

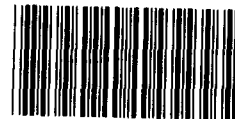


United States  
General Accounting Office  
Washington, D.C. 20548

**Information Management and  
Technology Division**

B-244246

May 22, 1992



146688

The Honorable Shirley Peterson  
Commissioner of Internal Revenue

Dear Mrs. Peterson:

During our April 2, 1992, testimony before the Chairman, Senate Committee on Governmental Affairs, we expressed concern about the Internal Revenue Service's (IRS) inadequate planning for the agency's multibillion-dollar Tax Systems Modernization (TSM) program.<sup>1</sup> Generally, we noted that IRS still lacked a (1) strategy describing how current and planned systems in the modernization were to be integrated and (2) plan describing how its business operations will transition to the newly defined way of doing business using modernized technologies. Because the completion of these planning components is a prerequisite to moving forward with IRS' modernization program, we are bringing our concerns to your attention so that timely follow-up action can be taken.

LACK OF INTEGRATION STRATEGY  
AND BUSINESS TRANSITION PLAN

Last year we testified before the Chairman, Senate Committee on Governmental Affairs, that IRS' Tax Systems Modernization program--the agency's third attempt in the past quarter century to modernize its antiquated tax processing systems--had come a long way and that IRS was in the best position it had ever been to modernize.<sup>2</sup> However, we also testified that a number of prerequisites, which were needed prior to moving forward with the modernization, were not yet completed. Among these prerequisites were the lack of an integration strategy and a transition plan.

<sup>1</sup>Tax Systems Modernization: Progress Mixed In Addressing Critical Success Factors (GAO/T-IMTEC-92-13, Apr. 2, 1992).

<sup>2</sup>Tax System Modernization: Attention to Critical Issues Can Bring Success (GAO/T-IMTEC-91-8, June 25, 1991).

GAO/IMTEC-92-55R, TSM: IRS' Key Planning Components

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During our April 2, 1992, testimony, we again reported that IRS had not completed these key planning components. IRS' development of a strategy for integrating modernization projects was only in the planning stage and a time frame for its preparation and completion had not been established. Such a strategy should, among other things, (1) develop standards for effective interchange of data, (2) identify interdependencies of systems, (3) specify the criticality of key systems and priority of their implementation, and (4) describe modifications required to existing and bridge systems to accommodate integration. Also, we reported that IRS was only beginning to develop a plan to transition to its new way of doing business. This plan should include a description of the agency's new organizational structure, goals, objectives, and policies on employee responsibilities. In addition, the plan should describe how to transition from the current business structure to the new structure and how the agency will retrain or hire employees. In the absence of these key planning components, IRS risks

- acquiring and implementing information systems that would not effectively integrate with each other or with existing systems, resulting in potentially difficult and costly systems modifications to allow data to be easily exchanged; and
- implementing modernized technologies before its business functions are transitioned to use the technologies, resulting in IRS simply automating its current way of doing business and not improving its processes and procedures.

We believe that IRS should be further along in its planning for the modernization. Specifically, IRS should have already developed a strategy for integrating modernization projects and a plan for the transition of its business functions. Although the agency is only in the planning stages of developing these key components, it already has several initiatives underway, many of which include the installation of hardware and software components. The agency will also have spent nearly \$1 billion for modernization activities through fiscal year 1992, and annual expenditures are expected to exceed \$1 billion over the next several years.

We discussed our continuing concerns over the agency's limited progress in completing these crucial planning

components with IRS officials in charge of the modernization. IRS' Tax Systems Modernization Program Manager agreed that IRS is behind in the development of an integration strategy and a business transition plan. He stated that the agency is taking action to prepare these key planning components and that both will be completed 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 and other field offices.

RECOMMENDATION

Because the completion of the integration strategy and business transition plan are prerequisite for moving forward with the modernization, it is imperative that these components do not remain incomplete for yet another year. We therefore recommend that you give priority attention to these projects to ensure that they are both completed by the end of this calendar year.

As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

Copies of this letter are being sent to the Chairman, Senate Committee on Governmental Affairs and other interested parties. If you have any questions about this letter, please contact me at (202) 512-6418 or Tamara Lilly at (202) 512-6377.

Sincerely yours,



Howard G. Rhile  
Director, General Government  
Information Systems

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