



Treasury Inspector General for Tax Administration

ANNUAL ASSESSMENT OF THE BUSINESS SYSTEMS MODERNIZATION PROGRAM

Issued on August 24, 2007

Highlights

Highlights of Report Number: 2007-20-121 to the Internal Revenue Service Chief Information Officer.

IMPACT ON TAXPAYERS

The Business Systems Modernization (Modernization) program, which began in 1999, is a complex effort to modernize the Internal Revenue Service's (IRS) technology and related business processes. According to the IRS, this effort will involve integrating thousands of hardware and software components. All of this must be done while replacing outdated technology and maintaining the current tax system. In Calendar Year 2006, the IRS continued with its delivery of Modernization project releases that provide significant benefits to taxpayers. However, this report, similar to TIGTA annual assessments of the Modernization program since Fiscal Year 2002, discusses four specific challenges the IRS faces in delivering a successful modernization effort. TIGTA continues to believe the eventual success of the modernization effort in delivering the level of service taxpayers expect will depend on how well the IRS addresses these challenges.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of TIGTA's Fiscal Year 2007 audit plan for reviews of the IRS' modernization efforts. The overall objective of this review was to assess the progress of the Modernization program for Fiscal Year 2007, as required by the IRS Restructuring and Reform Act of 1998.

WHAT TIGTA FOUND

The Modernization program is in its ninth year and has received approximately \$2.3 billion for contractor services. Additionally, the IRS had spent \$220 million through Fiscal Year 2006 and plans to spend an additional \$45 million in Fiscal Year 2007 to manage the Modernization program.

According to the IRS' original plan, the Modernization program would be near the halfway point by Calendar Year 2007. However, due to receiving less funding than initially anticipated and having

difficulties in managing contractor work, the IRS has not completed many Modernization projects as planned.

In Calendar Year 2006, the IRS continued with its delivery of Modernization project releases. The Modernization program deployed new releases for the Customer Account Data Engine, Modernized e-File, and Filing Payment and Compliance projects and began Account Management Services project development.

Although the IRS has made advances in its modernization effort, it has not maintained anticipated progress. Since Fiscal Year 2002, TIGTA's Modernization program annual assessments have cited four specific challenges the IRS needs to overcome to deliver a successful modernization effort. Because of decreased funding and difficulties in managing contractor work, these challenges continue to exist. The challenges are to: 1) implement planned improvements in key management processes and commit necessary resources to enable success, 2) manage the increasing complexity and risks of the Modernization program, 3) maintain the continuity and strategic direction with experienced leadership, and 4) ensure contractor performance and accountability are effectively managed. Further, the IRS reported material weaknesses related to the Modernization program's system of management controls.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Chief Information Officer continue to address Modernization program corrective actions from TIGTA and Government Accountability Office reports through the *Highest Priority Initiatives* process. By focusing corrective action efforts through this process, the IRS can begin to achieve resolution of the challenges identified in this report and subsequently address downgrading the Modernization material weakness.

In response to the report, the Chief Information Officer agreed with the recommendation and indicated the IRS plans to continue to execute the *Highest Priority Initiatives* process and include Modernization program corrective actions from TIGTA and Government Accountability Office reports. The IRS plans to continue to deliver monthly *Highest Priority Initiatives* reports until it is able to downgrade the Modernization material weakness.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200720121fr.pdf>

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