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Highlights

Highlights of GAO-11-587, a report to the Ranking Member, Subcommittee on Financial Services and General Government, Committee on Appropriations, House of Representatives

July 2011

INVESTMENT MANAGEMENT

IRS Has a Strong Oversight Process but Needs to Improve How It Continues Funding Ongoing Investments

Why GAO Did This Study

The Internal Revenue Service (IRS) relies extensively on information technology (IT) to carry out its mission. For fiscal year 2012, IRS requested about $2.67 billion for IT. Given the size and significance of these investments, GAO was asked to evaluate IRS's capabilities for managing its IT investments. To address this objective, GAO reviewed IRS policies and procedures and assessed them using GAO's IT investment management (ITIM) framework and associated methodology, focusing on the framework's stage relevant to building a foundation for investment management (Stage 2). GAO also interviewed officials responsible for IRS's investment management process.

What GAO Recommends

GAO is making recommendations to the Commissioner of Internal Revenue, including assigning responsibilities for implementing the investment management process to optimize decision making, and defining and implementing a process for deciding whether to continue funding ongoing projects. In commenting on a draft of this report, IRS concurred with GAO's recommendations.

What GAO Found

IRS has established most of the foundational practices needed to manage its IT investments. Specifically, the agency has executed 30 of the 38 key practices identified by the ITIM framework as foundational for successful IT investment management, including all the practices needed to provide investment oversight and capture investment information (see table below). For example, IRS has defined and implemented a tiered governance structure to oversee its projects and has several mechanisms for the boards to regularly review IT investments' performance. The agency has also established procedures for identifying and collecting information about its investments to inform decision making.

Despite these strengths, IRS can improve its investment management process in two key areas. First, IRS does not have an enterprisewide IT investment board with sufficient representation from IT and business units that is responsible for the entire investment management process, and as a result may not be optimizing its decision-making process. Specifically, project selection is carried out by a team of two senior executives representing IRS's deputy commissioners, rather than a larger body composed of representatives from both IT and business units, and as a result, the perspective and expertise represented are not as broad as they would be with a larger board. Further, because the responsibility for the select and control phases lies with different groups rather than a single body, results of one process are not used to inform decisions made in the other, as would happen with a single board responsible for implementing all phases of the investment management process. IRS stated that it plans to address this coordination issue. Second, IRS does not have a process, including defined criteria, for reselecting (i.e., deciding whether to continue funding) ongoing projects. Given the size of its IT budget, IRS could be spending millions of dollars with no assurance that the funds are being used wisely.

Summary of Results for Investment Foundation Critical Processes and Key Practices

Critical process	Key practices executed	Total required by critical process	Percentage of key practices executed
Instituting the investment board	6	8	75
Meeting business needs	5	7	71
Selecting an investment	6	10	60
Providing investment oversight	7	7	100
Capturing investment information	6	6	100
Total	**30**	**38**	**79**

Source: GAO analysis of IRS data.

View GAO-11-587 or key components.
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