United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Management, Information, and Technology, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at
10:00 a.m. EDT
Monday
April 10, 2000

IRS MODERNIZATION

Business Practice, Performance Management, and Information Technology Challenges

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GAO/T-GGD/AIMD-00-144

Statement

IRS Modernization: Business Practice, Performance Management, and Information Technology Challenges

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss key elements of the Internal Revenue Service's (IRS) modernization efforts aimed at fundamentally changing the way it does business. As IRS acknowledges, it is an agency fraught with long-standing and significant management problems and a history of ineffective attempts to correct them.

Building on the direction set forth in the IRS Restructuring and Reform Act of 1998 (Restructuring Act),[1] IRS hopes that many of these long-standing issues will ultimately be addressed through the current modernization effort. To that end, Commissioner Rossotti has revised IRS' mission statement to more fully embrace customer service and fairness to taxpayers as core organizational values. He has also articulated a supporting modernization strategy that encompasses major changes in IRS' organizational structure, business practices, human capital and performance management systems, and information systems.

As we said before this Subcommittee last year, the magnitude of this modernization effort makes it a high-risk venture that will take years to fully implement.[2] IRS has taken some important steps over the last year; however, some of its most important and difficult work lies ahead.

My statement discusses the business practice, performance management and information technology challenges IRS faces. It is based on our past work on IRS management challenges and our ongoing monitoring of IRS' modernization efforts. Specifically, my statement makes the following three points.

- IRS acknowledges that it will need to do more than make marginal improvements in the efficiency and effectiveness of its current business practices. Accordingly, IRS is planning to implement breakthrough changes to those practices. Only when these changes are implemented will taxpayers see any appreciable benefits from IRS' multiyear modernization. IRS has some initiatives of this type under way, but they, and other business practice changes, will not be easy to implement. This type of reengineering requires not only a new way of thinking, but also investments in human capital, data collection, and technology.

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[1] P.L. 105-206, July 22, 1998.

[2] IRS Management: Business and Systems Modernization Pose Challenges (GAO/T-GGD/AIMD-99-138, Apr. 15, 1999).

- No matter what organizational structure or business practices IRS establishes, successful modernization ultimately depends on whether the employees who are to lead, manage, and carry out agency programs and services can deliver IRS' new mission of top-quality customer service and improved overall compliance. Historically, IRS' performance management system emphasized revenue production at the expense of customer service. IRS is developing a new system and has taken the important first step of developing a balanced set of performance measures that is to capture both the customer service and compliance aspects of its new mission. Given the difficulties that attend so substantial an effort, it is not surprising that we have identified problems. At a fundamental level, it is not clear to us that IRS employees fully understand that customer service and compliance can be mutually supporting. Such an understanding would be fostered by a coherent set of performance measures, but IRS does not yet have a key measure for voluntary compliance. Not only is such a measure important in its own right to track performance on a key aspect of IRS' mission, but it would also provide important data for designing the kinds of products and services taxpayers need and for targeting compliance activities. IRS is working to develop this measure. Eventually, once a complete set of balance measures is developed, IRS should be able to assess whether improved customer service contributes to an increase in voluntary compliance. IRS acknowledges that it will need to address these issues as it continues to develop its new system.

- Revamping its time-worn tax processing systems is a critical aspect of modernization. However, IRS must overcome several serious management challenges in its current systems modernization effort before it will be ready to build modernized systems. In particular, IRS must (1) complete, enforce, and maintain an enterprise systems architecture,[3] (2) establish and implement sound investment management processes to ensure only incremental, cost-effective system investments are made, and (3) impose software acquisition and life cycle management[4] discipline on each system investment it undertakes.

[3]A systems architecture defines the critical attributes of an agency's collection of information systems in both business/functional and technical/physical terms.

[4]A systems life cycle defines the policies, processes, and products for managing information technology investments from conception, development, and deployment through maintenance and support.

With Reorganization Under Way, Revamped Business Practices Tailored to Taxpayer Needs Is a Next Critical Step

IRS has already completed a number of elemental steps in redefining the way it does business. It has clarified its mission and articulated strategic goals to support the mission. It has identified its customer segments and key processes that are to define IRS' primary interactions with each segment—prefiling, filing, and postfiling. IRS is institutionalizing its focus on customer segments through its new organizational structure built around four operating divisions, each with end-to-end responsibility for serving a group of taxpayers with similar needs and interests.[5]

The reorganization is an important piece of the modernization process. IRS is phasing in its new organizational structure, and our monitoring work indicates that the reorganization is proceeding reasonably well. The new operating divisions should provide IRS with the management structure and customer focus needed to facilitate the breakthrough business practices that taxpayers need and deserve. Although employees in the new operating divisions will, for the most part, be initially constrained by old ways of doing business, IRS has under way a number of initiatives to revamp business practices. My statement today highlights three such initiatives:

- providing cross-functional customer service,
- advancing the use of electronic filing, and
- developing a new risk-based return examination process.

None of these, or other business practice changes, will be easy to implement; success will hinge on investments in human capital, data collection, and technology.

Cross-Functional Customer Service

Taxpayers have long been frustrated by the circuitous routes they often must follow to find an IRS employee who can address their concerns or questions. In large part, this was because IRS' old structure had separate functions for answering taxpayer inquiries, clarifying and correcting tax returns, and collecting unpaid taxes. Each of these functional areas maintained separate taxpayer databases, and thus, taxpayers who contacted IRS were often referred to offices other than those they had initially contacted. As IRS learned from its recent Problem Solving Days initiative, a single point of contact for resolving issues is, from the

[5]The operating divisions and their target start-up dates are (1) Tax Exempt and Government Entities, serving pension plans, exempt organizations, and governments (operational since December 1999); (2) Large and Mid-Size Business, serving businesses with assets over $5 million (June 2000); (3) Wage and Investment Income, serving individual taxpayers (October 2000); and (4) Small Business and Self-Employed, serving fully or partially self-employed individuals and small businesses with assets under $5 million (October 2000).

taxpayer's perspective, a far better way of doing business, and IRS is using this lesson to define a new cross-functional approach to frontline customer service.

In November 1997, shortly after a series of Senate Finance Committee oversight hearings that highlighted taxpayers' problems in dealing with IRS, the agency began holding monthly Problem Solving Days at field offices across the country. During a Problem Solving Day, IRS brought together employees from various functional groups, such as Examination and Collection, to provide a range of expertise to discuss and resolve taxpayers' problems in a face-to-face meeting. In our review of Problem Solving Days, we found that both taxpayers and IRS staff found the concept to be a good idea.[6]

Based on the apparent success of this initiative, IRS intends to institutionalize the concept of Problem Solving Days through a new Tax Resolution Representative (TRR) position. TRRs are to provide prefiling assistance and education and postfiling compliance support to taxpayers at IRS walk-in sites and other locations convenient to taxpayers. Staff at IRS' walk-in sites, some of whom are employees on detail from other functions, currently answer tax law questions, distribute tax forms and publications, help taxpayers prepare their returns, and resolve some account issues. TRRs are to be permanent staff who perform traditional walk-in service duties as well as a variety of compliance actions, including installment agreements, lien and levy release, account adjustments, and simple audits. IRS intends to begin the process of filling about 1,300 TRR positions early in 2001 and, if funding is available, plans to have about 2,000 TRRs on staff by October 2001.

The concept of cross-functional service embodied in the TRR position is compelling and fits neatly with IRS' goal to improve service to each taxpayer. As with other business practice changes, though, implementing the TRR concept will require investments in human capital and information systems. Probably the greatest human capital challenge will be training. The initial cross-functional training needs will be significant because the TRR position combines elements from several current positions, and ongoing training to keep such a broad array of skills up-to-date will be a continuing challenge. We also expect that this position will require strong interpersonal skills. In addition to training, TRRs will also need enhanced information system support to do their jobs effectively. For example, providing high-quality service to taxpayers will be difficult

[6] Tax Administration: IRS' Problem-Solving Days (GAO/GGD-99-1, Oct. 16, 1998).

without access to a modern information system that contains accurate and up-to-date information on taxpayer accounts, something IRS plans to deliver as part of its information systems modernization effort.

Electronic Filing

According to IRS customer satisfaction surveys as well as one done by the President's Management Council, taxpayers report high satisfaction with their electronic filing experiences. IRS also benefits from electronic filing through efficiency and accuracy gains. While electronic filing is a breakthrough process that is clearly more efficient for IRS and satisfies some taxpayers, the process still includes barriers that make it unappealing to certain groups of taxpayers. The Restructuring Act mandates that by 2007, IRS is to receive 80 percent of tax and information returns (i.e., information provided to IRS by third parties, such as employers and payors of interest and dividends) electronically, something that may be difficult to achieve.[7] According to IRS' November 1999 projections, 46 percent of individual taxpayers, at most, will file electronically by 2007. IRS notes that these projections are not based on complete information about the impact of future initiatives. Thus, the projections could increase.

Maximizing electronic filing is important to IRS because the agency is currently drowning in paper. Returns that are filed electronically do not have to move through IRS' labor-intensive paper return processing operations. Paper returns need to be opened, sorted, reviewed, transcribed, shipped, and stored. Later, returns must be physically retrieved if IRS employees need data from the returns that were not keypunched into computer records. Moreover, electronic filing prevents common taxpayer errors, such as computational mistakes and erroneous Social Security Numbers, from entering IRS' tax return processing system. As a result, electronic filing reduces the need for contacts with taxpayers regarding those errors.

Although taxpayers do receive benefits from electronic filing, such as faster refunds and notification that IRS has, in fact, received their returns, IRS has had difficulty inducing taxpayers who file individual returns to do so electronically. In 1993 and 1995, we made recommendations regarding IRS' need to develop strategies to broaden the use of electronic filing and to remove operational barriers that made electronic filing less appealing to

[7] IRS has interpreted the goal to mean 80 percent of all tax returns and 80 percent of all information returns as opposed to 80 percent of the combined total.

certain taxpayers.[8] For example, a major criticism of electronic filing is that the process is not yet truly paperless because of the need to submit wage and tax statements (form W-2s), a signature document, and payment information if a balance is owed.

IRS is continuing to grapple with this issue and, since 1996, has been conducting various tests to determine how best to eliminate the paper associated with electronic returns. In the 2000 filing season, IRS has expanded on the tests that were done in the 1999 filing season. These tests focus on eliminating W-2s and signature documents for taxpayers that use practitioners or file on-line from a personal computer and allowing taxpayers to use paperless payment options, such as credit cards.

Responding to recommendations that IRS needed a strategic business plan for advancing electronic filing, in December 1998, IRS issued a strategic plan that, among other things, identifies several challenges or barriers that must be overcome to advance electronic tax administration.[9] IRS acknowledges that it will need to enhance its technology to allow the filing of a full range of returns; resolve security issues to eliminate the requirements for submitting paper signature documents; and develop marketing strategies for different sets of taxpayers, including those that submit payments. IRS also plans to use some of its systems modernization funds for various electronic tax administration initiatives that it expects to implement in 2002. According to an IRS official responsible for these initiatives, they have not been finalized, in part because IRS is considering how best to meet the needs of the new operating divisions.

Risk-Based Return Examination Process

Taxpayers do not want to be audited if they have complied with the tax law, and if they have not, they want the audit to be efficient and targeted only at the questionable return items. Our past work has identified some weaknesses in how IRS determines which taxpayers it should audit and the audit approach it should use.[10] These weaknesses include relying on outdated information to identify potential noncompliance and selecting returns for audit based on manual review and judgment. As part of IRS' strategy to change the way it deals with taxpayers that may have

[8] Tax Administration: Opportunities to Increase the Use of Electronic Filing (GAO/GGD-93-40, Jan. 22, 1993) and Tax Administration: Electronic Filing Falling Short of Expectations (GAO/GGD-96-12, Oct. 31, 1995).

[9] IRS issued a revised strategic plan in November 1999. See Electronic Tax Administration: A Strategy for Growth (IRS Publication 3187, Nov. 1999).

[10] IRS Audits: Weaknesses in Selecting and Conducting Correspondence Audits (GAO/GGD-99-48, Mar. 31, 1999) and Tax Administration: IRS' Return Selection Process (GAO/GGD-99-30, Feb. 22, 1999).

compliance problems, IRS is developing a risk-based examination model that is to centrally and systematically identify which returns to audit as well as the most efficient and effective way to audit them. If successful, taxpayers and IRS should both benefit.

The risk-based examination model includes a number of elements, such as (1) a statistically-based model, similar to IRS' current scoring system, to assign a risk score indicating the probability of noncompliance; (2) decision support software to be used by operating divisions to centrally select returns for audit; and (3) the selection of an audit method—such as telephone contact, correspondence examination, or face-to-face audit—based on multiple factors, including projected risk, likelihood that taxes due can be collected, overall compliance objectives, and workload considerations.

As envisioned, the risk-based examination approach is data-driven; thus, the quality of the process is inherently dependent upon the quality of the data used. At the outset, the lack of a comprehensive, up-to-date taxpayer account database will hinder IRS' efforts to compile the data needed to build the model. As a result, IRS will need to rely on its fragmented information systems. Eventually, it will need accurate data on taxpayers' past compliance histories and reasons for noncompliance—data that are not currently available. Recognizing that it has much preparatory work to do, IRS does not expect to pilot its risk-based examination model for 2 to 3 years.

A New Performance Management System With Comprehensive Measures That Employees Understand Will Be Critical for Long-Term Success

No matter what new business practices IRS establishes, its successful modernization ultimately rests on whether the employees who must lead, manage, and carry out agency programs and services can deliver IRS' new mission. As we have said, an organization's human capital policies, including the performance management system it uses to manage and motivate its people, must be aligned to support its mission and expectations of itself.[11]

Historically, IRS' performance management system emphasized revenue production at the expense of customer service. IRS is developing a new system and has taken the important first step of developing a balanced set of performance measures that captures both the customer service and compliance aspects of its new mission. Given the difficulties that attend so

[11]Human Capital: A Self Assessment Checklist for Agency Leaders (GAO/GGD-99-179, Sept. 1999) and Human Capital: Key Principles From Nine Private Sector Organizations (GAO/GGD-00-28, Jan. 31, 2000).

substantial an effort, it is not surprising that we have identified problems. At a fundamental level, it is not clear to us that IRS employees fully understand that customer service and compliance can be mutually supportive. Such an understanding would be fostered by a coherent set of performance measures. However, IRS does not yet have a key measure for voluntary compliance, though it is working to develop one. Not only is such a measure important in its own right, but it would also provide important data for designing the kinds of products and services taxpayers need and for targeting compliance activities. IRS acknowledges that it will need to address these issues as it continues to develop its new system.

A Well-Understood Mission Statement Is the Foundation of a Successful Performance Management System

In broad terms, a performance management system can be viewed as a strategy for continuous improvement. Ideally, under such a system, performance measures are developed to operationalize the organization's goals and mission. These measures can be used to assess and improve the performance of organizational units and employees. Over time, the measures may be refined on the basis of feedback about how well they are working to meet current organizational goals as well as future needs. When an organization's mission is accurately captured in its performance measures, the mission and measures understood by employees, and the measures aligned with the organization's operations, agency leaders have a powerful tool for encouraging managers and employees to achieve their common goals.

Before Congress enacted the Restructuring Act, there was an uneasy feeling that IRS employees were so intent on assessing and collecting taxes, which was emphasized in IRS' old mission statement, they did not give due regard to taxpayer needs and rights. As a result, the Restructuring Act mandated several changes to IRS' performance management system, including requiring IRS to develop a new mission statement that placed a greater emphasis on meeting taxpayers' needs. Accordingly, IRS developed a new mission—to "provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all."

If IRS is to fulfill its commitment to high-quality customer service and ensuring taxpayer compliance, employees must understand the relationship between the two, as well as the performance measures that IRS plans to use to assess progress toward those goals. Given IRS' history and culture, this will not be easy. Our monitoring work suggests that the relationship between customer service and compliance may not yet be well understood by IRS frontline employees. One source of confusion may be whether the value IRS now wishes to place on customer service must compete with the value it historically has placed on compliance. The Commissioner has attempted to clarify this confusion by stating that the Restructuring Act asked IRS to do three things: (1) respect taxpayer rights and provide high-quality service, (2) ensure that taxes that are due are paid, and (3) do its work efficiently and in a quality manner. The Commissioner has said that he does not envision moving an imaginary pendulum toward any one of three things—all are important to improving IRS' overall performance.

The Commissioner has said he believes that there is a cause-and-effect relationship between improvements in customer service and increased compliance for taxpayers who do not understand the applicable tax law requirements or find IRS' processes too daunting. For example, IRS' efforts to help taxpayers understand the eligibility requirements for the Earned Income Credit would be expected to increase voluntary compliance by reducing the number of inappropriate claims taxpayers might unwittingly file.

At the same time, however, IRS should not hesitate to use the enforcement tools at its disposal to collect taxes owed by those who willfully fail to comply with the tax laws. Understanding that customer service and compliance are not competing, but complementary, values will take time and an ample amount of clear communication and training.

Balanced Measures Are Key to Achieving IRS' Mission

To better balance the goals of providing high-quality customer service and ensuring compliance, IRS has turned to a system of "balanced measures." Our work on leading private organizations shows that developing and using a coherent set of performance measures is one key factor in an organization's ability to achieve its mission. Properly used, balanced performance measures help organizations assess progress toward achieving strategic goals and improving operations. When aligned with an employee evaluation system, the measures can serve as a powerful tool for encouraging employees at all levels to work together toward a common end.

The concept of balanced measures originated in the private sector among industry leaders seeking to strengthen their companies' long-term financial performance. The companies recognized that placing too much emphasis on short-term financial objectives actually could be detrimental to success if organizational units and employees neglected other factors, such as customer satisfaction, that drive financial success over the long term. By developing and using a more comprehensive set of measures, including measures of key aspects of products and services (e.g., convenience and quality) that their customers valued, the companies hoped to earn the kind of customer satisfaction and loyalty necessary for lasting success.

Under the balanced measures approach, organizations develop and use a comprehensive suite of measures to address strategic objectives in four basic areas: financial impacts, customer needs and service, internal processes, and employee development and growth. The underlying premise is not only that companies need to perform well in each of these areas, but also that these areas are interrelated and mutually supportive. For example, providing better training to employees should lead to improved customer service and ultimately have a positive impact on the financial bottom line.

IRS has recognized that a system of balanced measures might work well to help achieve its new mission, and it has become one of the leaders in adapting the concept to the federal sector. Like the aforementioned private sector companies, IRS had been focusing heavily on indicators related to revenue production, and it took steps so that its performance management system supported this emphasis. To revise its performance management system to better reflect its new mission, IRS is developing a new suite of measures to address three strategic goals: service to each taxpayer, service to all taxpayers, and productivity through a quality work environment. For each strategic goal, IRS is developing a discrete corresponding measure--customer satisfaction, business results, and employee satisfaction, respectively.

IRS Lacks a Key Measure for Voluntary Compliance

While IRS has made some progress in developing the measures, it does not yet have a complete set of balanced measures. A complete set should help foster a full understanding that customer service and compliance can be mutually supportive. However, IRS does not have a key business results measure for voluntary compliance, but is working to develop one. Although it will be difficult to develop and may take several years, such a measure is essential for a number of reasons. Regularly measuring progress in voluntary compliance is important to gauge whether IRS is accomplishing a key aspect of its mission. Also, the information about taxpayers to be generated as part of measuring voluntary compliance should help IRS identify the characteristics of taxpayers who have difficulty understanding and meeting their tax responsibilities. IRS must better understand the problems of noncompliant taxpayers and the sources of their problems so that it can develop better products and services to meet the needs of those taxpayers. Finally, the data IRS would develop as part of any voluntary compliance measurement effort should allow IRS to better direct its enforcement resources to those taxpayers that willfully flaunt the tax laws. Eventually, once a complete set of balanced measures is developed, IRS should be able to assess whether improved customer service contributes to an increase in voluntary compliance.

IRS recognizes that it needs reliable and meaningful measures of voluntary compliance. In fact, for over 30 years—until the early 1990s—IRS had measures of voluntary compliance that were developed by periodically auditing random samples of taxpayers' returns. In 1995, IRS formally canceled its plans to continue the random audits because of concerns that it was costly and overly intrusive on compliant taxpayers. The Commissioner has said that in the absence of measures of voluntary compliance, informed decisions on strategies to encourage voluntary compliance would be impossible, and the tendency to fall back on enforcement revenue as a measure of performance might reoccur. Using data from the audits that it does conduct could provide IRS with some compliance data, but because these returns are not randomly selected, the audit results would not provide IRS with the data it needs to determine whether its customer service and compliance activities are supporting its mission.

IRS' Office of Program Evaluation and Risk Analyses is working with a contractor to determine how to measure compliance and develop a compliance strategy. However, that effort is still in its early stages. We plan to continue to monitor IRS' efforts in this regard as part of our ongoing work on IRS' balanced performance measures.

IRS Continues to Face Formidable Systems Modernization Challenges

Revamping its time-worn tax processing systems is a critical aspect of modernization. However, IRS must overcome several serious management challenges in its current systems modernization effort before it will be ready to build modernized systems. In particular, IRS must (1) complete, enforce, and maintain an enterprise systems architecture,[12] (2) establish and implement sound investment management processes to ensure only incremental, cost-effective system investments are made, and (3) impose software acquisition and life cycle management[13] discipline on each system investment it undertakes.

[12]A systems architecture defines the critical attributes of an agency's collection of information systems in both business/functional and technical/physical terms.

[13]A systems life cycle defines the policies, processes, and products for managing information technology investments from conception, development, and deployment through maintenance and support.

The challenges that IRS faces today are generally the same ones we reported on in 1995, when we identified pervasive management and technical weaknesses with what was then known as Tax Systems Modernization and made specific recommendations to correct them.[14] Since then, we have reviewed and reported on IRS' actions to address our recommendations and strengthen its modernization capability, such as issuing its May 1997 Modernization Blueprint.[15] We have also made additional recommendations in light of IRS' actions.[16]

IRS awarded its Prime Systems Integration Services (PRIME) contract for systems modernization in late 1998. In mid-1999, IRS submitted its first expenditure plan,[17] seeking to spend about $35 million from its Information Technology Investments Account[18] for modernization initiatives through October 31, 1999. We reported that the plan was an appropriate first step and was consistent with congressional direction and our past recommendations.[19] We also said that the key to success was implementing it effectively.

IRS was unable to finalize its second expenditure plan before the original $35 million was obligated, and in December 1999, it requested approval to obligate $33 million as a "stopgap" funding measure until the next expenditure plan was submitted. In briefings to the relevant appropriations subcommittees and IRS on our review of the "stopgap" request, we reported our concerns about (1) the lack of progress in completing and implementing its enterprise systems architecture and systems life cycle and (2) the risks associated with IRS' plans to develop selected systems without these critical management controls in place. In

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[14] Tax Systems Modernization: Management and Technical Weaknesses Must Be Corrected If Modernization Is To Succeed (GAO/AIMD-95-156, July 26, 1995).

[15] Tax Systems Modernization: Blueprint Is a Good Start But Not Yet Sufficiently Complete to Build or Acquire Systems (GAO/AIMD/GGD-98-54, Feb. 24, 1998).

[16] For example, see Tax Systems Modernization: Actions Underway But IRS Has Not Yet Corrected Management and Technical Weaknesses (GAO/AIMD-96-106, June 7, 1996) and GAO/AIMD/GGD-98-54.

[17] Pursuant to the fiscal year 1998 Treasury and General Government Appropriations Act (P.L. 105-61) and the fiscal year 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act (P.L. 105-277), IRS and the Department of the Treasury are required to submit to the Congress for approval, an expenditure plan that meets certain conditions (e.g., implements IRS' Modernization Blueprint, meets IRS system life cycle management program requirements) before IRS can obligate funds from the Service's Information Technology Investments Account (ITIA).

[18] Established in IRS' fiscal year 1998 appropriations act, this multiyear capital account is to fund IRS systems modernization initiatives.

[19] Tax Systems Modernization: Results of IRS' Initial Expenditure Plan (GAO/AIMD/GGD-99-206, June 15, 1999).

approving IRS' $33 million plan, the appropriation subcommittees directed IRS to, among other things, (1) expedite completion and implementation of the enterprise architecture and system life cycle methodology and (2) explain in future expenditure plans how IRS plans to manage the risk of performing detailed design or development work if the architecture is not completed or the life cycle is not implemented.

In response to these and other concerns raised by the appropriations committees, the Office of Management and Budget, and GAO, IRS reassessed and restructured its modernization program. It scaled back its new system development efforts, recognizing that it must first put in place the requisite modernization management capability, including developing its enterprise architecture and implementing its life cycle methodology, which IRS refers to as its Enterprise Life Cycle.

In early March 2000, IRS submitted to Congress its second expenditure plan that (1) sought approval to obligate an additional $176 million, and (2) reported on its progress in implementing the first plan. With respect to IRS' progress, we briefed the relevant appropriation subcommittee staffs that IRS' performance on the modernization over the last 9 months fell far short of the commitments that IRS had made. We concluded that IRS had not corrected its longstanding management and technical weaknesses and was still not ready to build major, software-intensive systems. In the March plan, IRS included initiatives intended to address these longstanding weaknesses. For example, by September 30, 2000, IRS plans to issue an update to its Modernization Blueprint to reflect changes in light of technology advances and IRS' reorganization. In addition, IRS plans to have its Enterprise Life Cycle implemented by June 30, 2000.

We will continue to designate IRS' systems modernization as a high-risk and "challenged" federal program until IRS has corrected its management and technical weaknesses, thus establishing effective controls for building modernized systems.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions you or other Members of the Subcommittee may have.

Contact and Acknowledgments

For future contacts regarding this testimony, please contact Margaret T. Wrightson, at 202-512-9110. Ralph Block, Jonda VanPelt, Sherrie Russ, Deborah Junod, Gary Mountjoy, Agnes Spruill, and Tim Hopkins made key contributions to this testimony.

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