

GAO

Fact Sheet for the Chairman,  
Subcommittee on Oversight, House  
Committee on Ways and Means

June 1987

# ADP BUDGET

## Information on Two IRS Computer Projects



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Information Management and  
Technology Division

B-227237

June 16, 1987

The Honorable J. J. Pickle  
Chairman, Subcommittee on Oversight  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

In your January 14, 1987, letter, you asked that the General Accounting Office undertake several reviews to assist the Subcommittee in its oversight of computerized processing for tax return and related information at the Internal Revenue Service (IRS). On February 6, 1987, we testified before your Subcommittee on the computer resources that IRS uses to process tax returns.<sup>1</sup> This fact sheet addresses your request for information on (1) IRS' budget provisions for fiscal year 1988 for two automatic data processing (ADP) projects, the Communications Replacement System and the Tax System Redesign, and (2) the amount spent on these projects since their inception.

## Communications Replacement System

As previously reported,<sup>2</sup> IRS plans to spend about \$150 million on the Communications Replacement System through fiscal year 1993, primarily for the replacement of existing front-end communications processors and obsolete computer terminals at its National Computer Center and each of its 10 service centers. Initially, IRS awarded this contract on October 2, 1985, to Computer Systems and Resources, Inc. However, this decision was protested to the General Services Administration's Board of Contract Appeals, which concluded on January 23, 1986, that the awardee did not meet all of the technical requirements of the agency's solicitation. The Board instructed IRS to either terminate and recompet the contract or award it to Sysorex Information Systems, Inc., (Sysorex), which met the technical requirements. Although the Sysorex proposal was estimated to be about \$47 million more than that proposed by Computer Systems and Resources, after weighing the relative merits and costs of the Board's alternatives, IRS awarded the contract to Sysorex on February 11, 1986.

<sup>1</sup>Statement for the Record to the Subcommittee on Oversight, House Committee on Ways and Means (GAO/T-IMTEC-87-1).

<sup>2</sup>Data Communications: Thorough Testing and Workload Analysis Needed for IRS Processors (GAO/IMTEC-87-3BR), October 14, 1986.

The earliest available budget estimates for the Communications Replacement System were in March 1985. At that time, IRS estimated that nearly \$63.5 million would be spent on this system between fiscal years 1986 and 1988. Currently, the agency estimates that it will obligate about \$50 million during this period, or about \$13.4 million less than originally estimated (see table 1). These planned obligations cover only contractual services and do not include staffing costs because they were not readily identifiable.

**Table 1: Comparison of Communications Replacement System Initial Estimates With Actual or Planned Obligations for Fiscal Years 1986 Through 1988<sup>a</sup>**

Fiscal year	Initial estimate as of 3/17/85	Actual or planned obligations	Differences increase(+)/decrease(-)
1986	\$6,127,000	\$11,865,000	\$(+)-5,738,000
1987	25,197,000	13,389,000	(-)-11,808,000
1988	32,121,000	24,793,000	(-)-7,328,000
<b>Total</b>	<b>\$63,445,000</b>	<b>\$50,047,000</b>	<b>\$(-)13,398,000</b>

<sup>a</sup>The estimates and obligations were furnished by IRS and were not independently verified by us.

These budget estimates have changed primarily for two reasons. First, for fiscal year 1986, award of the contract to Sysorex required a higher level of initial funding than IRS had originally estimated. Second, for fiscal years 1987 and 1988, IRS has lowered its estimates because, as reported in our February 6 testimony, the contractor encountered serious problems with some of the software and hardware needed for the new system. As a result, IRS does not expect to have the system installed until September 1988, or about 1 year later than originally scheduled. Additional information on planned and actual fiscal year 1986 and 1987 obligations to date, as well as variances between original and currently planned obligations for fiscal year 1988, are shown in appendixes I, II, and III, respectively.

## Tax System Redesign

The Tax System Redesign was initiated by IRS in August 1982 to redesign the tax-processing system for the 1990's and beyond. The project's objectives are to implement state-of-the-art technologies, to provide better access to all taxpayer information, and to automate manual and paper-intensive processes. While precise figures for the Tax System Redesign cannot be reasonably estimated at this time, IRS is projecting expenditures in the billions of dollars over the system's life.

For fiscal years 1982 through 1988, the estimated obligations for this project, included in IRS' budget submissions to Congress, were \$83.6 million. During this time, IRS has actually obligated, or plans to obligate, about \$71 million on Tax System Redesign (see table 2). These obligations include funds for establishing and operating the redesign office, documenting the current tax processing system, developing redesign strategies, and developing related projects. The related projects involve pilot tests of the planned electronic filing and laser disk systems, as well as the development of a system that contains information on taxpayers who underreport income. In 1987, the redesign office assumed responsibility for these projects, which account for approximately \$7 million and \$14 million of the budgets for fiscal years 1987 and 1988, respectively.

Actual or planned obligations are less than the original budget estimates included in IRS' budget submission to Congress primarily because the strategy for redesigning the tax processing system has changed several times. Therefore, the system's development has not progressed as far as planned. These changes have resulted from several iterations between IRS, Treasury, and the Office of Management and Budget (OMB) on how best to approach such a major system redesign. Currently, the redesign is envisioned as an evolutionary process rather than a one-time redesign of the entire system with a phased implementation. By the spring of 1988, IRS plans to complete the first step of this process by developing a preliminary design concept, an acquisition strategy, a transition plan, and a management plan. Additional information on planned and actual obligations for fiscal year 1986, as well as variances between original and currently planned obligations for fiscal years 1987 and 1988, are shown in appendixes IV, V, and VI.

**Table 2: Comparison of Tax System Redesign Budget Estimates With Actual or Planned Obligations for Fiscal Years 1982 Through 1988<sup>a</sup>**

Fiscal year	Budget submission to Congress	Actual or planned obligations	Difference increase(+)/decrease(-)
1982-1985	\$14,758,000	\$7,404,000	\$(-)7,354,000
1986	14,080,000	8,108,000	(-)5,972,000
1987	16,714,000	20,204,000	(+)3,490,000
1988	38,016,000	35,092,000	(-)2,924,000
<b>Total</b>	<b>\$83,568,000</b>	<b>\$70,808,000</b>	<b>\$(-)12,760,000</b>

<sup>a</sup>The estimates and obligations were furnished by IRS and were not independently verified by us.

## Scope and Methodology

To obtain this information, we reviewed the budget IRS submitted to Congress for fiscal year 1988, interviewed officials at the Department of

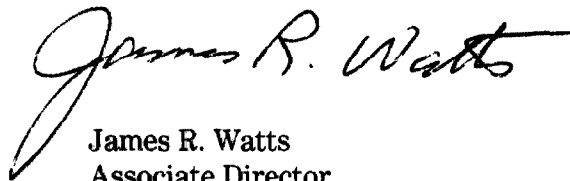
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Treasury and IRS, and obtained supporting documentation. In addition, we obtained detailed information on budgeted and actual obligations, and actual expenditures associated with these two projects from their inception, and reviewed other relevant documentation. We did not substantively audit any IRS-supplied information; however, our inquiries and review of documentation have not provided any evidence to contradict those data.

As agreed with your office, in order to provide you with this information during your Subcommittee's review of the agency's 1988 budget submission, we did not obtain formal comments on this report from IRS. We did, however, discuss the contents of this report with IRS officials in the offices of the Assistant Commissioner for Computer Services and Tax System Redesign on May 14, 1987. They said that the information presented was correct and that our characterization of the two projects was accurate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 3 days from the date of the document. At that time, we will send copies of this report to the Secretary of the Treasury; the Director, Office of Management and Budget; the Commissioner of IRS; interested congressional committees and subcommittees; and other interested parties upon request. If you have any questions or desire additional information on these projects, please contact me or Theodore Gonter, Group Director, on 275-3455.

Sincerely yours,



James R. Watts  
Associate Director



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**Abbreviations**

ADP	automatic data processing
IRS	Internal Revenue Service
OMB	Office of Management and Budget



# Chronology of Estimated and Actual Obligations and Actual Expenditures for the Communications Replacement System for Fiscal Year 1986<sup>a</sup>

Chronology	Amount <sup>b</sup>
January 1985: The amount that IRS included for this system in its budget submission to Congress for fiscal year 1986. The project obligations were estimated prior to awarding the contract to Sysorex and were primarily for development and testing of the new system.	\$3,810,000 <sup>c</sup>
June 1985: The amount transferred from the new system to support the existing data communications processing system. Included in this amount are estimates of additional maintenance costs to be spent on aging computer terminals.	(-) 898,000
January 1986: Additional funds identified by IRS for the new system when Congress approved IRS' fiscal year 1986 budget request with more funds than provided for in the President's budget request.	2,500,000
March 1986: Additional funds transferred to the new system after contract award to Sysorex. IRS reallocated these funds from other ADP projects that were delayed or deferred until fiscal year 1987.	3,293,000 <sup>d</sup>
July 1986: Additional funds transferred to the new system from a reduction in the estimated expenditures anticipated for the existing data communications processing system. These funds were initially allocated for maintenance of installed equipment.	1,637,000
July/September 1986: Net amount of miscellaneous transfers resulting in a reduction in planned obligations for the new system.	(-) 241,000
September 1986: Additional funds allocated to the new system from "no-year" funds available from prior years.	1,764,000
<b>Total of estimated obligations for fiscal year 1986.</b> This also reflects the amount actually obligated.	<b>\$11,865,000</b>
April 1987: Expenditures to date against the obligation, representing partial deliveries of custom software, documentation, and training.	\$8,012,000
April 1987: Remaining balance. The difference between the amount obligated and the expenditures to date represents funds obligated for project segments that were begun but, because of system development problems, were not completed in fiscal year 1986.	\$3,853,000

<sup>a</sup>The amounts in this appendix were not audited by us and reflect principally costs associated with contractual services, such as delivery of contractor-developed software, hardware, training, and documentation. IRS' own staff costs are not included because they could not be readily identified: the Communications Replacement System is not managed through a separate project office.

<sup>b</sup>Appropriated funds for this system are included within the general fund account entitled "processing tax returns" and are not formally accounted for in the budget at the Communications Replacement System project level.

<sup>c</sup>This figure does not represent all funds estimated to be needed for this system during fiscal year 1986. Primarily because of cuts made prior to IRS' budget submission to Congress and a need to allocate additional funds for maintenance of aging computer terminals, IRS was able to allocate initially only \$3,810,000 for this new system.

<sup>d</sup>Examples of delayed or deferred ADP projects include minicomputers planned for the office automation of IRS' Inspection Service and funds for the Centralized Inventory and Distribution System.

# Chronology of Estimated and Actual Obligations (to Date) and Actual Expenditures (to Date) for the Communications Replacement System for Fiscal Year 1987<sup>a</sup>

Chronology	Amount <sup>b</sup>
January 1986: The amount that IRS included for this new system in its budget submission to Congress for fiscal year 1987. These project expenditures were estimated prior to awarding the contract to Sysorex and represent funds available primarily for testing and installing the new system at the service centers.	\$7,424,000 <sup>c</sup>
October 1986: Additional funds transferred to this system by IRS after contract award to Sysorex. IRS transferred these funds primarily from service-wide activities, such as training and telecommunications support.	3,385,000
December/February 1987: Additional funds transferred to this system due to an anticipated reduction in the estimated obligations of other ADP projects, such as the Distributed Input System and the Information Returns Program.	2,029,000
March 1987: Additional funds transferred to this system from a reduction in estimated obligations anticipated for the existing data communications processing system.	551,000
<b>Total of estimated obligations for fiscal year 1987.</b>	<b>\$13,389,000</b>
April 22, 1987: Actual obligations to date for the Communications Replacement System representing costs associated with the development and testing of the new system.	\$7,754,000
April 22, 1987: Expenditures to date against the obligation representing partial deliveries of custom developed software, documentation, and training.	\$257,000
April 22, 1987: Remaining balance. The difference between the amount obligated and the expenditures to date represents funds obligated for project segments that have yet to be completed.	\$7,497,000

<sup>a</sup>The amounts in this appendix were not audited by us and principally reflect costs associated with contractual services, such as delivery of contractor-developed software, hardware, training, and documentation. IRS' own staff costs are not included because they could not be readily identified: the Communications Replacement System is not managed through a separate project office.

<sup>b</sup>Appropriated funds for this system are included within the general fund account entitled "processing tax returns" and are not formally accounted for in the budget at the Communications Replacement System project level.

<sup>c</sup>This figure does not represent all funds estimated to be needed for this system during fiscal year 1987. Primarily because of cuts made prior to IRS' budget submission to Congress and a need to allocate additional funds for maintenance of aging computer terminals, IRS was able to allocate initially only \$7,424,000 for this new system.

# Chronology of Estimated Obligations for the Communications Replacement System for Fiscal Year 1988<sup>a</sup>

Chronology	Amount <sup>b</sup>
January 1987: The amount that IRS included for this new system in its budget submission to Congress for fiscal year 1988. These estimated obligations are planned to be primarily used to install, lease, and maintain the new system at the service centers.	\$20,261,000
March 1987: Additional funds estimated to be needed to fully support this system through fiscal year 1988. These funds are anticipated to be obtained from funds made available by the existing data communications processing system or other ADP projects as appropriate.	4,532,000
<b>Total of estimated obligations for fiscal year 1988.</b>	<b>\$24,793,000</b>

<sup>a</sup>The amounts in this appendix were not audited by us and reflect principally costs associated with contractual services, such as delivery of contractor-developed software, hardware, training, and documentation. IRS' own staff costs are not included because they could not be readily identified: the Communications Replacement System is not managed through a separate project office.

<sup>b</sup>Appropriated funds for this system are included within the general fund account entitled "processing tax returns" and are not formally accounted for in the budget at the Communications Replacement System project level.

# Chronology of Estimated and Actual Obligations and Actual Expenditures for the Tax System Redesign for Fiscal Year 1986<sup>a</sup>

Chronology	Amount <sup>b</sup>
January 1985: The amount that IRS included for this system in its budget submission to Congress for fiscal year 1986. These estimated obligations were for the development of alternatives for redesigning the tax processing system and included \$10 million for contracted-out ADP services and about \$4 million for IRS personnel costs.	\$14,080,000
January 1986: Additional funds identified for this system primarily from a transfer of funds from the Office of the Assistant Commissioner (Computer Services) who previously had responsibility for the Tax System Redesign as a project office.	1,151,000
March 1986: Reduction in estimated obligations because Treasury rejected IRS' planned redesign strategy in December 1985. These funds were applied to other major ADP initiatives.	(-) 6,400,000
April 1986: Additional funds identified for this system. These funds were for a planned increase in IRS personnel costs and were primarily transferred from the Automated Examination System.	1,056,000
September 1986: Reduction in estimated obligations due to delays in developing a redesign strategy acceptable to Treasury. These funds were used primarily for other ADP projects and programs.	(-) 1,760,000
<b>Total of estimated obligations for fiscal year 1986.</b>	<b>\$8,127,000</b>
September 1986: Actual obligations for the development of the redesign strategy, documentation of the current tax processing system, and a pilot test involving the electronic filing of tax returns. This also reflects actual expenditures.	\$8,108,000
September 1986: Remaining balance: Personnel and travel costs were less than anticipated. This balance was absorbed by other ADP projects.	\$19,000

<sup>a</sup>The amounts in this appendix were furnished by IRS and have not been independently verified by us.

<sup>b</sup>An additional balance of \$3,308,000 of "no-year" funds remained unobligated at the end of the fiscal year. At the beginning of fiscal year 1986 Tax System Redesign had a "no-year" fund balance of \$999,000. Only \$56,000 of that balance was obligated in fiscal year 1986, and is reflected in the total amount obligated shown above. The remaining \$943,000 balance was increased by \$600,000 during the fiscal year when funds were transferred to Tax System Redesign along with responsibility for the electronic filing system pilot test; and by \$1,765,000 when "no-year" funds were transferred to Tax System Redesign along with the responsibility for the laser disk pilot test. This \$3,308,000 of "no-year" funds is expected to be obligated in fiscal year 1987.

# Chronology of Estimated and Actual Obligations (to Date) and Actual Expenditures (to Date) for the Tax System Redesign for Fiscal Year 1987<sup>a</sup>

Chronology	Amount <sup>b</sup>
January 1986: The amount that IRS included for this system in its budget submission to Congress for fiscal year 1987. This includes \$5.7 million for contracted-out ADP services and approximately \$11 million for IRS personnel costs.	\$16,714,000
January 1987: Reduction in estimated obligations basically due to adjustments in the anticipated personnel costs expected to be needed for the development of the redesign concept.	(-) 1,427,000
March 1987: Increase in estimated obligations associated with the Assistant Commissioner (Tax System Redesign) assuming responsibility for: (1) a laser-disk technology pilot test; (2) an underreporter program system development; and (3) an electronic-filing pilot test.	306,000
March 1987: Reduction in planned obligations to absorb Tax System Redesign's proportional share of a budget reduction in all ADP projects and programs.	(-) 1,197,000
April 1987: "No-year" funds provided in prior years' appropriations, expected to be obligated in fiscal year 1987 for further documentation of the current system and pilot tests of the planned electronic-filing and laser-disk systems.	3,308,000
May 1987: Additional funds estimated to be needed by the Assistant Commissioner (Tax System Redesign) to fund the planned acceleration in the pilot test of the electronic filing system. Funds for this purpose are anticipated to be made available from other IRS automation projects.	2,500,000
<b>Total of estimated obligations for fiscal year 1987.</b>	<b>\$20,204,000</b>
April 25, 1987: Actual obligations to date for the Tax System Redesign representing about \$3.4 million for IRS personnel and personnel related costs, and about \$5.4 million for ADP services. These services are for further documenting the current system, developing the redesign concept, and pilot testing of related ADP projects.	\$8,827,000
April 25, 1987: Expenditures to date against the obligation.	\$7,676,000
April 25, 1987: Remaining balance. The difference between the amount obligated and the expenditures to date represents ADP services which are being contracted-out but have yet to be completed.	\$1,151,000

<sup>a</sup>The amounts in this appendix were furnished by IRS and were not independently verified by us.

<sup>b</sup>At the beginning of fiscal year 1987, Tax System Redesign had a "no-year" fund balance of \$3,308,000, which is expected to be obligated in fiscal year 1987 and is, therefore, reflected in the estimated obligations above.



# Chronology of Estimated Obligations for the Tax System Redesign for Fiscal Year 1988<sup>a</sup>

Chronology	Amount <sup>b</sup>
January 1987: The amount that IRS included for this system in its budget submission to Congress for fiscal year 1988. These estimated obligations include \$23.6 million for the development of the redesign strategy and for various concept, management, and transition plans. These planned expenditures also include \$1.4 million for the development of an underreporter program prototype system; \$10 million for an electronic-filing-system pilot test; and \$3 million for further pilot testing of laser-disk technology.	\$38,016,000
March 1987: Reduction in planned obligations to absorb Tax System Redesign's proportional share of an OMB budget cut of \$49 million. This OMB cut was made to IRS' information systems budget prior to its submission to Congress but had not been allocated to the ADP initiatives within that budget. The Assistant Commissioner (Tax System Redesign) does not anticipate a programmatic impact if the \$2,500,000 electronic-filing needs for fiscal year 1987 can be funded (see appendix V).	(-) 2,396,000
May 1987: Planned reduction in estimated obligations due to a \$190,000 reduction in anticipated personnel costs and a \$338,000 reduction to absorb this system's proportional share of Federal Employee Retirement System costs.	(-) 528,000
<b>Total of estimated obligations for fiscal year 1988.</b>	<b>\$35,092,000</b>

<sup>a</sup>The amounts in this appendix were furnished by IRS and have not been independently verified by us.

<sup>b</sup>At the beginning of fiscal year 1988, the Tax System Redesign is not expected to have a "no-year" fund balance. All funds are expected to be obligated in fiscal year 1987.



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