



Testimony

Before the Subcommittee on Commerce,  
Consumer, and Monetary Affairs  
Committee on Government Operations  
House of Representatives



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TAX SYSTEMS  
MODERNIZATION

Update on Critical  
Issues Facing IRS

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Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be with you today to comment on issues concerning the Internal Revenue Service's (IRS) Tax Systems Modernization program. Our purpose today is to provide you with an update on IRS' progress in addressing the issues we identified in testimony before this Subcommittee last July, and highlight areas in which IRS needs to make further progress.<sup>1</sup> IRS accomplished many of the goals we felt were necessary last year, but attention to other areas is still called for.

Last year, we pointed out three essential prerequisites to the modernization that IRS needed to address. These were the need to

- formally communicate, in a clear and comprehensive way, its vision of how it wants to do business in the future and how technology will be used to achieve this vision;
- finalize the Design Master Plan for the modernization and complete certain key planning components, such as transition plans; and
- establish a system to track the costs and benefits of the modernization.

We also said that IRS faced a number of other important issues as it began to implement the modernization. These were the need to (1) strengthen both its procurement and systems development policies and practices, (2) ensure that it has people with the necessary technical expertise to carry out the program, (3) address the issues of security and taxpayer privacy, and (4) address technology risks, in particular the planned use of imaging technology to process tax documents. This last issue was the subject of our testimony before this Subcommittee on April 29.<sup>2</sup> At that hearing we pointed out that the input processing strategy adopted by IRS is risky and lacks a sound analytical basis.

Over the last year IRS has made a great deal of progress in addressing some of these issues. The agency now has clearly articulated its business vision. In a nutshell, through the introduction of new technology, IRS envisions dramatically reducing the burden on taxpayers, generating substantial additional revenue through improved voluntary compliance, and achieving significant productivity gains throughout the agency. In addition it has made final and published its Design Master Plan for the modernization, and has developed a mechanism for tracking costs, benefits, and schedules for modernization

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<sup>1</sup> Tax System Modernization: Issues Facing IRS (GAO/T-IMTEC-91-18, July 9, 1991).

<sup>2</sup> Tax Systems Modernization: Input Processing Strategy is Risky and Lacks a Sound Analytical Basis (GAO/T-IMTEC-92-15, Apr. 29, 1992).

projects. IRS is also implementing a strategy for hiring, training, and retaining the expertise needed for carrying out the modernization, and is giving increased priority attention to ensuring that security and privacy issues are appropriately addressed. All of this is good news.

We remain concerned, however, about IRS' effectiveness in addressing other factors that are critical to the success of the Tax Systems Modernization program. These are in the areas of planning, systems development, and procurement.

#### CRITICAL PLANNING COMPONENTS HAVE NOT BEEN COMPLETED

In the planning area, even though IRS has published its final Design Master Plan, limited progress has been made in completing other crucial planning components. For example, the development of a strategy for integrating all modernization projects has just begun, and milestones for its completion have not been established. Such a strategy is needed to make sure that all systems work together and are able to provide all the information needed for IRS employees to better serve taxpayers.

In addition, IRS has made little progress in preparing a transition plan for converting its current ways of doing business to the new, highly automated ways that will be available under Tax Systems Modernization. A business transition plan needs to be prepared so that IRS' business functions--collections, examinations, and taxpayer services, for example--are ready to take advantage of the modernization's more rapid electronic methods. On April 20, 1992, we met with IRS' Tax Systems Modernization program manager, who agreed that the business planning for the modernization has fallen behind the technical planning. He said that IRS' goal is to complete both the business transition plan and an integration strategy in about 6 months. He added that, as part of this effort, key issues will be addressed and decisions made concerning such things as the number, organization, staffing and functions of service centers.

#### SYSTEMS DEVELOPMENT AND PROCUREMENT AREAS STILL PROBLEMATIC

The systems development and procurement areas continue to require attention. Although IRS has taken several actions aimed at strengthening its performance in these areas, two major acquisitions, known as TMAC and CHEXS, ran into trouble during the past year.

The actions that IRS has recently taken to improve its systems acquisitions include

- increasing the procurement staff from 170 to 239 during the past year;
- completing several initiatives designed to strengthen controls to ensure compliance with procurement policies and procedures;<sup>3</sup> and
- hiring 328 staff in the systems development area between the beginning of fiscal year 1991 and March 28, 1992.

IRS has a good framework in place for overseeing system development projects. This framework includes a high-level body known as the Information Systems Policy Board, which reviews and authorizes the initiation and continuation of large modernization projects. Information Systems Control Groups oversee individual projects, including schedules and budgets.

However, in spite of the increased staff and the existence of seemingly sound oversight mechanisms, IRS continues to run into systems acquisition problems. One of these involves the continuing difficulty it is having with awarding the Treasury Multi-User Acquisition Contract, referred to as TMAC; another involves the cancellation, after a lengthy planning and preparation period, of the Check Handling Enhancements and Expert System (CHEXS).

#### TMAC

The TMAC award, the largest of all the modernization procurements to date--\$1.4 billion--was protested last year. Vendor protests were successful because IRS' price-technical tradeoff analysis was insufficient to support award to a vendor whose price was \$700 million higher than that of the lowest bidder. As a result of these successful protests, IRS' ability to adequately meet the needs of the modernization has been hampered.

We recently reported to the Senate Committee on Governmental Affairs that IRS missed two opportunities to preclude the

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<sup>3</sup> These included, in chronological order (1) completing a management review of IRS' Contracts and Acquisition Division, (2) appointing an Assistant Commissioner for Procurement, (3) conducting a continuing professional education program, (4) delegating increased procurement authority to field offices, and (5) developing a customer satisfaction standard for small purchases and issuances of delivery orders.

successful protests in the pre-award period of the procurement.<sup>4</sup> First, IRS did not give any specific guidance to its Source Evaluation Board on the methodologies and criteria to be used in analyzing price-technical features of proposals. The request for proposals stated that the award would be determined by comparing differences in the value of technical features with differences in the overall cost to the government. But neither the request for proposals nor the source selection plan, which was to provide detailed guidance to the evaluation board, discussed the methodology to be used in making this comparison. As a result, the board devised its own methodology, which ultimately proved to be inadequate. IRS now believes that better guidance, including appropriate methodologies and criteria, might have resulted in a better price-technical tradeoff analysis. Second, IRS did not revise its analysis after it received advance review comments from the Department of the Treasury questioning the validity of IRS' analysis.

On March 20, 1992, following an additional analysis that IRS conducted as a result of the General Services Board of Contract Appeals' ruling on the protests, IRS confirmed its initial award of this contract. However, 10 days later, on March 30, the TMAC award was again protested. A decision from the appeals board on this protest is due in early June 1992.

### CHEXS

The CHEXS project was initiated in 1984. It was to replace IRS' current system for processing tax remittances with a more efficient, image-based system. In early 1992, after 8 years of planning and preparation, the contract to supply the equipment, software, maintenance, and other support services for this system still had not been awarded. Because of a major change in the requirements for CHEXS, IRS canceled the CHEXS solicitation on March 23 of this year. The agency plans to issue a new solicitation with changed requirements, renaming CHEXS the Integrated Cash Management System.

In our opinion, IRS did a poor job of managing the CHEXS project. First, indecision hampered the requirements-setting for the system. In 1987 IRS was planning for a system that would primarily process voucher-sized documents. However, because it believed that it could not redesign the tax form packages in a way that was acceptable to the Postal Service, and because of anticipated processing problems within IRS' ten service centers, it decided in 1988 that the primary requirement for CHEXS would

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<sup>4</sup> Tax Systems Modernization: IRS Could Have Avoided Successful Protests of Major Computer Procurement (GAO/IMTEC-92-27, Mar. 13, 1992).

be to process page-sized (8.5 x 11-inch) documents. Finally, in early 1992 IRS decided that it would try to implement a voucher-based system by 1994, dropping the requirement to process page-sized documents.

Second, contrary to its original plan, IRS decided in August 1988 not to issue a request for comments on the CHEXS procurement. Such a request is issued before a solicitation and defines planned requirements for a contract; it provides an opportunity for vendors to comment on the procurement and for the agency to refine its requirements. We noted that the decision not to issue the request for comments was made at the same time that IRS was moving away from a commercially-oriented voucher system toward a system with unique requirements, such as the requirement to process large volumes of page-sized documents.

Just prior to the due date for proposals, IRS received letters from vendors citing the difficulty in meeting the solicitation's technical requirements. We believe that had IRS decided to issue a request for comments, it might have determined from vendors much earlier than it did that the requirements posed significant challenges and risks, and the procurement could have been restructured or the requirements changed.

Third, IRS did not perform a timely evaluation of the benefits of proceeding with the project in the face of greatly increased costs. As a result of the 1988 changes to the original CHEXS requirements, including the addition of the requirement to process page-sized documents, the estimated contract cost nearly doubled. However, according to the project manager responsible for CHEXS, despite the changes in the CHEXS requirements, the original requirements analysis package prepared in 1987 was not revised. A serious reexamination of the costs and benefits of the project was not undertaken until the summer of 1991. At that time, IRS determined that the system would cost \$129 million, but would provide benefits of only \$60 million.

Frankly, Mr. Chairman, in view of the management framework in place, the difficulties that IRS has encountered in acquiring TMAC and CHEXS have us puzzled. We do not understand why greater attention was not brought to bear on both of these procurements to, in the case of TMAC, make sure that a defensible selection of a vendor was made, and in the CHEXS case, to make sure that the requirements were reasonable and current. What we do know, however, is that for the modernization to succeed, it is essential that IRS make timely decisions and effectively use its oversight mechanisms to resolve problems.

This concludes my statement, Mr. Chairman. We will be happy to respond to any questions you or other members of the Subcommittee may have at this time.

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