**Annual Assessment of the
Business Systems Modernization Program**

June 2004

Reference Number: 2004-20-107

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 3, 2004

MEMORANDUM FOR CHIEF INFORMATION OFFICER

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
                 Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Annual Assessment of the Business
                 Systems Modernization Program (Audit # 200420012)

This report presents the results of our Annual Assessment of the Business Systems Modernization (BSM) program. The overall objective of this review was to assess the progress of the BSM program for Fiscal Year (FY) 2004 as required by the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98).[1] The RRA 98 requires the Treasury Inspector General for Tax Administration (TIGTA) to annually evaluate the adequacy and security of the IRS' information technology.

In summary, the IRS and the PRIME contractor[2] have deployed projects that provide value to taxpayers and have built the infrastructure needed to support these projects. In addition, the IRS has developed an enterprise architecture to guide the BSM program.

While progress is being made, the IRS and its contractors have drawn increased criticism due to continuing schedule delays and cost increases. As a result, pressure has been mounting from various oversight groups to deliver a successful program. In addition to our reports and Congressional testimony, the General Accounting Office (GAO) testified that recently identified weaknesses were consistent with previous

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[1] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[2] The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies brought together to assist with the IRS' efforts to modernize its computer systems and related information technology.

GAO findings.[3] Also, in December 2003, the IRS Oversight Board released a special report detailing actions the IRS and the PRIME contractor need to take to succeed.[4]

To obtain fresh and independent assessments from outside experts on the health of the BSM program, the IRS launched a comprehensive review consisting of three studies and a BSM benchmarking analysis. In addition, the PRIME contractor launched an internal study. The studies resulted in 21 recommendations for improvement in the BSM program, 15 of which are similar to those made in TIGTA reports issued during the past 3 years. In several instances, the principal recommendations were reported multiple times during this period. Since many of the prior TIGTA recommendations have resurfaced as part of the recent studies, we conclude that BSM weaknesses continue to exist and that the IRS and its contractors need to complete planned corrective actions to address the root causes identified in the studies.

Over the past 2 fiscal years, we have cited 4 primary challenges the IRS and its contractors must overcome to be successful: 1) implement planned improvements in key management processes and commit necessary resources to enable success, 2) manage the increasing complexity and risks of the BSM program, 3) maintain the continuity of strategic direction with experienced leadership, and 4) ensure PRIME contractor performance and accountability are effectively managed. Based on the results of recent TIGTA audits, as well as the study findings, we believe these four challenges still need to be met to achieve program success.

In addition to these four challenges, the TIGTA, GAO, and IRS Oversight Board have expressed concerns over the IRS' ability to effectively manage its portfolio of projects. While the IRS responded to this concern by scaling back the scope and number of projects in FY 2003, we noted the FY 2004 BSM plan includes an additional modernization project. Since the IRS and its contractors have been unable to deliver the scaled-back portfolio of projects on time and within cost, we continue to be concerned that the IRS and its contractors may not have the ability to successfully manage the BSM portfolio.

To address the results of the recent studies, the IRS and the PRIME contractor have developed and are implementing a 46-point action plan, known as the *BSM Challenge Plan*, designed to address the 21 BSM-related study recommendations. While the 46 planned corrective actions should help improve the BSM program, it will take time to institutionalize new processes and ensure they are being followed. Only at that time will it be possible to determine if the actions have effectively addressed the four major challenges.

Management's Response: The Chief Information Officer (CIO) responded that our annual assessment of the BSM program was fair and balanced. In addition, the CIO provided a brief recap of the BSM program's progress and struggles over the past year.

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[3] *Business Systems Modernization: Internal Revenue Service Needs to Further Strengthen Program Management* (GAO-04-438T, dated February 2004).
[4] *Independent Analysis of IRS Business Systems Modernization* (dated December 2003).

The CIO stated that the BSM program has built a strong technical infrastructure, developed the Enterprise Life Cycle (ELC)[5] methodology, worked toward maturing the management processes, and delivered projects that are providing tangible benefits to taxpayers and improving the efficiency and effectiveness of the IRS' tax administration systems (a table listing the projects and benefits delivered to date was attached). In addition, the CIO stated that a fundamental change was needed in the agency's behavior to strengthen program performance due to significant cost overruns and repeated schedule delays that have plagued critical projects and that have demonstrated the need to stop setting overly ambitious and impractical time periods for delivering projects.

To accomplish this culture change, the CIO stated that the IRS would ensure the Software Engineering Institute (SEI)[6] periodically reviews the Customer Account Data Engine (CADE)[7] program; a third party regularly assesses the overall health of the BSM program; modernization efforts are scaled back to better match management capacity; senior IRS business unit managers are held accountable for the success of modernization efforts as it relates to business requirements; capped or fixed-price contracts for development work are used to balance the financial risk between the Federal Government and the contractor; and the skills of experienced IRS tax executives are complemented with outside seasoned technology executives who have experience managing large-scale, complex information technology projects. Management's complete response to the draft report is included as Appendix X.

Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

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[5] BSM processes and procedures are documented within the ELC. See Appendix VIII for an overview of the ELC.
[6] The SEI is a Federally funded research and development center whose purpose is to help others make measured improvements in their software engineering capabilities. The SEI recently conducted a study of the Customer Account Data Engine (CADE) project.
[7] The CADE is the foundation for managing taxpayer accounts in the IRS' modernization plan.

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| **Background** | The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998[1] requires the Treasury Inspector General for Tax Administration (TIGTA) to annually evaluate the adequacy and security of the IRS' information technology. This report provides our assessment of the IRS' Business Systems Modernization (BSM) program for Fiscal Year (FY) 2004. |

The BSM program is a complex effort needed to modernize the IRS' technology and related business processes. According to the IRS, this effort will involve integrating thousands of hardware and software components. All of this must be done while replacing outdated technology and maintaining the current tax system.

It is estimated that this effort will last up to 15 years and cost $7 billion. The program is currently in its sixth year and has been given approximately $1.6 billion to accomplish its objectives. See Appendix VI for details.

To facilitate the success of its modernization efforts, the IRS hired the Computer Sciences Corporation as the PRIME contractor and integrator for the BSM program and created the Business Systems Modernization Office (BSMO) to guide and oversee the work of the PRIME contractor. Additional contractors have been hired to supplement the design and development of modernization projects.[2]

The information presented in this report is derived from current and previous TIGTA and General Accounting Office (GAO) audits and interviews with the appropriate BSM officials. In addition, we conducted limited analyses of several recent BSM studies and performance results. These analyses were conducted between January and March 2004. The previous audits and our limited analyses were 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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[1] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[2] See Appendix IX for a list of BSM projects and descriptions.

The Internal Revenue Service and Its Contractors Are Making Progress

The IRS and its contractors have deployed projects that provide value to taxpayers and have built the infrastructure needed to support these projects. In addition, the IRS has developed an enterprise architecture that includes all IRS business units, processes, programs, and operations and provides details to help guide current and future modernization initiatives. In September 2003, the E-Gov Institute, the Federal Computer Week Media Group, and the Federal Enterprise Architecture Certification Institute awarded the IRS Enterprise Architecture program the "Excellence in Enterprise Architecture Leadership" award for best practices in developing and implementing a successful enterprise architecture.

Some of the BSM projects that have delivered value to taxpayers are the Customer Communications, Internet Refund/Fact of Filing (IRFOF), Internet Employer Identification Number (I-EIN), e-Services, and Modernized e-File (MeF) projects.

- **Customer Communications** – The Customer Communications project has improved customer service by increasing the capacity of the toll-free telephone system and providing the ability to route taxpayers' calls to the appropriate IRS employees. This project became operational in August 2001.

- **IRFOF** – This application (also known as "Where's My Refund?") offers improved customer self-service by providing refund status information via the Internet. The pilot version of the "Where's My Refund?" application was deployed in May 2002. The application was upgraded in 2003 and was accessed 17.9 million times that year according to the IRS. In 2003, the application was modified to provide taxpayers with Advance Child Tax Credit refund status via the Internet. The IRS has stated that 15.5 million Advance Child Tax Credit inquiries were received in 2003.

- **I-EIN** – The I-EIN application allows small businesses and self-employed taxpayers to obtain EINs online, eliminating the need to send paperwork to the IRS. This application was deployed in May 2003. The Commissioner recently testified that the application had processed over 450,000 applications as of February 2004.

- **e-Services** – The initial release of the e-Services project was deployed in August 2003 and allows tax professionals the ability to register online, create an electronic account, and apply for a Preparer Tax Identification Number to use in place of their Social Security Number for submitting returns. The IRS reported in January 2004 that over 16,000 tax professionals had applied to use the e-Services application.

- **MeF** – The MeF project is developing the modernized, web-based platform for electronically filing approximately 330 IRS forms. The first release of the MeF project was deployed in late February 2004 and provided electronic filing for 59 forms, including United States (U.S.) Corporation Income Tax Return (Form 1120), U.S. Income Tax Return for an S Corporation (Form 1120S), Return of Organization Exempt From Income Tax (Form 990), Short Form Return of Organization Exempt From Income Tax (Form 990-EZ), U.S. Income Tax Return for Certain Political Organizations (Form 1120-POL), and Application for Extension of Time To File an Exempt Organization Return (Form 8868). The IRS has stated that over 18,520 tax returns had been accepted by March 21, 2004.

The IRS and the PRIME contractor have also delivered infrastructure projects, such as the Security and Technology Infrastructure Release (STIR).[3] The STIR project was initially deployed in May 2002 and was designed to provide a secure technical infrastructure to support and enable the delivery of the IRS' modernized business systems. The project is designed to allow taxpayers to have secure Internet transactions and increases the quality and speed of taxpayer interactions with the IRS.

In addition to the projects that have been deployed, the IRS and its contractors plan to release new capabilities for taxpayer and internal use in the near future. The initial releases of the Custodial Accounting Project (CAP), Customer Account Data Engine (CADE), and Integrated Financial System (IFS) are scheduled to be deployed during

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[3] The STIR is now a part of the Infrastructure Shared Services program.

the remainder of FY 2004 and early FY 2005. The second release of the MeF project is also scheduled to be deployed in late FY 2004.

- **CAP** – The CAP is being developed to provide the IRS a data warehouse of detailed taxpayer account information to be used for analysis and financial reporting. The first release of the CAP will extract taxpayer account data from the Individual Master File (IMF) for the Taxpayer Account Subledger.[4] The initial deployment of the system is planned for Summer 2004. However, as of February 2004, the full deployment date[5] for the CAP was not known.

- **CADE** – The initial release of the CADE will process refund and even-balance Forms 1040EZ[6] for single taxpayers with no open tax issues. At the conclusion of the fifth release (currently scheduled for deployment in 2009), the CADE will have replaced the IMF. While the IRS and the PRIME contractor plan to deploy the initial release of the CADE in August 2004,[7] the Software Engineering Institute (SEI)[8] reported it was only 60 percent confident this date could be achieved, although the SEI believed the PRIME contractor has the technical and management talent to deliver the project.

- **IFS** – The IRS intends to address administrative financial management weaknesses by implementing the IFS. The first release of the IFS will include the Accounts Payable, Accounts Receivable, General

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[4] The IMF is the IRS database that maintains transactions or records of individual tax accounts. The Taxpayer Account Subledger will be an integrated data repository of taxpayer account information containing detailed taxpayer account history and unpaid assessment information.
[5] Full deployment refers to the point at which enterprise-wide deployment has been completed and a project is transitioned to operations and support.
[6] Form 1040EZ is the Income Tax Return for Single and Joint Filers With No Dependents. The initial release of the CADE will not process Forms 1040EZ for joint filers.
[7] Full deployment of the first release of the CADE is scheduled for June 2005.
[8] The SEI is a Federally funded research and development center whose purpose is to help others make measured improvements in their software engineering capabilities. The SEI recently conducted a study of the CADE project.

Ledger, Budget Execution, Cost Management, and Financial Reporting activities. A future IFS release will be needed to fully resolve all administrative financial management weaknesses. The IFS project has suffered 2 deployment delays to date, which leaves the project about 1 year behind its original deployment date. Currently, the initial release of the IFS is planned for deployment in October 2004.

- **MeF** – The second MeF release is scheduled to be deployed in Summer 2004 and will add to the electronic filing system additional forms and schedules that are attached to the Forms 1120 and 1120S.

The Internal Revenue Service and Its Contractors Have Come Under Increased Scrutiny Due to Continued Schedule Delays and Cost Increases

While progress is being made, the IRS and its contractors are drawing increasing criticism due to continuing schedule delays and cost increases. BSM projects are taking longer and costing more to deliver less than originally anticipated.

Table 1 depicts BSM schedule delays and cost increases as of February 2004 for several major projects. See Appendix VII for more details about these projects and completed projects. See Appendix IX for a list of BSM projects and descriptions.

Table 1: Schedule Delays and Cost Increases

BSM Project	Schedule Variance[9]	Cost Variance (in millions)	Cost Variance Percentage Change
CAP Release 1	To Be Determined	$72.1	153%
CADE Release 1	30 months	$36.8	60%
e-Services	18 months	$86.2	196%
IFS Release 1	To Be Determined	$53.9	54%
MeF Release 1	4.5 months	$17.1	58%

Source: GAO testimony[10] and TIGTA calculations.

Due to schedule delays and cost increases, pressure has been mounting from various oversight groups to deliver a successful program. In addition to our reports and Congressional testimony, the GAO has designated the IRS' modernization program as high-risk and testified that recently identified weaknesses were consistent with previous GAO findings.[10] In December 2003, the IRS Oversight Board released a special report[11] detailing actions the IRS and the PRIME contractor need to take to succeed. The Board stated that the "…IRS and its PRIME contractor cannot continue to operate in a business-as-usual manner."

Beginning in Calendar Year (CY) 1999, we identified major challenges in the IRS' modernization program. Recent

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[9] As of February 2004, the full deployment dates for the CAP and IFS projects were not available. In addition, the project schedule for the CADE was under review. Schedule variance is calculated based on the full deployment date for the CAP Release 1, CADE Release 1, e-Services, and IFS Release 1 projects. Schedule variance for the MeF Release 1 project is calculated based on the proposed Milestone 4 date, which occurs after the project has been initially deployed. See Appendix VIII for a discussion of various milestones.

[10] *Business Systems Modernization: Internal Revenue Service Needs to Further Strengthen Program Management* (GAO-04-438T, dated February 2004).

[11] *Independent Analysis of IRS Business Systems Modernization* (dated December 2003).

TIGTA reports continue to find significant areas for improvement, such as business case development, requirements management, software testing, transition planning, business continuity, enterprise architecture compliance, and contractor qualifications. See Appendix V for a listing of recent TIGTA audit reports and associated findings.

When the new Commissioner arrived at the IRS in May 2003, the BSM program was continuing to experience significant schedule delays and cost increases. The Commissioner and the PRIME contractor determined they needed fresh and independent assessments from outside experts on the health of the BSM program. As a result, in late CY 2003, the IRS launched a comprehensive review consisting of three studies and a benchmarking analysis of the BSM program. In addition, the PRIME contractor launched an internal study.

- **CADE Study** – The SEI conducted a study of the CADE project.[12]
- **PRIME Contractor Internal Study** – The Bain and Company conducted an internal study of the PRIME contractor.
- **IRS Root Cause Study** – The BSMO conducted an internal study of the BSM program.
- **High-Level Assessment of the IRS Office of Procurement Study** – The Acquisition Solutions, Incorporated, conducted a study of the IRS' acquisition program.[13]
- **BSM Benchmarking Analysis** – Due to concerns about BSM program delivery in the areas of cost, schedule, and performance, an independent contractor was asked to compare the results of the BSM program to programs of similar size and complexity in the public and private sectors.

In February 2004, the Commissioner testified, "It's no secret that our projects have consistently run late, delivered less functionality than planned, and cost significantly more

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[12] The CADE is the foundation for managing taxpayer accounts in the IRS' modernization plan.
[13] While the main focus of the study was not on the BSM program, BSM acquisition weaknesses were addressed.

than targeted." The Commissioner also testified that he had decided to direct upcoming enforcement modernization projects to other contracts. In addition, the Commissioner stated that the IRS would carefully assess the PRIME contractor's performance on current projects and the results of the PRIME contractor's overall program management and integration efforts before awarding any follow-on work for existing projects.

The Business Systems Modernization Program Must Successfully Pass a Difficult Crossroads to Succeed

With increased criticism and mounting pressure from various oversight groups, the BSM program must successfully pass a difficult crossroads to realize its potential. Past challenges continue to plague the program. To overcome challenges and deliver a successful program, the IRS and its contractors need to effectively address persistent weaknesses.

Recent study findings

As mentioned previously, the IRS commissioned three studies of the BSM program in late CY 2003 and the PRIME contractor launched an internal study. Fifteen of the 21 BSM-related study recommendations are similar to those made in TIGTA reports issued during the past 3 years. In several instances, the principal recommendations were reported multiple times during this period.

The IRS has a process in place to respond to TIGTA recommendations with planned corrective actions and has taken steps to address many of them. Since many of the prior TIGTA recommendations have resurfaced as part of the recent studies, we conclude that BSM weaknesses continue to exist and that the IRS and its contractors need to complete planned corrective actions to address the root causes identified in the studies. See Appendix IV for a comparison of each BSM-related study recommendation to previous TIGTA recommendations.

To address the results of the studies, the IRS and the PRIME contractor have developed and are implementing a 46-point action plan, known as the *BSM Challenge Plan*, designed to address the 21 BSM-related study recommendations. The PRIME contractor testified in February 2004 that almost two-thirds of the actions have been completed.

Recent benchmarking findings

The IRS also commissioned a benchmarking analysis of the BSM program to compare BSM cost, schedule, and productivity results to programs of similar size and complexity in the public and private sectors. As of March 2004, the IRS had yet to provide a copy of the benchmarking analysis for our review. IRS personnel stated the benchmarking analysis remains under internal review.

While we do not have the results of the BSM benchmarking analysis, we have reported that BSM cost and schedule estimates have been very aggressive and overly optimistic. The BSMO and its contractors have particularly struggled to develop adequate cost and schedule estimation techniques.[14]

Previously Reported Challenges Still Exist

Over the past 2 fiscal years, our annual BSM assessments have cited 4 primary challenges the IRS and its contractors must meet to achieve program success:

1) Implement planned improvements in key management processes and commit necessary resources to enable success.
2) Manage the increasing complexity and risks of the BSM program.
3) Maintain the continuity of strategic direction with experienced leadership.
4) Ensure PRIME contractor performance and accountability are effectively managed.

Although IRS management has taken a number of actions in response to recommendations from the TIGTA and GAO, recent TIGTA and study findings show these four challenges still exist. For example, the PRIME Contractor Internal study recommends that compliance with requirements definition and program management processes[15] be enforced. This relates to our first challenge.

In addition to these four challenges, the TIGTA, GAO and IRS Oversight Board have expressed concerns over the IRS'

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[14] *The Cost and Schedule Estimation Process for the Business Systems Modernization Program Has Been Improved, but Additional Actions Should Be Taken* (Reference Number 2003-20-219, dated September 2003).

[15] BSM processes and procedures are documented within the Enterprise Life Cycle (ELC). See Appendix VIII for an overview of the ELC.

ability to effectively manage its portfolio of projects. Specifically, the imbalance between the number and pace of the BSM projects and available management capabilities added significant cost, schedule, and performance risks that continued to escalate as the program advanced. While the BSMO responded to this concern by scaling back the scope and number of projects in FY 2003, we noted the FY 2004 BSM plan includes an additional modernization project (Collection Contract Support – part of the Filing and Payment Compliance project). Since the IRS and its contractors have been unable to deliver the scaled-back FY 2003 portfolio of projects on time and within cost, we continue to be concerned that the IRS and its contractors may not have the ability to successfully manage the BSM portfolio.

While BSM results continue to be disappointing, the *BSM Challenge Plan* appears to be an appropriate set of actions to take at this juncture. IRS and contractor management need to complete the corrective actions to address the root causes identified. Vigilance in implementing these corrective actions will provide the BSM program the ability to address the challenges we have reported to achieve program success. While the 46 planned corrective actions should help improve the BSM program, it will take time to institutionalize new processes and ensure they are being followed. Only at that time will it be possible to determine if the corrective actions have effectively addressed the four major challenges.

Management's Response: The Chief Information Officer (CIO) responded that our annual assessment of the BSM program was fair and balanced. In addition, the CIO provided a brief recap of the BSM program's progress and struggles over the past year.

The CIO stated that the BSM program has built a strong technical infrastructure, developed the ELC methodology, worked toward maturing the management processes, and delivered projects that are providing tangible benefits to taxpayers and improving the efficiency and effectiveness of the IRS' tax administration systems (a table listing the projects and benefits delivered to date was attached to the response). In addition, the CIO stated that a fundamental change was needed in the agency's behavior to strengthen

program performance due to significant cost overruns and repeated schedule delays that have plagued critical projects and that have demonstrated the need to stop setting overly ambitious and impractical time periods for delivering projects.

To accomplish this culture change, the CIO stated the IRS would ensure that:

- The SEI periodically reviews the CADE program.
- A third party regularly assesses the overall health of the BSM program.
- Modernization efforts are scaled back to better match management capacity.
- Senior IRS business unit managers are held accountable for the success of modernization efforts as it relates to business requirements.
- Capped or fixed-price contracts for development work are used to balance the financial risk between the Federal Government and the contractor.
- The skills of experienced IRS tax executives are complemented with outside seasoned technology executives who have experience managing large-scale, complex information technology projects.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the progress of the Business Systems Modernization (BSM) program for Fiscal Year (FY) 2004 as required by the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998.[1] To accomplish this objective, we:

I. Determined the current condition of the BSM program by obtaining and reviewing the following documents:

A. Five Treasury Inspector General for Tax Administration (TIGTA) reports issued during FY 2004, as of March 2004, and two previous BSM annual assessment reports. See Appendix V for a detailed listing of recent TIGTA reports and associated findings.

B. The recent IRS Oversight Board report entitled *Independent Analysis of IRS Business Systems Modernization*.

C. Relevant FY 2004 General Accounting Office reports.

D. Four BSM studies.

II. Determined the expected accomplishments for the BSM program during FY 2004 by:

A. Obtaining the current status of the 46-point action plan, known as the *BSM Challenge Plan*.

B. Determining the capabilities already released or planned for release during FY 2004.

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[1] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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Comparison of Business Systems Modernization Recommendations to Treasury Inspector General for Tax Administration Recommendations

Table 1 lists Business Systems Modernization (BSM)-related recommendations from the following studies: Customer Account Data Engine (CADE)[1] study, PRIME Contractor[2] Internal study, Internal Revenue Service (IRS) Root Cause study, and High-Level Assessment of the IRS Office of Procurement study. Each BSM-related study recommendation was compared to previous Treasury Inspector General for Tax Administration (TIGTA) recommendations. For those recommendations that are similar, we list the dates of the prior TIGTA recommendations.

Table 1: Comparison of BSM Study Recommendations to TIGTA Recommendations

Number	Name	Principal BSM-Related Recommendation	Similar to Previous TIGTA Recommendations	Dates of Previous TIGTA Recommendations
1	CADE Study	Harvest IRS business rules.	Yes	March 2003
2	CADE Study	Institutionalize system engineering.	Yes	March 2003
3	CADE Study	Validate business rules engines (PRIME only).	No	
4	CADE Study	Plan for independent oversight.	No	
5	CADE Study	Institutionalize management discipline.	Yes	June 2000 March 2001 November 2001 March 2002 May 2002 August 2003 September 2003

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[1] The CADE is the foundation for managing taxpayer accounts in the Internal Revenue Service's (IRS) modernization plan.

[2] To facilitate success of its modernization efforts, the IRS hired the Computer Sciences Corporation as the PRIME contractor and integrator for the BSM program.

Number	Name	Principal BSM-Related Recommendation	Similar to Previous TIGTA Recommendations	Dates of Previous TIGTA Recommendations
6	PRIME Contractor Internal Study	Enforce compliance for requirements definition and program management processes.	Yes	November 2000 November 2001 March 2002 May 2002 June 2003
7	PRIME Contractor Internal Study	Clarify/streamline decision authority.	No	
8	PRIME Contractor Internal Study	Bolster broadly defined skill areas/personnel.	Yes	November 2000
9	PRIME Contractor Internal Study	Improve subcontractor accountability and delivery by restructuring subcontractor model.	No	
10	IRS Root Cause Study	Increase business unit leadership, especially at the project level.	No	
11	IRS Root Cause Study	Strengthen BSM program management with experienced project managers.	Yes	June 2000
12	IRS Root Cause Study	Balance the scope of the modernization portfolio with IRS capacity.	Yes	September 2002 September 2003
13	IRS Root Cause Study	Redefine the PRIME contract with Computer Sciences Corporation to reflect desired roles.	No	

Number	Name	Principal BSM-Related Recommendation	Similar to Previous TIGTA Recommendations	Dates of Previous TIGTA Recommendations
14	IRS Root Cause Study	Better allocate responsibility for certain BSM program management functions (budget, audit personnel, contracting, etc.).	Yes	June 2000
15	IRS Root Cause Study	Implement a "fixed-price" contract policy.	Yes	September 2002
16	IRS Root Cause Study	Use more realistic assumptions for testing estimates/plans/schedules.	Yes	March 2001 November 2001 March 2002
17	IRS Root Cause Study	Establish a rigorous process for requests for information services/change requests.	Yes	August 2003
18	IRS Root Cause Study	Make diagnostic tools (e.g., dashboard) work.	Yes	June 2000
19	IRS Root Cause Study	Streamline Modernization Information Technology Services-wide Government process for entire information technology portfolio.	Yes	June 2000
20	IRS Root Cause Study	Request spend plan changes timely – eliminate funding "emergencies."	Yes	February 2001
21	High-Level Assessment of the IRS Office of Procurement Study	Employ performance-based acquisition more broadly.	Yes	February 2001 March 2002 September 2002

Source: CADE study, PRIME Contractor Internal study, IRS Root Cause study, High-Level Assessment of the IRS Office of Procurement study, and prior TIGTA reports.

Recent Treasury Inspector General for Tax Administration Reports and Associated Findings

Table 1 lists Treasury Inspector General for Tax Administration (TIGTA) reports issued in Fiscal Year 2004 (as of March 2004) and associated findings.

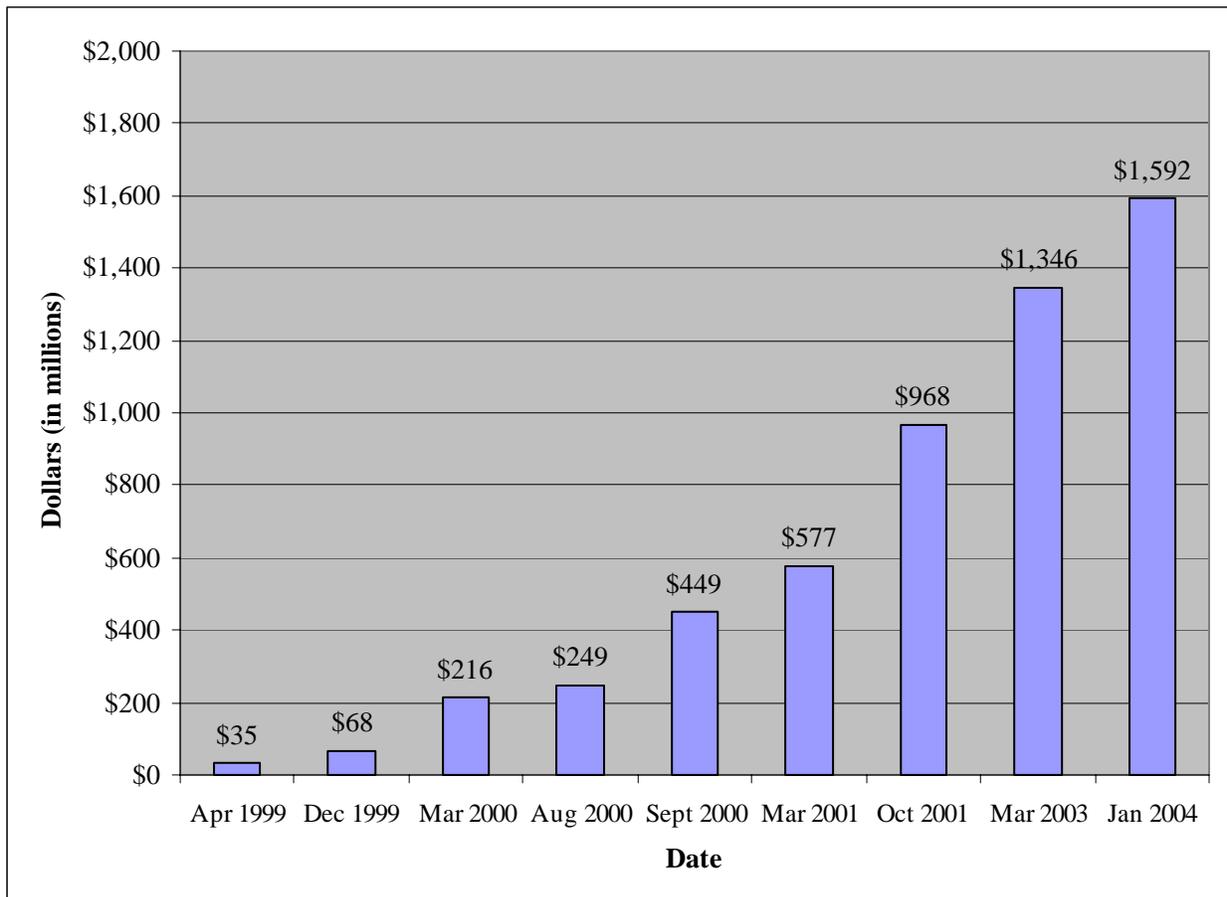**Table 1: Listing of Recent TIGTA Reports With Findings**

Report Title	Findings			
Requirements Changes and Testing Delays Have Further Increased the Costs and Delayed the Benefits of the e-Services Project (Reference Number 2004-20-036, dated February 2004)	Previous business case estimates have been significantly inaccurate.	Requirements changes were not easily traceable.	Significant defects identified during late phases of testing took longer than expected to resolve.	
The Custodial Accounting Project Team Is Making Progress; However, Further Actions Should Be Taken to Increase the Likelihood of a Successful Implementation (Reference Number 2004-20-061, dated March 2004)	Additional focus is needed to monitor testing results.	Transition planning can be improved.	Business continuity risks need to be addressed.	Cost increases and schedule delays persist.
Risks Are Mounting as the Integrated Financial System Project Team Strives to Meet an Aggressive Implementation Date (Reference Number 2004-20-001, dated October 2003)	Project testing practices can be improved.	Projects costs are increasing and some functionality has been postponed.	Disaster recovery will not be optimal or fully tested before initial implementation.	
Oversight of the Business Systems Modernization Contractor Needs Improvement (Reference Number 2004-20-034, dated January 2004)	The Internal Revenue Service did not obtain written assurance that new computer systems will meet business requirements.	The Business Systems Modernization Office has not implemented an effective process to ensure qualified contractors work in the Modernization Program.		
Modernized e-File Project Integration Difficulties Have Delayed Its Deployment (Reference Number 2004-20-072, dated March 2004)	Ineffective coordination about the project design has delayed deployment.	Reassessments of defect severity did not include approval documentation.		

Source: TIGTA reports (see Report Title column).

Business Systems Modernization Funding Timeline

Chart 1 depicts a timeline of the cumulative funding received by the Business Systems Modernization (BSM) program for program management and development of business and infrastructure projects.

Chart 1: BSM Funding Timeline (dollars are cumulative)

Source: BSM Spending Plans and March 24, 2004, Congressional memorandum authorizing the release of funds.

Schedule Delays and Cost Increases

Table 1 lists schedule delays and cost increases for various Business Systems Modernization (BSM) projects as of February 2004. Cost and schedule variances are based on the General Accounting Office's analysis of data contained in the Internal Revenue Service's BSM expenditure plans.

Table 1: Internal Revenue Service BSM Project Cost/Schedule Variance Summary

Project	Cost Variance (in thousands)	Reported/Revised Estimated Cost (in thousands)	Schedule Variance (in months)
Completed Projects			
Security and Technology Infrastructure Release 1	+$7,553	$41,287	+5
Customer Communications 2001	+5,310	46,420	+9
Customer Relationship Management Exam	-1,938	7,375	+3
Internet Refund/Fact of Filing	+12,923	26,432	+14
Ongoing Projects[1]			
Modernized e-File Release 1	+17,057	46,303	+4.5
e-Services	+86,236	130,281	+18
Customer Account Data Engine (CADE) Release 1	+36,760	97,905	+30[2]
Integrated Financial System (IFS) Release 1	+53,916	153,786	TBD[2]
Custodial Accounting Project (CAP) Release 1	+72,058	119,219	TBD[2]

Source: Business Systems Modernization: Internal Revenue Service Needs to Further Strengthen Program Management (GAO-04-438T, dated February 2004).

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[1] Projects ongoing as of September 30, 2003.
[2] Project schedules for the CADE, IFS, and CAP are currently under review. TBD = to be determined.

Enterprise Life Cycle Overview

The Enterprise Life Cycle (ELC) defines the processes, products, techniques, roles, responsibilities, policies, procedures, and standards associated with planning, executing, and managing business change. It includes redesign of business processes; transformation of the organization; and development, integration, deployment, and maintenance of the related information technology applications and infrastructure. Its immediate focus is the Internal Revenue Service (IRS) Business Systems Modernization (BSM) program. Both the IRS and the PRIME contractor[1] must follow the ELC in developing/acquiring business solutions for modernization projects.

The ELC framework is a flexible and adaptable structure within which one plans, executes, and integrates business change. The ELC process layer was created principally from the Computer Sciences Corporation's Catalyst® methodology.[2] It is intended to improve the acquisition, use, and management of information technology within the IRS; facilitate management of large-scale business change; and enhance the methods of decision making and information sharing. Other components and extensions were added as needed to meet the specific needs of the IRS BSM program.

ELC Processes

A process is an ordered, interdependent set of activities established to accomplish a specific purpose. Processes help to define what work needs to be performed. The ELC methodology includes two major groups of processes:
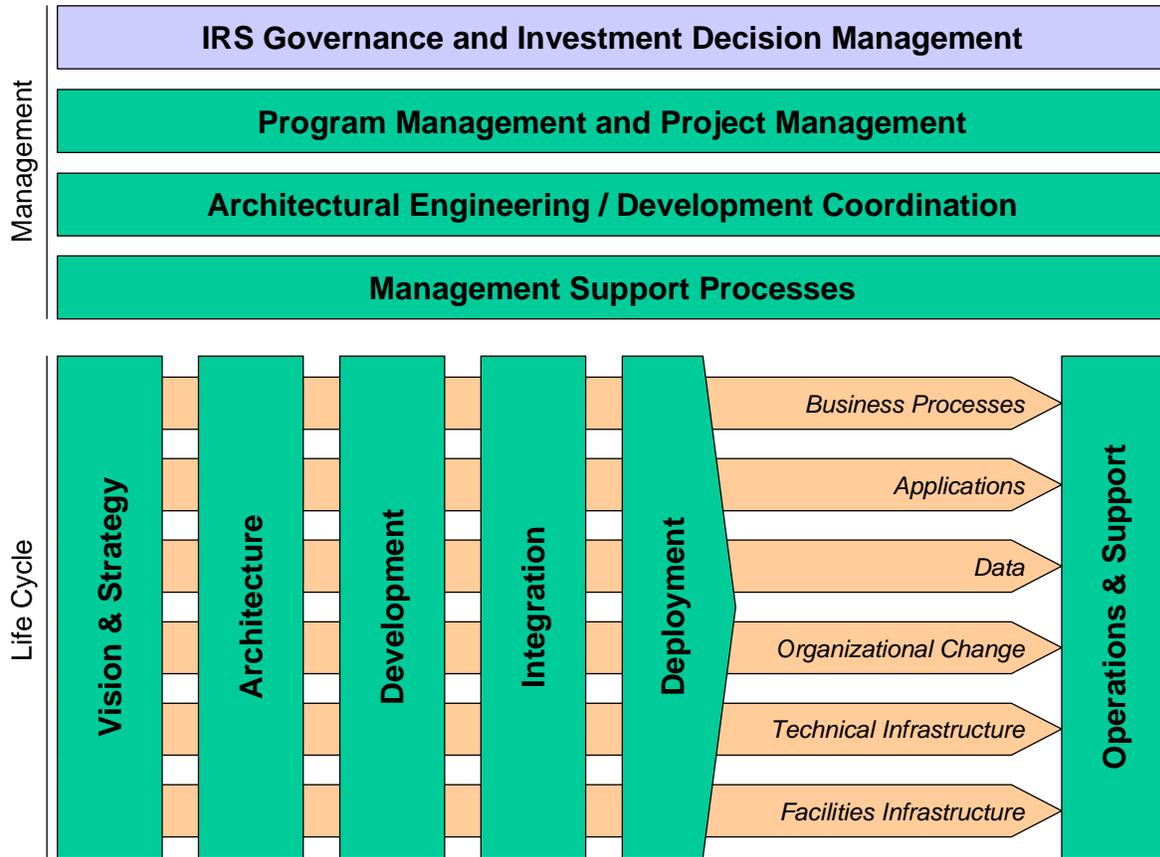
Life-Cycle Processes, which are organized into phases and subphases and address all domains of business change.

Management Processes, which are organized into management areas and operate across the entire life cycle.

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[1] The PRIME contractor is the Computer Sciences Corporation (CSC), which heads an alliance of leading technology companies brought together to assist with the IRS' efforts to modernize its computer systems and related information technology.
[2] The IRS has acquired a perpetual license to Catalyst® as part of the PRIME contract, subject to certain restrictions. The license includes rights to all enhancements made to Catalyst® by the CSC during the contract period.

Enterprise Life-Cycle Processes

Source: ELC Guide, Page 2-16.

Life-Cycle Processes

The life-cycle processes of the ELC are divided into six phases, as described below:

- **Vision and Strategy** - This phase establishes the overall direction and priorities for business change for the enterprise. It also identifies and prioritizes the business or system areas for further analysis.

- **Architecture** - This phase establishes the concept/vision, requirements, and design for a particular business area or target system. It also defines the releases for the business area or system.

- **Development** - This phase includes the analysis, design, acquisition, modification, construction, and testing of the components of a business solution. This phase also includes routine planned maintenance of applications.

- **Integration** - This phase includes the integration, testing, piloting, and acceptance of a release. In this phase, the integration team brings together individual work packages of solution components developed or acquired separately during the Development phase. Application and technical infrastructure components are tested to determine if they interact properly. If appropriate, the team conducts a pilot to ensure all elements of the business solution work together.

- **Deployment** - This phase includes preparation of a release for deployment and actual deployment of the release to the deployment sites. During this phase, the deployment team puts the solution release into operation at target sites.

- **Operations and Support** - This phase addresses the ongoing operations and support of the system. It begins after the business processes and system(s) have been installed and have begun performing business functions. It encompasses all of the operations and support processes necessary to deliver the services associated with managing all or part of a computing environment.

  The Operations and Support phase includes the scheduled activities, such as planned maintenance, systems backup, and production output, as well as the nonscheduled activities, such as problem resolution and service request delivery, including emergency unplanned maintenance of applications. It also includes the support processes required to keep the system up and running at the contractually specified level.

Management Processes

Besides the life-cycle processes, the ELC also addresses the various management areas at the process level. The management areas include:

- **IRS Governance and Investment Decision Management** - This area is responsible for managing the overall direction of the IRS, determining where to invest, and managing the investments over time.

- **Program Management and Project Management** - This area is responsible for organizing, planning, directing, and controlling the activities within the program and its subordinate projects to achieve the objectives of the program and deliver the expected business results.

- **Architectural Engineering/Development Coordination** - This area is responsible for managing the technical aspects of coordination across projects and disciplines, such as managing interfaces, controlling architectural changes, ensuring architectural compliance, maintaining standards, and resolving issues.

- **Management Support Processes** - This area includes common management processes, such as quality management and configuration management that operate across multiple levels of management.

Milestones

The ELC establishes a set of repeatable processes and a system of milestones, checkpoints, and reviews that reduce the risks of system development, accelerate the delivery of business solutions, and ensure alignment with the overall business strategy. The ELC defines a series of milestones in the life-cycle processes. Milestones provide for "go/no-go" decision points in the project and are sometimes associated with funding approval to proceed. They occur at natural breaks in the process where there is new information regarding costs, benefits, and risks and where executive authority is necessary for next phase expenditures.

There are five milestones during the project life cycle:

- **Milestone 1** - **Business Vision and Case for Action.** In the activities leading up to Milestone 1, executive leadership identifies the direction and priorities for IRS business change. These guide which business areas and system development projects are funded for further analysis. The primary decision at Milestone 1 is to select BSM projects based on both the enterprise-level Vision and Strategy and the enterprise architecture.

- **Milestone 2** - **Business Systems Concept and Preliminary Business Case.** The activities leading up to Milestone 2 establish the project concept, including requirements and design elements, as a solution for a specific business area or business system. A preliminary business case is also produced. The primary decision at Milestone 2 is to approve the solution/system concept and associated plans for a modernization initiative and to authorize funding for that solution.

- **Milestone 3** - **Business Systems Design and Baseline Business Case.** In the activities leading up to Milestone 3, the major components of the business solution are analyzed and designed. A baseline business case is also produced. The primary decision at Milestone 3 is to accept the logical system design and associated plans and to authorize funding for development, test, and (if chosen) pilot of that solution.

- **Milestone 4** - **Business Systems Development and Enterprise Deployment Decision.** In the activities leading up to Milestone 4, the business solution is built. The system is integrated with other business systems and tested, piloted (usually), and prepared for deployment. The primary decision at Milestone 4 is to authorize the release for enterprise-wide deployment and commit the necessary resources.

- **Milestone 5** - **Business Systems Deployment and Postdeployment Evaluation.** In the activities leading up to Milestone 5, the business solution is fully deployed, including delivery of training on use and maintenance. The primary decision at Milestone 5 is to authorize the release of performance-based compensation based on actual, measured performance of the business system.

Business Systems Modernization Projects and Descriptions

The following is a partial listing of Business Systems Modernization projects.

Custodial Accounting Project (CAP) – The CAP will be a single, integrated data repository of taxpayer account information, integrated with the general ledger[1] and accessible for management analysis and reporting. The first release of the CAP will extract taxpayer account data from the Individual Master File (IMF) for the Taxpayer Account Subledger.[2]

Customer Account Data Engine (CADE) – The CADE is the foundation for managing taxpayer accounts in the Internal Revenue Service's (IRS) modernization plan. It will consist of databases and related applications that will replace the IRS' existing Master File processing systems and will include applications for daily posting, settlement, maintenance, refund processing, and issue detection for taxpayer tax account and return data.

Customer Account Management (CAM) – The CAM will deliver an enterprise solution to support access to tax account data, contact management, case management, outbound correspondence management, and workflow management.

Customer Communications (CC) – The CC project has improved customer service by increasing the capacity of the toll-free telephone system and providing the ability to route taxpayers' calls to the appropriate IRS employees.

Customer Relationship Management (CRM) Exam – The CRM Exam project provides a commercial off-the-shelf software solution to Large and Mid-Size Business Division revenue agents, which will allow them to accurately compute complex corporate transactions.

e-Services – The e-Services project provides a set of web-based business products as incentives to third parties to increase electronic filing, in addition to providing electronic customer account management capabilities to all businesses, individuals, and other customers.

Enterprise Systems Management (ESM) – The ESM project was designed to improve the availability and performance of IRS modernized information technology by providing management capabilities for the computer systems and networks.[3] These capabilities include monitoring of all IRS computer systems and networks to ensure they are consistently available to the employees relying on them and the consolidation of 19 help desks throughout the IRS into a single help desk to better serve the users of the systems and networks.

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[1] A general ledger is a set of accounts used to summarize an organization's financial transactions by transaction type (e.g., cash receipts, accounts receivable, or rental expenses).
[2] The IMF is the IRS database that maintains transactions or records of individual tax accounts. The Taxpayer Account Subledger will be an integrated data repository of taxpayer account information containing detailed taxpayer account history and unpaid assessment information.
[3] The ESM project is now a part of the Infrastructure Shared Services program.

Filing and Payment Compliance (F&PC) – The F&PC project will provide support for detecting, scoring, and working nonfiler cases (filing compliance) and delinquency cases (payment compliance).

Integrated Financial System (IFS) – The IFS is intended to address administrative financial management weaknesses. The first release of the IFS will include the Accounts Payable, Accounts Receivable, General Ledger, Budget Execution, Cost Management, and Financial Reporting activities. A future IFS release will be needed to fully resolve all administrative financial management weaknesses.

Internet Employer Identification Number (I-EIN) – The I-EIN application allows small businesses and self-employed taxpayers to obtain EINs online, eliminating the need to send paperwork to the IRS.

Internet Refund/Fact of Filing (IRFOF) – The IRFOF project improves customer self-service by providing instant refund status information and instructions for resolving refund problems to taxpayers with Internet access.

Modernized e-File (MeF) – The MeF project develops the modernized, web-based platform for filing approximately 330 IRS forms electronically, beginning with the United States (U.S.) Corporation Income Tax Return (Form 1120), U.S. Income Tax Return for an S Corporation (Form 1120S), and Return of Organization Exempt From Income Tax (Form 990). The project serves to streamline filing processes and reduce the costs associated with a paper-based process.

Security and Technology Infrastructure Release (STIR) – The STIR project is designed to provide a secure technical infrastructure to support and enable the delivery of the IRS' modernized business systems.[4]

Work Management (WM) – The WM project will select and integrate software applications to improve the IRS' ability to manage, allocate staffing resources, and track workload more effectively.

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[4] The STIR is now a part of the Infrastructure Shared Services program.

Management's Response to the Draft Report

RECEIVED

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

MAY 2 4 2004

CHIEF INFORMATION OFFICER

May 24, 2004

MEMORANDUM FOR ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: W. Todd Grams
                Chief Information Officer

SUBJECT: Draft Audit Report – Annual Assessment of the Business
                Systems Modernization Program (Audit # 200420012)

We would like to express our appreciation for TIGTA's fair and balanced review of the
IRS' Business Systems Modernization (BSM) program in their Annual Assessment.
The BSM program is – without a doubt – one of the largest, most visible, and most
sensitive modernization programs ever undertaken in the world. Commissioner
Everson has made it a top priority, and he meets regularly with the IRS modernization
program senior executives and their CSC counterparts to monitor the progress of this
crucial program. The following is a brief recap of our progress and struggles over the
past year.

Our results have been mixed. We will summarize the good news first. We built a strong
technical infrastructure, and we designed and implemented stringent security and
control mechanisms into the infrastructure. We also developed a rigorous enterprise life
cycle methodology. Over the past two years, we have been working toward maturing
our management processes. We have made progress, but a major thrust now focuses
on sustaining a solid balance of business commitment, accountability, and scope
management. Finally, we have achieved a great deal of success with the projects
delivered to date.

For the first time ever, corporations and tax exempt organizations have the option of
filing their annual income tax and information returns electronically using Modernized
e-File (MeF). This new electronic filing system significantly reduces the time and cost
for corporations and tax exempt entities to file their Forms 1120 and 990. Simply by
using a secure Internet connection to file 1120 and 990 forms, corporations and tax
exempt organizations eliminate the need to submit hundreds of pages of paper returns.
The e-Gov Institute recently chose MeF as a winner of the Government Solutions
Center Pioneer Awards.

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We have fully deployed all e-Services Release 1.0 products and made them available over the Internet. E-Services Release 2.0 products are also now in production and available for use by IRS staff and taxpayers. In March 2004, James D. Leimbach appeared before the Ways & Means Oversight Subcommittee on behalf of the National Association of Enrolled Agents (NAEA) and gave the IRS a great deal of praise. He said,

"This new capability is truly going to

revolutionize the way we conduct future business with the IRS.

The ultimate beneficiary is the American taxpayer.

We are truly amazed and thrilled beyond description

at this way of doing business with the IRS,

and we would like for you to understand why we feel as we do."

We delivered several additional applications that are providing tangible benefits to taxpayers and improving the efficiency and effectiveness of our tax administration systems such as Where's My Refund?, Where's My Advance Child Tax Credit?, Internet EIN, HR Connect, etc. The attached chart highlights the applications we delivered as well as the measurable business benefits being realized.

The bad news, however, is major. Significant cost overruns and repeated schedule delays have plagued critical projects, such as the Customer Account Data Engine (CADE), the Integrated Financial System (IFS), and the Custodial Accounting Project (CAP). CADE replaces the current master files which are the IRS' repository of taxpayer information. IFS will be the IRS' new core accounting system. CAP provides an integrated link between tax administration (revenue) and internal management (administrative) financial information.

We have delayed the CADE project four times. We originally planned to deliver the first release of CADE in December 2001. We then rescheduled it for August 2003. We later rescheduled it for April 2004. We recently finalized the re-planning effort for CADE — under a fixed price contract — and set the latest delivery date for September 2004.

Like CADE, IFS has been plagued with schedule delays. We originally planned to deliver the majority of the first release of IFS in October 2003. It was then rescheduled for two releases, with one release scheduled for October 2003, and the balance in January 2004. We later rescheduled the full implementation for April 2004. We have

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subsequently rescheduled it for October 2004. We are also encountering delays on the first release of CAP.

As a result of missing CADE and IFS key deliverables last summer, the Commissioner and CSC commissioned external assessments studies from outside experts. The studies produced no major surprises; but we now understand more about the issues. All of the assessments confirmed that the IRS modernization effort is a massive, highly complex, high-risk program that is confronting a number of critical management and technological challenges. These studies also made it clear that the IRS should not turn back, but rather make a series of changes to strengthen the BSM program.

While all of these studies assessed different components of the modernization program, three major recommendations emerged including:

- Scaling back the modernization portfolio to better align with IRS and CSC's capacities
- Engaging IRS business units to drive the projects with a business focus
- Improving contractor performance on cost, scheduling, and functionality

The assessments also raised a number of other key improvement opportunities, including:

- Adding outside expertise to help manage the program and to complement IRS skills
- Strengthening our human resources capacity management
- Adhering to methodologies in areas such as configuration management, cost and schedule estimating, and contract management
- Reducing the burden from oversight organizations
- Simplifying the budget process
- Initiating the testing of the business rules engine on CADE

Based on the recommendations from the four studies, IRS senior executives and key external stakeholders identified 46 action issues to bolster our business systems modernization program and we created the BSM Challenges Plan. In December 2003, the IRS Oversight Board issued a Special Report Identifying nine recommendations to help get BSM on track for success. In reviewing these recommendations, we determined that our BSM Challenges Plan already addressed seven of the nine recommendations. We added the remaining two recommendations to the Plan, bringing the total action Issues to 48.

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TIGTA also identified four primary challenges and outlined the need to:

- Implement planned improvements in key management processes and commit the necessary resources to enable success
- Manage the increasing complexity and risks of the BSM program
- Maintain the continuity of strategic direction with experienced leadership
- Ensure the PRIME contractor performance and accountability is effectively managed

The BSM Challenges team worked closely with designated managers from November 2003 thru April 2004 to fully develop the corresponding goals; management plans, and the closure criteria for the 48 action issues. As of April 2004, when the six-month timeframe for the action plan ended, we had closed 44 of the 48 action issues as defined by the original action plan objectives. We have plans in place for completing the remaining four items. We also have tactics in place for important follow-on activities pertaining to a number of the 44 closed items with an Associate CIO leading this charge.

While the plan certainly helped to put the necessary policies and procedures in place to strengthen our overall performance on the modernization program, we have much more work to do. Most importantly, we need to fundamentally change the agency's behavior. A culture change must occur.

Our long history of repeated project delays and cost overruns demonstrates that we must stop setting overly ambitious and impractical timeframes for delivering projects. We are shifting our management focus from "doing things fast" to "doing things right". Striving to meet unrealistic delivery dates at the expense of productivity and quality has been a major contributor to our poor performance. It is critical that we start setting realistic delivery schedules, and it is critical that we follow our methodologies religiously:

This change is going to take time. We are at the beginning of implementing many of the major action plan items that will help to better position us for delivering on our promise to modernize America's tax administration system.

In addition to implementing the 48-action item plan, the Software Engineering Institute (SEI) will periodically review the CADE program, and a third party (MITRE) will regularly assess the overall health of the modernization program and report directly to me.

We are committed to scaling back the modernization efforts to better match our management capacity as well as the PRIME's, and to focus on the most critical projects and initiatives. We have initially reduced the size and scope of the modernization program in the fiscal year 2005 budget. We are also developing a human resource capacity planning model to help ensure the right people, with the right skills, are dedicated for the right amount of time to each IT project we undertake.

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The Commissioner is holding IRS senior business unit managers accountable for the success of modernization efforts as it relates to defining, developing, and controlling business requirements. For example, the involvement and leadership of the Deputy Commissioner for Wage and Investment played a key role in the successful delivery of Modernized e-File.

It was evident that CSC, as the PRIME contractor, needed to significantly improve their performance. While CSC has improved their performance somewhat, delays and cost increases persist, as evidenced by the continual delays in delivering CADE, IFS, and CAP. As a result, we will expand the competition for the new enforcement projects that we plan to start later this year and next year. We are also moving to capped or fixed price contracts for development work to balance the financial risk between the Government and the contractor in modernization projects.

We need a more versatile team of seasoned executives to provide long-term stability to the program. We are complementing the skills of our experienced IRS tax executives with outside seasoned technology executives who have experience managing large-scale, complex IT projects. As such, we are hiring two Associate Chief Information Officers to join the MITS organization, and an executive search firm is conducting searches for five senior executives with a wide range of diverse experience in developing and implementing large modernization systems.

We have placed an emphasis on increasing the timeliness and accuracy of BSM communications to ensure that key stakeholders are well informed of program goals and the status of projects against schedule and cost targets.

There is much more work to do, but we are committed to modernizing the IRS' archaic computer systems. While progress to-date has been decidedly mixed – we owe it to our taxpayers to stay-the-course and put a solid foundation in place upon which the IRS can build for decades to come.

The Commissioner appointed John Dalrymple, Deputy Commissioner for Operations Support, to own the modernization initiative and to drive productivity across the IRS. I am responsible for bringing stronger leadership and discipline to the technology modernization program. If you need further information, please contact me at (202) 622-6800, or John Dalrymple at (202) 622-6860.

Attachment

BSM Delivers Real Business Value
(Results as of 5/19/04)

Project	Description	Recent Statistics
Internet Refund Fact of Filing (2002)	Improves customer self-service by providing instant refund status information and instructions for resolving refund problems to taxpayers with internet access	➤ 17.9 million inquiries in 2003; 20.5 million inquiries to date in 2004 (1/1/04 – 5/8/04) ➤ 32% of all real time IRS assistance calls come from IRFoF ➤ Modest reduction of telecommunications costs (about $250,000) ➤ Every 1,000 IRFoF contacts eliminate 1,500 – 2,000 refund assistance calls
Advanced Child Tax Credit (2003)	Modifies the Internet Refund application to provide taxpayers with Advance Child Tax Credit refund status on the internet	➤ 15.5 million inquiries in 2003; 11.8 million inquiries to date in 2004 (10/1/03 – 5/8/04) ➤ Peak date 1.1 million interaction
Customer Communications (2001)	Improves communications infrastructure, including telephone call management, call routing and customer self-service applications	➤ 68,000 calls in one three-minute period during initial week (coincided with start of Advanced Tax Refund of 2001) ➤ 50% reduction in waiting time for assistor to answer call ➤ 50% reduction in abandoned calls ➤ Number of Spanish calls doubled ➤ More accurate pre-routing of calls
Internet Employee Identification Number (2003)	Allows businesses and taxpayers to apply for and receive employer identification numbers over the internet	➤ 1.2 million internet EIN applications received to date (as of 5/8/04)
HR Connect (2002)	Delivers an enterprise solution to allow IRS employees to access and manage their human resources information online	➤ 75,000 internal users ➤ Cited by Commissioner Everson as an enabling factor in the redirection of approximately 750 staff years to enforcement ➤ Treasury was selected as 2004 Computerworld Honors Laureate for HR Connect development and implementation
e-Services R1 (2003-2004)	Creates a web portal and value adding e-Services services to promote the goal of conducting most of the IRS's transactions with tax practitioners electronically	➤ Over 56,855 PTIN applications (W7P) entered to date, data entry productivity doubled (from 8/15/03 – 4/21/04) ➤ Over 55,922 e-File applications to the Third-Party-Data-Store (TPDS) entered to date (from 8/15/03 – 4/15/04) ➤ Approximately 22,865 Registered (and confirmed) User Portal (RUP) to date (from 10/1/03 – 4/21/04)
Customer Relationship Management Exam (2001)	Provides standard tax computation software to Large & Mid-Sized Business Revenue Agents	➤ Deployed to almost 4,000 Revenue Agents
Modernized e-File (2004)	Provides e-filing to large businesses (1120 family) and tax exempt organizations (990 family)	➤ Went live on 2/23/04 ➤ Over 32,859 returns (1120 family) accepted as of 5/16/04 ➤ Over 3,197 participating Electronic Return Originators as of 5/16/04 ➤ Winner of Government Solutions Center Pioneer Award by e-Gov Institute