

## **Internal Revenue Service High Risk BUSINESS SYSTEMS MODERNIZATION**

### **Why area is High Risk:**

The Internal Revenue Service's (IRS) highly complex Business Systems Modernization (BSM) program is critical to (1) the successful transformation of the agency's manual paper-intensive business operations, (2) fulfillment of its obligations under the IRS Restructuring and Reform Act, and (3) providing the reliable and timely financial management information needed to better enable IRS to justify its resource allocation decisions and congressional budgetary requests. Despite progress in improving modernization management controls and capabilities and addressing long-standing financial management weaknesses, significant challenges and serious risks remain.

### **What Improvement Actions does the IRS plan to take:**

The Delivery of Modernization focus area encompasses all major modernization programs and projects. During 2007, IRS completed milestones of Modernized e-File (MeF) (an electronic filing system), Customer Account Data Engine (CADE) (the new taxpayer information database), and Accounts Management Services (AMS) (a system intended to provide applications for IRS employees and taxpayers to access, validate, and update accounts on demand). The status and plans for these BSM project releases are recapped below.

### **Customer Account Data Engine (CADE)**

CADE, the IRS' highest priority business systems modernization project and the core foundation of its modernized systems, will provide a modernized database foundation to replace the existing individual Master File processing system that contains the repository of individual taxpayer information. CADE provides the flexibility to respond more quickly to complex tax law and policy initiatives, changes which the existing Master File system cannot easily or cost-effectively accommodate. The IRS is using a phased, multi-year approach for CADE by processing increasingly more complex tax returns. When fully operational, the CADE database will house tax information for more than 200 million individual and business taxpayers.

### **Project Status:**

- CADE Release 3.2 was deployed into production on January 14, 2008 to deliver all filing season changes and included a critical database conversion and upgrade.
- In a parallel effort, the IRS deployed additional functionality on February 11, 2008 that provided enhanced capability to process 1040 returns through CADE, including 1040 Earned Income Tax Credit (EITC) and Dependent and Child Care Expenses returns, and some limited Math Error Notices.
- Release 4 is scheduled for deployment in July 2008/January 2009 to deliver added capabilities including the ability to process decedent returns and overpayment offsets, provide cycle level balancing, generate two new notices, process revenue receipt transactions, Criminal Investigation refund holds, filing of extension forms (Forms 4868), filing of decedent and surviving spouse returns, credit elect processing, and last name changes.

### **Accounts Management Services (AMS)**

AMS is a business systems modernization project that establishes the foundation for major compliance programs. AMS provides the applications that monitor and interface with taxpayers' account data, increasing the availability of data to authorized users, improving efficiency, and enhancing notice processing and management. AMS is the first major system to deliver improved customer support and functionality by leveraging existing IRS applications, Desktop Integration (DI), and Correspondence Imaging System (CIS). AMS enhances CADE with applications that enable IRS employees and taxpayers to access, validate, and update taxpayer accounts on demand.

#### **Project Status:**

- Beginning October 15, 2007, AMS processed on-line address changes for all accounts on CADE and legacy systems.
- Release 1.2A exited Milestone 4B on February 14, 2008. The functionality in this release includes a new inventory and workflow that will automate the assignment, research, resolution, and closure for entity and account transcripts replacing cases currently worked in a paper-based manual process.
- Release 1.3 capabilities scheduled for delivery in late 2008 integrate the current Correspondence Imaging System (CIS) and Desktop Integration (DI) systems into AMS.
- Release 2.1, scheduled for delivery in 2009, will establish a virtual case folder to consolidate data from multiple sources into a single workspace for the Customer Service Representative (CSR). It will also provide enhancements that automate manual CSR tasks including issuance of letters to other functions and providing remittance receipt documentation.

### **Modernized e-File (MeF)**

Modernized e-File (MeF) provides a single standard for filing electronic tax returns and is quickly becoming the primary system interface for all business return filings. The MeF provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs, enhanced and up-to-date technologies, and a greater appeal to external customers and stakeholders. With MeF, the IRS will store all tax return data in a modernized tax return database allowing all viewers of the data to see a whole tax return online over the Internet.

#### **Project Status:**

- Release 5 was deployed on January 7, 2008, delivering forms 1120F (Foreign Corporation) and 990N (Exempt Organization).
- Release 5.5 scheduled for January 2009 will deliver a redesigned Form 990 (Exempt Organization).
- Release 6 scheduled for delivery in August 2009 will deliver the first phase of the Form 1040 Individual Tax Return.

The Improve Financial Management focus area consists of a series of inter-linked initiatives that collectively respond to material weaknesses identified in financial accounting. Delivery of one component, the Integrated Financial System, was deployed in November 2005, delivering the general ledger/financial statements; funds

management/budget execution; controlling, costing; accounts payable; accounts receivable; business warehouse; and three-year rolling forecast/budget formulation capabilities. Each of the remaining initiatives within the focus area is segmented into a series of interlinked releases and milestones.

### **Custodial Detail Database (CDDB)**

Custodial Detail Database (CDDB) addresses a material weakness to provide detailed data to support revenue financial reporting and is an enhancement to the Financial Management Information System (FMIS). CDDB will serve as the sub-ledger for the existing Interim Revenue Accounting Control System (IRACS).

#### **Status:**

- Release 3 was deployed In January 2008, adding pre-posted revenue receipt transactions classified as “other” such as federal tax deposits, lockbox, integrated submission and remittance processing. It also created a refund transactions subsidiary ledger.

### **Redesign Revenue Accounting Control System (RRACS)**

RRACS redesign is a FY 2009 initiative included in the Modernization, Vision, and Strategy (MV&S) that will provide new functionality to reduce the risk of failure to sustain future clean IRS audit opinions, and streamline financial reporting. RRACS will incorporate the United States Standard General Ledger (USSGL) and add traceability between the Internal Revenue Accounting Control Systems (IRACS) summary records and the IRS processing systems' detail records. RRACS redesign will perform all the functionality of the existing IRACS system, which is the IRS custodial accounting system of record.

#### **Status:**

- The IRS finalized the business compatibility definitions for the first two releases which were included in the MV&S prioritization process in January 2008.
- The Release 1 business requirements were completed in March 2008.
- Release 1 is planned for implementation in January 2010. The project kickoff was held on June 11, 2008, and the first two key milestone dates have been identified.
  - Milestone 1 entails the completion of the Project Charter, Project Management Plan, and Tailoring Plan by August 2008.
  - Milestone 2 calls for the completion of the Business System Architecture Report, System Deployment Plan, and Business Systems Concept Report by November 2008.