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Testimony

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House of Representatives

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TAX SYSTEMS  
MODERNIZATION

Comments on IRS'  
Fiscal Year 1994  
Budget Request



Statement of  
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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to talk about the Internal Revenue Service's (IRS) Tax Systems Modernization (TSM) program. As you know, existing tax processing systems do not provide ready access to needed information or allow for modern work processes. TSM is intended to fill this void. IRS views fiscal years 1994 through 1996 as a critical juncture in its life cycle. On the one hand, interim systems will be coming on line and IRS believes it will begin to reap substantial benefits from these investments. Accordingly, this will be a period of heavy TSM funding requests and of proving that TSM can contribute to better tax administration. On the other hand, IRS is reevaluating whether it is moving in the right direction with TSM.

Today we would like to discuss the President's proposed fiscal year 1994 budget for TSM and also provide our views on actions the Subcommittee could take to help ensure TSM's success.

- First, IRS has requested a significant increase in spending for TSM for fiscal year 1994. However, we have concerns about the appropriateness and timing of a large portion of this increase. Also, funding requests are not based on reliable cost and benefit estimates. As a result, we have no confidence in IRS' \$23 billion cost estimate for the program.
- Second, we believe that the success of the program--in terms of cost, benefits, and timing--is at risk unless a number of problems that affect TSM are resolved soon. For example, business studies that could significantly affect TSM remain unfinished, the program lacks a firm management and technical foundation, and much more needs to be done with regard to the program's human resource implications.

These are areas in which the Subcommittee could require IRS to accomplish specific actions before releasing fiscal year 1994 appropriations or considering the fiscal year 1995 budget.

#### FISCAL YEAR 1994 BUDGET

The proposed fiscal year 1994 budget for TSM, if approved, would be the largest ever appropriated for the program. IRS' request for \$717 million represents a net increase of \$145 million, or 25 percent, over fiscal year 1993. TSM now comprises almost half of the \$1.5 billion requested for IRS' information systems. Increases are requested for all but 4 of the 15 TSM initiatives. Over 80 percent of the TSM budget is for equipment and services, and an increase of 190 full-time positions is being requested to bring the TSM staff level to 2,918 full time positions.<sup>1</sup>

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<sup>1</sup>Appendix I summarizes the TSM fiscal year 1994 budget by initiative.

We have a major concern with the appropriateness and timing of \$82.8 million, over half of the requested \$145 million increase. This funding is being requested for the synchronized deployment of four interim systems:

- the totally integrated examination system,
- the integrated collection system,
- the automated criminal investigation system, and
- the automated inventory control system.

While we do not question the concept of synchronized deployment, we have some general concerns with funding this deployment before completing critical plans. Deployment planning is in the early stages, and much remains to be done before IRS will be able to develop and approve a detailed deployment plan. For example, IRS has not yet

- confirmed through thorough technical and economic analyses which interim systems should be deployed and when;
- identified the sites where the systems will be deployed; or
- performed a risk assessment of the plan and developed a risk-reduction strategy.

We are concerned whether IRS will be able to complete these tasks in time to allow synchronized deployment in fiscal year 1994. First, determining which interim systems will be deployed requires not only a thorough reassessment of their technical and economic merit, but also a balance of available system development resources--the people who will actually develop these systems--between the interim and long-term TSM systems. Although IRS has shown that the totally integrated examination system meets cost/benefit criteria for deployment, this is not yet the case for the other 3 systems. Second, identifying deployment sites depends on completing the business studies--specifically, the service center and district office studies. Our information is that these studies propose a significant change in the IRS field structure, including changes in the number and functions of IRS' field offices. Third, a risk assessment of the synchronized deployment strategy is needed to ensure that IRS identifies and addresses critical risks, such as increased complexity due to the large number of concurrent tasks that will need to be planned, coordinated, and verified.

As you will recall, in our February 3 testimony before this Subcommittee, we suggested that IRS reevaluate the technical and economic merit of the interim systems.<sup>2</sup> Although IRS has begun

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<sup>2</sup>Tax Administration: Status of Tax Systems Modernization, Tax Delinquencies, and the Tax Gap (GAO/T-GGD-93-4, Feb. 3, 1993).

this process, the studies will not be completed before this September. In addition, IRS has not completed its TSM transition plan, which will specify what functions and capabilities will be developed and deployed in fiscal years 1994 through 1996. Moreover, it has not yet identified the TSM deployment sites.

IRS' funding request for this large increase should be commensurate with its ability to plan and execute the synchronized deployment of any interim systems. To help ensure this, the Subcommittee may wish to make release of this funding contingent upon IRS presenting the Subcommittee with a detailed deployment plan, accompanied by an economic justification and risk assessment of the selected deployment strategy.

#### Spending Pattern for TSM: Accumulation of Uncommitted Funds

Since fiscal year 1990, funds provided by the Congress for TSM were "no-year" funds, that is they remained available indefinitely until expended. On September 30, 1992, IRS had an unobligated balance of over \$170 million from fiscal years 1990 through 1992 appropriations.<sup>3</sup> By this past March, IRS had obligated or committed to spend \$72.5 million, or less than half of this amount, leaving an uncommitted balance of \$97.8 million. IRS does not have an approved plan for spending these uncommitted funds. Such a plan would be important because (1) uncommitted funds become increasingly difficult to oversee and track when they remain from year to year, (2) IRS has consistently spent or obligated less than has been appropriated--between 72 and 94 percent of the amounts--for TSM since the inception of the program in fiscal year 1987, and (3) if past spending trends continue, the amount of uncommitted funds may increase at the end of this fiscal year.

IRS has tentative plans for spending \$87.1 million of the \$97.8 million uncommitted balance, as follows:

- \$70 million for service center support system site preparation and equipment costs;
- \$7.4 million for equipment for corporate computer center modernization; and
- \$9.7 million for additional equipment to support two TSM projects: the automated underreporter system and the electronic filing system.

IRS has no plans for spending the remaining \$10.7 million of the uncommitted balance. In the fiscal year 1993 appropriation,

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<sup>3</sup>Appendix II shows these carryover funds from TSM appropriations for fiscal years 1990 through 1992.

Congress limited to \$110 million the funds that would remain available until expended.

Failure to spend all funds appropriated, although prudent, is an indicator of inadequate planning for TSM expenditures. Accordingly, the Subcommittee may wish to require IRS to provide an approved spending plan for its existing and expected carryover funds for fiscal years 1990 through 1993 prior to approving the 1994 budget.

#### Funding Requests for TSM Are Not Supported by Reliable Cost-Benefit Estimates

Although IRS has not completed its business studies or developed requirements for TSM, it has been using economic models developed early in the program to project and justify its funding needs for the life of the program. This use is inappropriate: the models were solely intended to determine if the concept of TSM was economically feasible--not to provide life-cycle TSM costs and benefits.

The facts are that the economic modeling data supporting the continually reported TSM life-cycle cost of \$23 billion--with \$4.8 billion in net benefits--are based on outdated and incomplete requirements and assumptions. For example, the data used reflect an organization having ten service centers and two corporate computer centers--in other words, a business-as-usual philosophy. However, based on likely business study results, IRS may well revise the number of service and corporate computer centers needed and make other changes. Accordingly, IRS has tasked its integration support contractor with defining high-level TSM requirements by next April.<sup>4</sup> Until these requirements are defined and incorporated into the models, the modeling data will continue to be inaccurate and incomplete.

In addition, limitations exist in the models' construction. For example, it is very difficult to use the models to assess the extent to which costs and benefits are affected by changes in such factors as requirements, assumptions, and constraints.

Accordingly, since these models are used to develop the annual updates of the economic analyses, there is little basis for confidence in current estimates of TSM program costs and benefits. In fact, the likelihood is slim that the currently projected TSM costs and benefits are accurate.

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<sup>4</sup>These requirements will outline the TSM systems' functions and human interfaces. To do this, the contractor will (1) analyze existing TSM documentation, (2) incorporate the results of the business studies, and (3) work closely with program participants to develop a consensus on the requirements.

IRS is working on these problems. First, its chief information officer has directed that the fiscal year 1995 information systems budget reflect the results of the ongoing business studies. Second, IRS is studying how to better define and measure its TSM benefits as part of improving its TSM program management; this effort will continue through the end of this fiscal year. Lastly, IRS has several actions underway to revise the models. These actions should enable it to make more reasonable budget requests and funding decisions in the future, but they are not planned to be completed before the fiscal year 1995 budget is submitted to Congress next spring.

In light of these problems, the Subcommittee may wish to consider requiring IRS to provide reasonable assurances that it has defined its high-level TSM requirements and has improved the usefulness and accuracy of its models, including having them independently assessed.

#### CRITICAL UNRESOLVED PROBLEMS

In a series of reports and testimony over the past several years, we have pointed out major problems in IRS' actions to design, develop, and implement TSM. Many of these problems remain. IRS still has not completed studies to determine how it should conduct business in the future, even though the modernization's master plan was issued in May 1991. It has not fully implemented a program management approach to direct and control the overall development and phased implementation of the modernization. It has not developed essential plans, standards, or requirements for establishing the technical foundation for TSM. Finally, it has not completed human resource planning to ensure the transition of its existing workforce capabilities to those that will be needed in the modernized environment. Because of problems such as these, we believe the TSM program, as currently planned, may not meet the objectives established in the master plan, such as dramatically reducing the burden on taxpayers, generating substantial additional revenue, and achieving significant productivity gains throughout the agency.

Over the past year, IRS has begun to take positive management actions to increase the likelihood of successfully completing TSM so that it meets agency needs in a cost-effective and timely manner. These actions, long overdue and not yet implemented, have included (1) initiating a series of comprehensive business studies to help define how the IRS of the future will look and operate; (2) improving program and technical management by increasing accountability and beginning development of a program management plan and technical standards; and (3) assessing the human resource impact of TSM systems on IRS operations in order to develop strategies to manage the needed workforce adjustments.

The TSM program is in a state of flux as IRS rushes to complete actions at a time when IRS' funding needs will be great. Between fiscal years 1993 and 1997, it plans to spend about \$6 billion. If essential management actions are not completed soon, the program risks cost and schedule overruns and, more important, failure to achieve its objectives. The Subcommittee may wish to consider not releasing future appropriations until these actions are completed.

#### ACTIONS FOR THE SUBCOMMITTEE'S CONSIDERATION

Before discussing the specific short- and long-term actions IRS should take to reduce program risk, we would like to address a key issue that affects virtually every facet of the program: the uncontrolled changes in the TSM program structure, functionality, architecture, deployment strategy, schedule, and other critical components. As you know, Mr. Chairman, IRS is planning to develop and deploy TSM in two distinct phases--the near-term phase (ending in 1996), and the long-term phase (ending in 2001). Both phases need to be stabilized and controlled. For the long-term, IRS needs to finalize its vision of how the agency will operate in the future and interface with taxpayers. In addition, IRS needs to define TSM on a high level--its concept of operations, its functionality, and its architecture. For the near-term, IRS needs to define TSM on a far more detailed level--including the program structure, functionality, deployment strategy and schedule, cost, and other critical components. Once IRS defines the near-term and long-term TSM, it should baseline and control these definitions.<sup>5</sup> Unless IRS takes this action, it will not be able to rationally manage the program. IRS should not only baseline the critical near- and long-term TSM components, but should also identify for the congressional oversight committees any changes in its vision of the future, as well as provide technical and economic justification for all significant proposed changes.

Because of the criticality of IRS' recent actions in shaping and managing the TSM program--a program now at increased risk--the Subcommittee may wish to consider having IRS complete the following actions before releasing the fiscal year 1994 appropriation. Specifically, IRS needs to

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<sup>5</sup>Baselining is part of a process known as configuration management. Configuration management includes the establishment of a baseline that allows not only the evaluation of the program's accomplishments, but also safeguards the system's technical integrity. Configuration management requires that all significant changes to the baselined components be subjected to a formal analysis to ensure their economic and technical merit.



- complete its business studies and lay out how the IRS of the future will look and operate;
- complete and approve its TSM transition plan, which will specify what TSM functions and capabilities will be developed and deployed in fiscal years 1994 through 1996;
- prepare and approve a detailed deployment plan, accompanied by an economic analysis and risk assessment, before the synchronized deployment of any interim TSM systems; and
- provide an approved spending plan for its existing and expected carryover funds for fiscal years 1990 through 1993.

Other actions should be completed prior to considering the fiscal year 1995 budget request. Specifically, IRS needs to

- implement a program management approach for managing the TSM program, including (1) a program management organizational structure that specifically defines roles and responsibilities; (2) methods for measuring and tracking schedules, budgets, and costs; (3) an integrated project schedule that contains TSM program and project information such as tasks, schedules, resources, and dependencies for monitoring and managing TSM activities; and (4) a set of measures to assess TSM performance, productivity, and quality;
- establish a sound technical foundation, including (1) a new concept of operations; (2) high-level requirements that outline the TSM systems' functions and human interfaces; (3) new TSM architectures and master plan; (4) standards and methodologies needed to design, develop, and implement the TSM systems; and (5) independently assessed economic models that can more accurately support the estimation of TSM costs and benefits, and annual budget updates;
- complete TSM human resource plans to include workforce skill needs and levels, and strategies for making the transition to the new workforce.

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That concludes my statement, Mr. Chairman. I would be pleased to respond to any questions you or other members of the Subcommittee may have at this time.

**TAX SYSTEMS MODERNIZATION PROGRAM**  
**COMPARISON OF FISCAL YEARS 1993 AND 1994 FUNDING**  
**BY BUDGET INITIATIVE**

TSM Budget Initiative	Initiative Number	Fiscal Year 1993 Financial Plan		Fiscal Year 1994 President's Budget		Difference <sup>a</sup> Increase (Decrease)	
		Positions	Amount (000)	Positions	Amount (000)	Positions	Amount (000)
ISD Departmental Applications <sup>b</sup>	ISD-05	225	\$35,493	480	\$136,262	255	\$100,769
Communications Modernization	ISD-21	98	\$46,354	98	\$61,632	0	\$15,278
Counsel Automated System Environment	CC-05	15	\$6,965	15	\$21,000	0	\$14,035
Service Center Recognition/Image Processing	ISD-14	36	\$15,826	51	\$28,938	15	\$13,112
System Integration/Long Term Design	ISD-04	253	\$84,677	316	\$94,416	63	\$9,739
Integrated Input Processing System	ISD-06	300	\$53,268	295	\$60,753	(5)	\$7,485
Corporate Systems Modernization & Transition	ISD-10	187	\$57,014	165	\$62,122	(22)	\$5,108
Full Utilization/Electronic Filing System	R-06	279	\$26,008	279	\$30,589	0	\$4,581
Inspection System Development	I-05	0	\$0	5	\$3,000	5	\$3,000
Information Systems Development Program	ISD-01	256	\$33,242	270	\$35,178	14	\$1,936
Tax Systems Modernization Transition	ISM-35	0	\$11,425	40	\$12,150	40	\$725
Corporate Systems Design	ISD-09	404	\$59,269	473	\$58,993	69	(\$276)
Automated Underreporter Program	ISD-02	207	\$21,248	164	\$19,502	(43)	(\$1,746)
Operational Departmental Applications	ISD-03	286	\$42,097	95	\$35,182	(191)	(\$6,915)
Service Center Support System	ISD-08	182	\$79,105	172	\$57,449	(10)	(\$21,656)
<b>Total TSM Budget</b>		<b>2,728</b>	<b>\$571,991</b>	<b>2,918</b>	<b>\$717,166</b>	<b>190</b>	<b>\$145,175</b>

Source: IRS Budget Estimates: Fiscal Year 1994 President's Budget (April 8, 1993).

<sup>a</sup> Includes approved changes for miscellaneous savings, staff reductions taken in accordance with Executive Order 12839, and the reapplication of project funds.

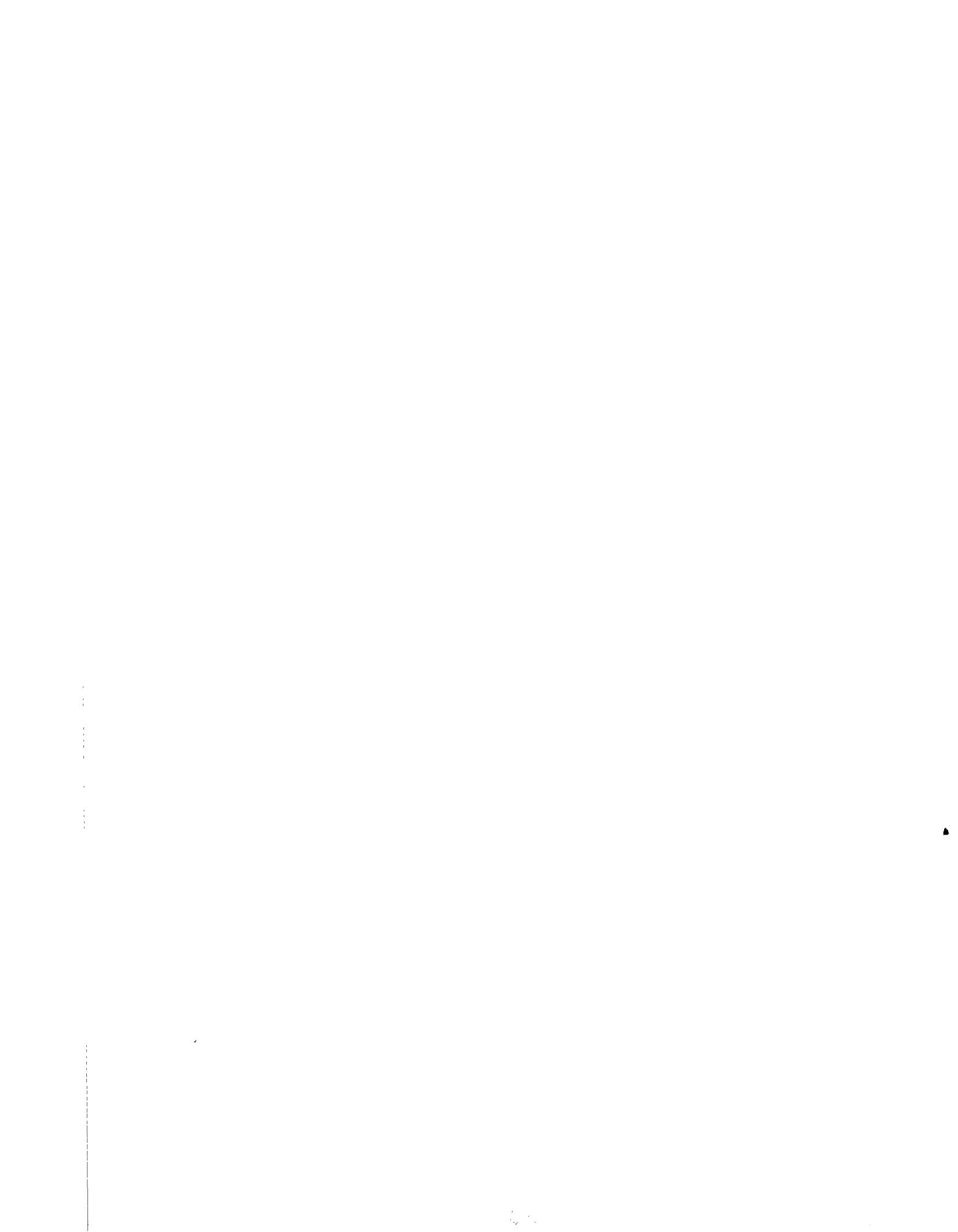
<sup>b</sup> ISD is an abbreviation for IRS' Office of Information Systems Development.

CARRYOVER FUNDS FROM TSM APPROPRIATIONS  
FISCAL YEARS 1990 THROUGH 1992

Budget Category	Fiscal Years			Total
	1990	1991	1992	
Appropriations	\$157.6	\$247.9	\$427.3	\$832.8
Minus Obligations/Outlays	\$114.2	\$198.2	\$282.1	\$594.5
Subtotal	\$43.4	\$49.7	\$145.2	\$238.3
Minus Carryover Funds Spent	0	\$33.1	\$34.8	\$67.9
Carryover Funds Available, 9/30/92	\$43.4	\$16.6	\$110.4	\$170.4

Source: IRS.

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