 1999 and the IRS reported the ExSTARS was implemented on April 1, 2001. Also, a summary (i.e., high-level) work breakdown structure used for management presentations was not prepared.
- **Business Case:** A business case for the ExFIRS Project was completed March 3, 2003. However, the costs are not tied to specific milestones, deliverables, and due dates. In addition, the business case does not contain all required components. For example, the business case does not include specific project deliverables that are defined and traceable to specific project phases and releases and does not include a project schedule that clearly shows the timing of the releases, including business-critical dates, integration dates, and all major project milestones.
- **Capacity Study:** A capacity study and stress test were not completed for the ExSTARS to ensure system capacity will be sufficient prior to the electronic filing mandate on January 1, 2006. The ExFIRS Project Manager stated the IRS has never reached maximum capacity and has more than sufficient capacity for the processing of information.

As a result, the IRS does not have a baseline cost estimate and schedule, which is necessary to determine whether the ExFIRS Project is on schedule and within budget. The ExFIRS Project Office stated a business case was not initially prepared because development of the ExFIRS was mandated by legislation and the Project Office was not required to prepare a business case to obtain funding from both the Department of Transportation and the IRS for the system development effort. It was not until later in 2002 that the ExFIRS Project Office began preparing a business case for the Project to continue receiving IRS funding. The ExFIRS Project Office also explained a project schedule was not prepared because it did not know how long the Project would take to complete or how much the system would cost and the contractor did not provide specific due dates for the deliverables. Instead, due dates were determined as tasks were completed. In addition, unless a stress test is conducted, the IRS does not have assurance the system capacity will be sufficient once electronic filing is required on January 1, 2006.

Without the proper amount of executive oversight and complete and accurate project management documentation, the IRS increases the risk the ExFIRS Project will incur cost overruns and schedule slippage. The ExFIRS may also not accomplish its primary objective to improve motor fuel excise tax compliance.

On June 28, 2005, we were advised the ExFIRS Project was to move out of the development and implementation phase and into the operations and maintenance phase around October or



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November 2005. Once this transition occurs, the Modernization and Information Technology Services (MITS) organization will assume responsibility for the ExFIRS Project.

Recommendations

Recommendation 4: The Chief Information Officer (CIO) should elevate the ExFIRS to a major information technology investment, update the Exhibit 53, and prepare an Exhibit 300.

Management's Response: The CIO agreed with this recommendation, stating the ExFIRS Project Manager will update the Exhibit 53 to reclassify the ExFIRS as a major project and prepare an Exhibit 300.

Recommendation 5: The Commissioner, SB/SE Division, should work with the CIO to determine which executive steering committee will be responsible for the ExFIRS Project while the Project is being developed and include a representative from the Federal Highway Administration on the executive steering committee. When the ExFIRS Project moves to operations and maintenance status, the Federal Highway Administration should be involved with program management and executive oversight and provided periodic status reports as requested by the Federal Highway Administration to assess the progress of the ExFIRS Project and support continued funding. The planned revisions to the Memorandum of Understanding between the IRS and the Federal Highway Administration should include these requirements.

Management's Response: The IRS partially agreed with this recommendation, stating the IRS will maintain responsibility for the program management, executive oversight, and periodic status reporting. However, a representative from the Federal Highway Administration will participate as a member of the appropriate executive steering committee for the ExFIRS Project. In addition, the IRS will reflect the requirements of the partnership between the IRS and Federal Highway Administration in the revised Memorandum of Understanding to ensure the needs of both agencies are considered as the IRS plans and implements actions to improve fuel tax compliance.

Office of Audit Comment: While IRS management did not completely agree with the recommendation, we believe the corrective actions they plan to take will address the recommendation.

Recommendation 6: The Commissioner, SB/SE Division, should ensure the ExFIRS Project Office updates appropriate project management documents (i.e., project management plan and work breakdown structure), as required during the development phase; conducts a stress test to ensure sufficient system capacity; completes a transition plan for moving the Project to operations and maintenance status; and schedules a postimplementation review.

Management's Response: The CIO agreed with this recommendation, stating that as the IRS transitions the systems development, operations, and maintenance of the ExFIRS



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Project from the SB/SE Division to the MITS organization any gaps in proper project and systems management documentation will be identified and corrected by the MITS organization. After the transition, any new development will be managed under the Business Systems Modernization (BSM) Enterprise Life Cycle discipline and follow appropriate tailoring plans to ensure development of proper project management, transition, and systems management documentation.

Office of Audit Comment: IRS management did not specifically comment on our recommendation to complete a transition plan, conduct a stress test, and schedule a postimplementation review. We believe these actions are needed to assure an effective transition to the MITS organization and to verify the ExFIRS system is working properly.

The Project Office Should Incorporate More Performance-Based Services Acquisition Principles for Acquired Services

For FY 2005, the OMB established a goal requiring all agencies to apply performance-based services acquisition methods on at least 40 percent of eligible service actions over \$25,000 to include contracts and task orders.²² In addition, the Federal Acquisition Regulation (FAR)²³ requires agencies to use performance-based services acquisition methods to the maximum extent practicable when acquiring services. The FAR explains performance-based services acquisition methods are preferred because they are intended to ensure required performance quality levels are achieved and total payment is related to the degree to which services performed meet contract standards.

The FAR requires agencies to describe requirements in terms of results rather than process; use measurable performance standards, use quality assurance monitoring plans, and prepare performance evaluations; provide for reductions of fees or price; and include performance incentives where appropriate. Agencies are also required to prepare interim evaluations to provide current information for source selection purposes for any contract period of performance, including options, exceeding 1 year. In addition, the IRS Office of Procurement states the success of using performance-based services acquisition is heavily dependent on the use of performance-based statements of work that define the needs through required outcomes, along with well-formulated contract administration plans that make cost-effective use of resources to measure contractor performance.

²² A task order is an order for services placed against an established contract or with Federal Government sources.

²³ 48 C.F.R. pt 1-53 (2002).



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The task orders awarded to the primary contractor for the ExFIRS Project are cost-plus-fixed-fee contracts²⁴ for nearly \$39 million, and the contracts awarded to the secondary contractor are time and materials contracts²⁵ for approximately \$2.7 million. In addition, the ExFIRS Project primary and secondary contractors have been providing contracted services for over 6 years, but the contract types awarded have not changed. Although these contract types may have been appropriate during the initial planning and development stages, regulations state that such contracts are generally not appropriate once it is determined the development is achievable, firm performance objectives and schedules have been established, and the duration and extent of work and anticipated costs can be accurately estimated. Instead, the use of a firm fixed-price²⁶ contract would be more suitable since it would provide maximum incentive for the contractor to control costs and perform effectively.

The ExFIRS Project Office generally included the elements recommended for a performance-based work statement in the statements of work²⁷ prepared for each of the contractors providing services. For example, the statements of work consistently defined the requirements in terms of desired results rather than methods of work performance. However, the statements of work did not consistently document performance standards and acceptable quality levels, and when documented, they were not measurable. In addition, the acceptance criteria section of some statements of work defined requirements for the format, accuracy, clarity, and timeliness of the deliverables in nonmeasurable terms, and the due dates for the deliverables were generally not specific (i.e., as needed and as mutually agreed). The statements of work for the primary contractor also did not include due dates for the deliverables or acceptance criteria. Without measurable performance standards identified in the statements of work, the ExFIRS Project Office cannot effectively monitor contractor performance, which may have contributed to the cost overruns and schedule delays experienced by the ExFIRS Project.

The Office of Federal Procurement Policy best practices support allowing the contractor to prepare the quality assurance plan and report on the monitoring of services provided; however, Federal Government oversight is required to confirm monitoring results. The quality assurance plan prepared for the ExFIRS Project by the primary contractor defines the contractor's quality program activities for ensuring the quality of the software products and production processes. The primary and secondary contractors also provide monthly and quarterly progress/status reports identifying actions completed for the last month and significant assignments and

²⁴ A cost-plus-fixed-fee contract is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost but may be adjusted as a result of changes in the work to be performed under the contract.

²⁵ A time and materials contract provides for direct labor hours at specified fixed hourly rates (wages, overhead, general and administrative expenses) and for materials (including handling costs) at cost.

²⁶ A firm fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type places maximum risk and full responsibility on the contractor for all costs and resulting profit or loss.

²⁷ A statement of work is a written description of the IRS' minimum requirements that are to be met by contract.



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activities planned for the next month as required in the statements of work. However, the Contracting Officer's Technical Representative²⁸ has not provided any documented reviews of these reports assessing whether the Project is on course, measuring performance levels, identifying trends of performance-related inefficiencies, and making necessary modifications.

For example, the ExFIRS Project Office worked with a contractor to form a Data Perfection Team to review monthly error listings generated from the monthly submission of information documents to the ExSTARS. The Data Perfection Team was also responsible for educating the reporting companies to address the data inaccuracies. However, our review of the monthly status reports found the process was apparently ineffective because the Data Perfection Team was reviewing the same companies in February 2005 it reviewed during the first 3 months of the contract (i.e., June - August 2003). Since this is a time and materials contract, the contractor has no positive profit incentive for cost control or labor efficiency. Management stated converting to a firm fixed-price contract is not possible because the specific actions required by the contractor to resolve recurring problems may not be determinable.

As a result of our prior audit reviewing the use of performance-based services acquisition techniques to manage task orders in the BSM program,²⁹ the IRS issued firm fixed-price contracting guidance to ensure increased delivery and performance in the BSM program, which includes implementing a firm fixed-price contracting policy; creating performance-based work statements; developing measurable performance standards, performance incentives, and monitoring plans; and evaluating contractor performance. While this guidance was issued for use in the BSM program, we believe it provides valuable guidance for increasing the use of performance-based services acquisition principles for the SB/SE Division contracting activities. In addition, it will assist the IRS in attaining the FY 2005 performance-based services acquisition goal established by the OMB.

Without measurable performance standards and appropriate monitoring of contractor performance, the IRS has no reasonable assurance that efficient methods and effective cost controls are being used. As a result, the IRS is essentially taking most of the risk in the ExFIRS development effort, which could result in higher costs, as opposed to a firm fixed-price contract in which the maximum risk is placed on the contractor.

²⁸ A Contracting Officer's Technical Representative performs a key function in the contract award and administration process by ensuring contractors fulfill contract terms and conditions and taxpayer dollars are prudently spent.

²⁹ *Additional Improvements Are Needed in the Application of Performance-Based Contracting to Business Systems Modernization Projects* (Reference Number 2002-20-170, dated September 2002).



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Recommendation

Recommendation 7: The Commissioner, SB/SE Division, in coordination with the CIO and the Director, Procurement, should ensure the ExFIRS Project Office includes measurable performance standards in statements of work, clearly defines deliverables, implements an effective plan for monitoring contractor performance, and moves to firm fixed-price contracts.

Management's Response: The IRS partially agreed with the recommendation, stating the MITS organization will ensure statements of work include measurable performance standards and deliverables are clearly defined. In addition, upon transition of the ExFIRS Project, and as operation and maintenance progresses, the MITS organization will enter firm fixed-price contracts when possible following the guidance issued on April 30, 2004, which established BSM policy on firm fixed-price contracting. If entering a firm fixed-price contract is not possible, the IRS will seek to use the appropriate performance-based contracting approach.

Office of Audit Comment: While IRS management did not completely agree with the recommendation, we believe the corrective actions they plan to take will address the recommendation.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) is effectively managing Motor Fuel Tax Evasion Project funds to develop the Excise Files Information Retrieval System (ExFIRS) and enhance motor fuel excise tax enforcement. To accomplish this objective, we:

- I. Evaluated the effectiveness of the project management controls surrounding the development of the ExFIRS.
 - A. Reviewed key project management documents (e.g., project management plan, project schedule, milestone concurrence) and interviewed ExFIRS Project Office management to determine whether the documents were completed and approved prior to/during the development and implementation of the ExFIRS.
 - B. Reviewed the business case to determine whether it contained required components, project life cycle cost estimates were sufficiently supported, and it was formally approved prior to initiation of the ExFIRS Project.
 - C. Interviewed Federal Highway Administration and ExFIRS Project Office management and reviewed ExFIRS system requirements and acceptance-related documentation to determine whether the system requirements were reviewed and approved by the stakeholders (i.e., Federal Highway Administration, States, and industry).
 - D. Interviewed ExFIRS Project Office management and reviewed project phase completion dates, actual costs, associated contracts, task orders, performance work statements, and contractor evaluations to determine whether the ExFIRS Project was effectively managed to control project costs and schedules.
 - E. Reviewed Federal Highway Administration requirements governing oversight of Motor Fuel Tax Evasion Projects and interviewed Federal Highway Administration management to determine whether the Federal Highway Administration was sufficiently involved and provided effective oversight of ExFIRS development and implementation.
 - F. Interviewed ExFIRS Project Office management and met with representatives from the Federal Highway Administration, industry, and States to determine whether stakeholder issues and concerns regarding ExFIRS development were adequately addressed.



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- II. Assessed whether the ExFIRS enhanced enforcement efforts to increase motor fuel excise tax revenue for the Highway Trust Fund.
- A. Interviewed personnel from the Criminal Investigation Division, Office of Excise Tax Operations, and ExFIRS Project Office to identify motor fuel excise tax examination and investigation cases generated from the ExFIRS.
 - B. Reviewed reports containing motor fuel excise tax cases identified and selected for examination and interviewed Office of Excise Tax Operations personnel to determine the numbers and results of motor fuel excise tax cases identified, selected, and/or forwarded to a field office for inclusion in the examination inventory each year since 1998, including the numbers generated by the ExFIRS.
 - C. Reviewed reports containing the results of the motor fuel excise tax investigations and interviewed Criminal Investigation Division personnel to determine how many motor fuel excise tax cases were referred to the Criminal Investigation Division, the number of cases accepted, and the investigation results including the specific results of those cases generated by the ExFIRS for each year since 1998.
 - D. Interviewed Criminal Investigation Division and Office of Excise Tax Operations personnel to determine whether performance measures were established to assess the results of the motor fuel excise tax examinations and investigations.
 - E. Interviewed personnel from the Data Perfection Team,¹ Office of Excise Tax Operations, and ExFIRS Project Office to determine what analyses has been completed on the data obtained since the implementation of the Excise Summary Terminal Activity Reporting System and whether the results were used to enhance fuel tax enforcement efforts.
- III. Identified Motor Fuel Tax Evasion Project funds provided by the Department of Transportation to the IRS during Fiscal Years 1998 through 2004; reviewed ExFIRS Project Office records and IRS financial accounting system reports; and met with management from the Federal Highway Administration, Office of Excise Tax Operations, and ExFIRS Project Office to determine whether the IRS used the Highway Trust Fund funding in accordance with legislative guidelines and other governing criteria.

¹ The Data Perfection Team was formed by the ExFIRS Project Office to correct inaccuracies associated with information documents received by the Excise Summary Terminal Activity Reporting System and to ensure future documents were transmitted accurately.



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Appendix II

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Appendix III

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Associate Chief Information Officer, Management OS:CIO:M
Director, Capital Planning and Investment Control OS:CIO:R
Director, Communications, Liaison, and Disclosure SE:S:CLD
Director, Specialty Programs SE:S:SP
Director, Stakeholder Management OS:CIO:SM
Chief, Excise Tax Operations SE:S:SP:EX
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:AR:M
Audit Liaisons:
 Deputy Commissioner for Operations Support OS
 Deputy Commissioner for Services and Enforcement SE
 Commissioner, Small Business/Self-Employed Division SE:S
 Manager, Program Oversight Office OS:CIO:SM:PO



The Excise Files Information Retrieval System Has Not Been Effectively Implemented

Appendix IV

Subsystems of the Excise Files Information Retrieval System

The Excise Files Information Retrieval System (ExFIRS) is an umbrella system made up of nine subsystems that support the collection of motor fuel industry information, automated analysis of this information, and identification of areas with the highest risk for nonpayment of excise taxes.

1. Excise Fuel Online Network (ExFON) – The ExFON is an integrated case processing and tracking system used by the fuel compliance officers and group managers for the Dyed Diesel Program.
2. Excise Summary Terminal Activity Reporting System (ExSTARS) – The ExSTARS requires a monthly information document from fuel terminal operators and carriers detailing the receipts and disbursements of liquid products passing through a taxable fuel storage and distribution facility. The information documents can be filed on paper or electronically. Return information is provided to the States in accordance with appropriate disclosure laws.
3. Excise Tax Online Exchange (ExTOLE) – The ExTOLE is a repository of State records housed by the Internal Revenue Service (IRS). The data come from the States but are available to other States and the IRS, under disclosure agreements.
4. Excise Tax Registration Authentication System (ExTRAS) – The EXTRAS is a centralized database containing information relating to Application for Registration (For Certain Excise Tax Activities) (Form 637). The EXTRAS provides centralized data entry, monitoring, and reporting of all Form 637 registrants. These registrants are allowed to buy, tax free, goods otherwise subject to excise tax, with the obligation to pay the tax when the goods are resold. Excise Tax Program personnel can research and track the registration status of all Form 637 registrants. These registrants include manufacturers or buyers/resellers of sport fishing equipment, gas-guzzler or luxury automobiles, vaccines, and tires, as well as those engaged in the fuel businesses. Form 637 submissions are also scanned.
5. Excise Tax Agent Center (ExTAC) – The ExTAC automates the processes used to work cases/returns selected for review. A case will move from classification, to the group manager, to the revenue agent who will conduct the review. Revenue agents and managers will work/review cases and save work in progress on the user workstation and on the ExFIRS.
6. Excise Compliance Inventory Delivery System (ExCIDS) – The ExCIDS is a computer-based case delivery system that will feed the ExTAC. The design calls for paper



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returns to be scanned and delivered directly into an inventory queue for group managers to assign to revenue agents. Additionally, the ExCIDS will provide a means of delivering, tracking, controlling, and managing the workload for the Excise Tax Program management office.

7. Below the Rack Information Sharing (BTRIS) – The BTRIS application supports fuel fingerprinting efforts – a critical part of compliance efforts aimed at “cocktailing” and illegal blending. Using chemical gas chromatogram technology, the application incorporates an automated, pattern-matching capability to assist users in comparing diesel fuel samples to terminal references or stored adulterated samples. The outcome of this comparison is a Fuel Fingerprint Library.
8. Excise Management Information System (ExMIS) Data Warehouse and Operational Database – The ExMIS Data Warehouse and Operational Database provides a common data management solution, from disparate legacy databases and information stores, created from a variety of sources. The ExMIS Data Warehouse and Operational Database contains information gathered from the various ExFIRS applications (ExFON, ExTAC, ExTRAS, and ExSTARS), as well as IRS sources and United States Customs import information, pertaining to taxable commodities.
9. Excise Compliance Information System (ExCIS) – The ExCIS provides Quarterly Federal Excise Tax Return (Form 720) data to the ExMIS Data Warehouse and Operational Database.



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Appendix V

Management's Response to the Draft Report



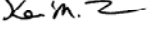
COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

September 26, 2005

RECEIVED
SEP 27 2005

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kevin M. Brown 
Commissioner, Small Business/Self-Employed Division

SUBJECT: Management Response to Draft Audit Report:
The Excise Files Information Retrieval System
Has Not Been Effectively Implemented
(Audit #: 200520030)

We have reviewed your draft report concerning Internal Revenue (IRS) Service management of the Motor Vehicle Fuel Tax Evasion Project funds to develop the Excise Files Information Retrieval System (ExFIRS). We concur with your assessment that ExFIRS should be elevated to a major technology investment. We also appreciate your acknowledgement of our sustained efforts to improve the reporting accuracy of information document filers.

In addition to these efforts, we have made great strides in other key areas of the excise tax program. Because the IRS recognizes the need to improve excise tax compliance, we have demonstrated our commitment to promoting new technologies, working with other government partners and reducing taxpayer burden in our nationwide efforts. The IRS administers more than 40 excise taxes, including motor fuel taxes – a source of federal and state revenues that finance most improvements to the national transportation system. The IRS is committed to addressing all forms of non-compliance that affect this revenue stream for the national infrastructure.

Treasury and the IRS have worked with Congress to enact key legislative changes in the *American Jobs Creation Act* and the *Safe, Accountable, Flexible, Efficient Transportation Act: Legacy for Users*. One important provision mandates electronic filing for most excise tax returns filed on the Excise Summary Terminal Activity Reporting System (ExSTARS).

In addition, IRS has developed new technology to monitor fuel compliance and prevent product blending. Fuel "fingerprinting" technology examines the chemical "fingerprint" of samples taken from retail stations or from the terminal racks. This technology detects chemicals, such as dry cleaning fluid, which may be illegally blended with diesel fuel and sold for vehicular use. Fuel "fingerprinting" has provided a more efficient and comprehensive method for monitoring fuel compliance than traditional audit techniques.



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The IRS has also adopted new technology to identify motor fuel smuggling at U.S. border points of entry, on ocean-going vessels, and in barge traffic over inter-coastal waterways. The IRS and Department of Energy have collaborated in designing, developing, and testing an Acoustical Identification Device that uses hand-held sonar technology to identify the liquid contents of sealed containers, such as tanker trucks.

In 2005, one of our partner states adopted legislation allowing its revenue department to use federal ExSTARS terminal operator data. Access to this data has saved the state more than \$1 million. It has also preempted costly development of a state reporting system. We believe that ExSTARS is key to our joint FedState efforts to combat fuel tax non-compliance.

In order to ease local fuel shortages after the Hurricane Katrina disaster, the IRS allowed cars and other highway vehicles to use an off-road diesel fuel which is not subject to federal excise tax. The off-road diesel, used by farmers and some government vehicles, is dyed to distinguish it from on-road diesel, and can be used through November 1, 2005. The IRS also suspended enforcement of the secure airport provisions that prevent trucks capable of operating on highways from loading jet fuel at an airport. This action was taken to ensure that an adequate supply of jet fuel was available to support search and rescue missions and other humanitarian efforts for the Katrina disaster.

The IRS has recognized the need to improve compliance in the Excise tax arena, and has demonstrated a commitment to using new technologies and working with other government partners to assist in our nationwide efforts.

We have carefully considered your recommendations to increase our collaboration with the Federal Highway Administration (FHWA), and to manage stakeholder expectations concerning the ExSTARS. We plan to clarify IRS authority to leverage single-point-filing, assist excise tax filers in complying with tax requirements and adopting new filing technology, and enhance ExFIRS project management oversight and performance standards through the upcoming operational transition.

We will implement the following corrective actions:

Recommendation 1

The Commissioner, Small Business/Self-Employed (SB/SE) Division, should develop a plan and schedule as soon as possible for initiating an examination program based on identified discrepancies between the information documents and the tax returns.



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Corrective Action

We agree with this recommendation. The IRS is currently establishing an ExFIRS Compliance Operation to conduct preliminary analysis and screening of systematically identified questionable transactions. During FY05 the IRS has also established a national fuel tax territory to specialize in fuel tax compliance. Beginning in the First Quarter of FY06, the ExFIRS Compliance Operation will make questionable transaction referrals to revenue agents in this specialized territory.

Implementation Date

April 31, 2006

Responsible Official(s)

Director, Specialty Programs, SB/SE Operating Division

Corrective Action Monitoring Plan

The Director, Specialty Programs, SB/SE Division will advise the Commissioner, SB/SE Division of any delays in accomplishing this corrective action.

Recommendation 2

The Commissioner, SB/SE Division, should clarify whether or not an objective of ExSTARS is to eliminate the requirement for duplicate filing of fuel transaction data by the motor fuel industry to both the IRS and the States by either identifying and addressing the issues that prevent single point of filing or removing the stated objective from Publication 3536.

Corrective Action

We agree with this recommendation. The IRS is not authorized to direct single point of filing. This is an issue that the States must address with the industry. Certain IRS publications state that ExFIRS may facilitate single point of filing in those states having the same tax point as the Federal Excise Tax. To avoid any confusion in this area, we will remove any references to single point of filing in our publications.

Implementation Date

December 31, 2005

Responsible Official(s)

Director, Specialty Programs, SB/SE Division

Corrective Action Monitoring Plan

The Director, Specialty Programs, SB/SE Division will advise the Commissioner, SB/SE Division of any delays in accomplishing this corrective action.



The Excise Files Information Retrieval System Has Not Been Effectively Implemented

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Recommendation 3

The Commissioner, SB/SE Division, should develop a schedule for converting all filers to the new data transmission format and begin assessing the \$10,000 penalty for failure to file complete and accurate information documents, as authorized by the American Jobs Creation Act of 2004.

Corrective Action

We agree with this recommendation. The IRS has completed development, testing and installation of the upgraded ExSTARS using version 4030 of Electronic Data Interchange (EDI). This has enabled the IRS to begin "pre-qualification testing" of current electronic filers for the new system. We are currently developing a schedule for converting all filers to the new data transmission format. To ensure all filers can begin electronically filing by January 1, 2006, we will initiate broad-based and individual outreach and education to the entities currently filing paper returns. We are currently identifying entities that should be subjected to the \$10,000 penalty for (1) failure to file and/or (2) failure to file accurate information as mandated by the American Jobs Creation Act of 2004. We will immediately assess penalties in appropriate situations.

Implementation Date

January 1, 2006

Responsible Official(s)

Director, Specialty Programs, SB/SE Division

Corrective Action Monitoring Plan

The Director, Specialty Programs, SB/SE Division, will advise the Commissioner, SB/SE Division, of any delays in accomplishing this corrective action.

Recommendation 4

The Chief Information Office (CIO) should elevate ExFIRS to a major information technology investment, update the Exhibit 53, and prepare an Exhibit 300.

Corrective Action 4

We agree with this recommendation. The CIO ExFIRS Project manager will update the Exhibit 53 to reclassify it as a major project and prepare Exhibit 300 in accordance with OMB Circular A-11 guidance.

Implementation Date

May 1, 2006

Responsible Official(s)

Project Manager, ExFIRS Project, Excise Tax E-File Compliance Programs (ETEC)



The Excise Files Information Retrieval System Has Not Been Effectively Implemented

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Corrective Action Monitoring Plan

The Project Manager, ExFIRS Project, ETEC will advise the CIO of any delays in accomplishing this corrective action.

Recommendation 5

The Commissioner, SB/SE Division, should work with the CIO to determine which executive steering committee will be responsible for the ExFIRS Project while the Project is being developed and include a representative from the Federal Highway Administration (FHWA) on the executive steering committee. When the ExFIRS Project moves to operations and maintenance status, the FHWA should be involved with program management and executive oversight and provide periodic status reports as requested by the FHWA to assess the progress of the ExFIRS Project and support continued funding. The planned revisions to the Memorandum of Understanding between the IRS and the FHWA should include these requirements.

Corrective Action 5a

The IRS partially agrees with this recommendation. We will maintain responsibility, following our governance process, for the program management, executive oversight and periodic status reporting. We agree that the IRS and FHWA need an ongoing dialogue and partnership to ensure the needs of both agencies are considered as the IRS plans and implements actions to improve fuel tax compliance. We will reflect the requirements of this partnership in the revised Memorandum of Understanding between IRS and FHWA.

Implementation Date 5a

MOU completion by January 1, 2006.

Responsible Official(s) 5a

Director, Specialty Programs, SB/SE Division

Corrective Action Monitoring Plan 5a

The Director, Specialty Programs, SB/SE Division, will advise the Commissioner, SB/SE Division, of any delays in accomplishing this corrective action.

Corrective Action 5b

The IRS agrees that a representative from the FHWA should participate as a member in the appropriate Executive Steering Committee for ExFIRS.

Implementation Date 5b

Appropriate Executive Steering Committee identified and FHWA member designated as participant by February 1, 2006.



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Responsible Official(s) 5b

Project Manager, ExFIRS Project, ETEC

Corrective Action Monitoring Plan 5b

The Project Manager, ExFIRS Project, ETEC will advise the CIO of any delays in accomplishing this corrective action.

Recommendation 6

The Commissioner, SB/SE Division, should ensure the ExFIRS Project Office updates appropriate project management documents (i.e., project management plan and work breakdown structure), as required during the development phase; conduct a stress test to ensure sufficient system capacity; complete a transition plan for moving the Project to operations and maintenance status; and schedule a post implementation review.

Corrective Action

The IRS agrees with the observation in this report that ExFIRS development meets the internal thresholds for a major information technology project. ExFIRS systems development, operations and maintenance are currently being transferred from SB/SE Specialty Programs to Modernization and Information Technology Services (MITS). As the transition occurs, MITS will identify and correct any gaps in proper project and systems management documentation. MITS will ensure maintenance of appropriate project management documents. After the transition, any new development will be managed under the Business Systems Modernization Enterprise Lifecycle discipline, and follow appropriate tailoring plans to ensure development of proper project management, transition and systems management documentation.

Implementation Date

September 1, 2006

Responsible Official(s)

The Associate CIO, Business Systems Modernization

Corrective Action Monitoring Plan

The Associate CIO, Business Systems Modernization will advise the CIO of any delays in accomplishing this corrective action.

Recommendation 7

The Commissioner, SB/SE Division, in coordination with the CIO and the Director, Procurement, should ensure the ExFIRS Project Office includes measurable performance standards in statements of work, clearly defines deliverables, implements an effective plan for monitoring contractor performance, and moves to firm-fixed-price contracts.



The Excise Files Information Retrieval System Has Not Been Effectively Implemented

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Corrective Action

We partially agree with the recommendation. MITS will ensure that statements of work include measurable performance standards and that deliverables are clearly defined. Upon transition of the ExFIRS system, and as operation and maintenance progresses, MITS will enter Firm Fixed Price (FFP) contracts when possible while following the FFP guidance issued on April 30, 2004, which established BSM policy on fixed-price contracting. If entering an FFP contract is not possible, we will seek to use the appropriate performance based contracting approach.

The Milestone 4 and 5 Statement of Work (SOW) templates developed August 2003 contain several measurable performance standards. Procurement will continue to perform quality reviews of SOWs as they are developed to ensure compliance with the templates. As part of the BSM policy an independent reviewing organization conducts formal reviews of the SOWs twice a year, and presents results to BSM and Procurement management. Results are posted on the Process Asset Library (PAL) in lessons learned documents, and distributed to the Procurement staff.

Implementation Date

September 1, 2006

Responsible Official(s)

Associate CIO, Business Systems Modernization

Corrective Action Monitoring Plan

The Associate CIO, Business Systems Modernization will advise the CIO of any delays in accomplishing this corrective action.

If you have any questions or concerns, please contact me at (202) 622-0600 or Bill Conlon, Director, Specialty Programs, SB/SE Division, at (202) 283-7660.