



*Annual Assessment of the  
Business Systems Modernization Program*

**August 24, 2007**

**Reference Number: 2007-20-121**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

**Redaction Legend:**

3(d) = Identifying Information - Other Identifying Information of an Individual or Individuals

---

*Phone Number* | 202-927-7037

*Email Address* | [Bonnie.Heald@tigta.treas.gov](mailto:Bonnie.Heald@tigta.treas.gov)

*Web Site* | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 24, 2007

**MEMORANDUM FOR CHIEF INFORMATION OFFICER**

**FROM:** *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Annual Assessment of the Business Systems  
Modernization Program (Audit # 200720003)

This report presents the results of our annual assessment of the Business Systems Modernization (Modernization) program. The overall objective of this review was to assess the progress of the Internal Revenue Service's (IRS) Modernization program for Fiscal Year 2007, as required by the IRS Restructuring and Reform Act of 1998.<sup>1</sup>

*Impact on the Taxpayer*

The Modernization program, which began in 1999, is a complex effort to modernize the 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 All of this must be done while replacing outdated technology and maintaining the current tax system.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 our annual assessments of the Modernization program since Fiscal Year 2002, discusses four specific challenges the IRS faces in delivering a successful modernization effort. We continue 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.

---

<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



## Annual Assessment of the Business Systems Modernization Program

### Synopsis

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. For example, the Customer Account Data Engine,<sup>2</sup> the foundation of the Modernization program, was originally planned to replace the complete Individual Master File in 2005. The current estimated completion date for this replacement is 2012. The IRS Restructuring and Reform Act of 1998 set a long-range goal for the IRS to have at least 80 percent of all tax and information returns filed electronically by 2007. As of April 6, 2007, 69 percent of individual tax returns had been filed electronically.

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 development of the Account Management Services project. In September 2006, the IRS submitted to Congress a request to add \$45 million to the Business Systems Modernization Expenditure Plan and

***The Modernization program has continued to deploy new project application releases, improved its method to account for its funding, and enhanced its program management and strategy.***

Information Technology Investments account for Modernization program employee salaries. Accounting for IRS labor costs associated with the Modernization program will allow for more accurate reporting of program and project costs to outside stakeholders and will provide reliable data for use in future budget considerations. In addition, the Modernization and Information Technology Services organization's management of the *Highest Priority Initiatives* through the Enterprise Services organization is improving its service to customers. These initiatives included transitioning the Modernization program integrator role to the IRS.

Although the IRS has made advances in its modernization effort, it has not maintained anticipated progress. Since Fiscal Year 2002, our 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:

---

<sup>2</sup> See Appendix X for a glossary of terms.



## *Annual Assessment of the Business Systems Modernization Program*

---

- 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.
- 4) Ensure contractor performance and accountability are effectively managed.

In Fiscal Year 2006, the IRS reported users should limit reliance on its system of management controls because it has remaining material weaknesses as part of the Federal Managers' Financial Integrity Act of 1982<sup>3</sup> reporting requirements. An October 25, 2006, memorandum from the IRS Commissioner stated the IRS completed the actions identified in the Modernization material weakness action plan that was developed in response to the initial identification of the material weakness in Fiscal Year 1995. It is continuing to gather supporting evidence to show sustained performance. However, the Modernization material weakness action plan has not been updated to include weaknesses subsequently reported since 2003 by the Treasury Inspector General for Tax Administration, the Government Accountability Office, and IRS studies. Although the Modernization and Information Technology Services organization has taken actions to improve its effectiveness and efficiency, the Modernization material weakness should not be downgraded until the four challenges have been adequately resolved.

### *Recommendation*

We recommended the Chief Information Officer continue to address Modernization program corrective actions from Treasury Inspector General for Tax Administration 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.

### *Response*

The Chief Information Officer agreed with our recommendation. The IRS will continue to execute the *Highest Priority Initiatives* process and include Modernization program corrective actions from Treasury Inspector General for Tax Administration and Government Accountability Office reports. The IRS will continue to deliver monthly *Highest Priority Initiatives* reports until it is able to downgrade the Modernization material weakness. Management's complete response to the draft report is included as Appendix XI.

---

<sup>3</sup> 31 U.S.C. Sections 1105, 1113, 3512 (2000).



*Annual Assessment of the  
Business Systems Modernization Program*

---

Copies of this report are also being sent to the IRS managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

*Table of Contents*

**Background** .....Page 1

**Results of Review** .....Page 3

    The Internal Revenue Service Continues to Move Forward With  
    the Modernization Program .....Page 3

    Although the Internal Revenue Service Has Made Advances in Its  
    Modernization Effort, It Has Not Maintained Anticipated Progress .....Page 7

    The Modernization Program Should Continue to Be Designated  
    As a Material Weakness..... Page 13

Recommendation 1:.....Page 15

**Appendices**

    Appendix I – Detailed Objective, Scope, and Methodology .....Page 16

    Appendix II – Major Contributors to This Report .....Page 17

    Appendix III – Report Distribution List .....Page 18

    Appendix IV – Modernization Projects and Status.....Page 19

    Appendix V – Enterprise Life Cycle Overview.....Page 29

    Appendix VI – Modernization Program Funding Timeline .....Page 33

    Appendix VII – Highest Priority Initiatives.....Page 37

    Appendix VIII – Open Recommendations Related to Modernization  
    Program Material Weaknesses.....Page 39

    Appendix IX – Recent Treasury Inspector General for Tax Administration  
    Reports on the Internal Revenue Service’s Modernization Program.....Page 44

    Appendix X – Glossary of Terms .....Page 47

    Appendix XI – Management’s Response to the Draft Report .....Page 51



*Annual Assessment of the  
Business Systems Modernization Program*

---

*Abbreviations*

CADE	Customer Account Data Engine
<i>e-file</i>	Electronic filing
HPI	Highest Priority Initiatives
IRS	Internal Revenue Service
MITS	Modernization and Information Technology Services
TIGTA	Treasury Inspector General for Tax Administration



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

## *Background*

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998<sup>1</sup> requires the Treasury Inspector General for Tax Administration (TIGTA) to annually evaluate the adequacy and security of the IRS' information technology. This report provides our assessment of the IRS Business Systems Modernization (Modernization) program for Fiscal Year 2007.

The Modernization program, which began in 1999, is a complex effort to modernize the 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.

***The IRS planned to complete the Modernization program in 10 years to 15 years at a cost of approximately \$8 billion.***

To successfully deliver the Modernization program, the IRS planned to:

- Partner with an experienced contractor that would assist in the management and delivery of the program.
- Develop and implement a methodology to follow in planning, developing, implementing, and deploying Modernization program results (hardware, software, and business practices).
- Implement a mature management and governance process.
- Deliver approximately 13 modernized information systems. See Appendix IV for a table presenting the Modernization projects and their status.
- Meet the IRS Restructuring and Reform Act of 1998 requirement of electronically filing 80 percent of tax and information returns by Calendar Year 2007.

In December 1998, the IRS hired the Computer Sciences Corporation as its PRIME contractor<sup>2</sup> for the Modernization program. It relied on the PRIME contractor to act as a systems integrator to find and manage the best expertise and technical resources to achieve its organizational goals. In addition, the Modernization program implemented the Enterprise Life Cycle<sup>3</sup> to plan and manage work throughout the Modernization program.

---

<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>2</sup> See Appendix X for a glossary of terms.

<sup>3</sup> Appendix V presents an overview of the Enterprise Life Cycle.



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

The Modernization program is in its ninth year and has received approximately \$2.3 billion for contractor services. 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.<sup>4</sup>

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. For example, the Customer Account Data Engine (CADE), the foundation of the Modernization program, was originally planned to replace the complete Individual Master File in 2005. The current estimated completion date for this replacement is 2012. In addition, the IRS Restructuring and Reform Act of 1998 set a long-range goal for the IRS to have at least 80 percent of all tax and information returns filed electronically by 2007. As of April 6, 2007, 69 percent of individual tax returns had been filed electronically.

***The Modernization program is in its ninth year and has received approximately \$2.3 billion for contractor services.***

This review was performed at the TIGTA office in Laguna Niguel, California. The information presented in this report is derived from current and previous TIGTA, Government Accountability Office, and IRS Oversight Board reports and discussions with appropriate Modernization program officials.

Compilation of information for this report was conducted during the period January through May 2007. Previous audits and our limited analyses were conducted in accordance with *Government Accounting Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

---

<sup>4</sup> Appendix VI presents the Modernization program funding timeline.



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

*Results of Review*

***The Internal Revenue Service Continues to Move Forward With the Modernization Program***

In Calendar Year 2006, the IRS continued with its delivery of Modernization project releases. The Modernization program deployed new releases for the CADE, Modernized e-File, and Filing Payment and Compliance projects and began development of the Account Management Services project. From January 2006 through May 4, 2007, the Modernization program:

***The Modernization program has continued to deploy new project application releases, improved its method to account for its funding, and enhanced its program management and strategy.***

- Introduced new CADE capabilities for the 2006 Filing Season. The Modernization program's CADE supports faster refunds to taxpayers by issuing direct deposit refunds between 1 day and 7 days faster and paper refunds 4 days to 13 days faster than refunds generated by the current processing system. In Calendar Year 2006, the CADE posted more than 7.3 million returns (a greater than 400 percent increase over the previous year) and issued 7 million refunds totaling in excess of \$3.4 billion. The CADE improved taxpayer service by allowing access to account information up to 7 days sooner, thus increasing the likelihood of single telephone call resolution, faster issue detection, and more timely account settlement. In Calendar Year 2007, the IRS reported that the CADE had posted approximately 11 million returns as of May 4, 2007.
- Implemented Release 3.2 of its Modernized e-File project, which enabled the filing of both Federal and State returns concurrently for corporations (U.S. Corporation Income Tax Return (Form 1120) or U.S. Income Tax Return for an S Corporation (Form 1120S)) and tax-exempt organizations (Return of Organization Exempt From Income Tax (Form 990)).

In Calendar Year 2006, the Modernized e-File project supported an electronic filing mandate for certain large corporations and tax-exempt entities and accepted more than 550,000 corporate returns. Tax returns for large corporations typically include hundreds, or even thousands, of pages. Receiving the data electronically improves the accuracy of the tax returns, reduces the volume of paper tax returns submitted to IRS campuses, and accelerates the examination process by having all tax return data available electronically. Electronic capture of return information enables the IRS to quickly deliver the data to analysts and agents for compliance risk assessment and action.



---

## *Annual Assessment of the Business Systems Modernization Program*

---

The IRS has expanded the Modernized e-File system's taxpayer base in Calendar Year 2007 to include partnership income tax returns (U.S. Return of Partnership Income (Form 1065)), eventually enabling nearly 2.7 million small business and self-employed taxpayers to benefit from electronic filing. The IRS is in the planning stage to migrate the individual tax return (U.S. Individual Income Tax Return (Form 1040)) to the Modernized e-File system. It plans to implement the initial deployment of Modernized e-File Form 1040 system capability in January 2009 and plans to complete Modernized e-File Form 1040 system capability in January 2011.

- Implemented the Filing Payment and Compliance project software. This project analyzes tax collection cases and separates cases that require direct IRS involvement from those that can be handled by Private Collection Agencies. The introduction of Private Collection Agencies is expected to assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' work capacity, approximately 250,000 cases per year. This project also is expected to help eliminate backlogs in the large number of outstanding tax liabilities, which have grown by 118 percent over the last 12 years, thereby increasing tax revenue and reducing the tax gap.
- Began the development of the Account Management Services project. This project, in conjunction with the CADE, will enable the IRS to break the weekly update system paradigm that has existed since the 1960s, enabling the IRS to begin to provide settlement of account information within 1 day, similar to what a person expects from major private-sector financial institutions. The first release of the Account Management Services is due in the summer of 2007. This release plans to support instant address change capability in the CADE and enable faster notice processing for taxpayers with mathematical errors on their tax returns.

### **The IRS has made improvements in its method to account for Modernization program funding and expenditures by including associated IRS labor costs**

The IRS budgets for Modernization program hardware and contractor costs in the Business Systems Modernization Expenditure Plan and funds the costs through the Information Technology Investments account. Labor costs associated with the Modernization program are budgeted and funded through the Modernization and Information Technology Services (MITS) organization's budget.



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

In November 2001, we reported the Modernization program did not accurately account for IRS costs associated with Modernization projects.<sup>5</sup> While the IRS tracked and monitored contractor costs, it had not established a means to accurately track and report the IRS labor costs associated with Modernization projects.

With implementation of its new human resources system (HR Connect) and accounting system (the Integrated Financial System), the IRS has been able to begin tracking its labor costs associated with the Modernization program. These systems allow the IRS to track costs to individual projects as well as to general Modernization program support, such as requirements management and project testing.

***Accounting for IRS labor costs associated with the Modernization program will allow the IRS to properly budget and fund all related Modernization program costs.***

In September 2006, the IRS submitted to Congress a request to change its process to budget and account for Modernization program labor costs. The IRS requested that Congress add \$45 million to the Business Systems Modernization Expenditure Plan and Information Technology Investments account for Modernization program employee salaries.

Accounting for IRS labor costs associated with the Modernization program will allow for more accurate reporting of Modernization program and project costs to outside stakeholders and will provide reliable data for use in future budget considerations. In addition, Modernization program management will be able to include these costs in important internal progress measurements, such as earned value management and return on investment.

***The Modernization program has begun reporting informative assessments of variances between planned and actual project cost and schedule delivery***

The Business Systems Modernization Expenditure Plan includes project status for in-progress and recently delivered Modernization projects. This status includes an assessment of project progress and accomplishments in terms of meeting cost and schedule estimates. The IRS presents variances against original cost and schedule estimates and reports variances associated with a project's release delivery.

The Business Systems Modernization Expenditure Plan project status presentation acknowledges circumstances where estimates exceed available budget funding and treats any use of additional funds as a variance. The status is presented in tables showing the variances in both day and dollar units, as well as percentages. The IRS is in the process of developing a method to assess progress and accomplishments in meeting planned delivery of project capabilities.

---

<sup>5</sup> *Modernization Project Teams Need to Follow Key Systems Development Processes* (Reference Number 2002-20-025, dated November 2001).



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

**The IRS began implementing the Information Technology Modernization Vision and Strategy**

In October 2006, the IRS issued the Information Technology Modernization Vision and Strategy, which describes its business priorities for the next 5 years with particular emphasis on informing and guiding the definition of investment priorities for Fiscal Years 2007 through 2009. The initial emphasis of the investment priorities is on tax administration at the frontline and on enabling technical capabilities provided by the infrastructure.

This strategy aims to optimize management capacity, provide a direction for managing program costs, identify the ability to use common information technology services throughout the IRS, and deliver business value in smaller and more frequent releases. The IRS plans to reuse existing systems where possible and develop new projects only when necessary.

**The IRS is continuing to identify and address its most significant issues and is developing its organization to improve services to customers**

The MITS organization is continuing to address significant challenges and program barriers by identifying and implementing action plans. It is accomplishing this by addressing the *Highest Priority Initiatives*, a program of continual process improvement with executive-level oversight.<sup>6</sup>

The IRS is also continuing to develop its Enterprise Services organization. In Calendar Year 2004, the IRS began investigating industry best practices for organizing certain information technology services common to all projects under development. In an effort to improve services provided to internal customers, the MITS organization began consolidating several existing functions and offices to form the new Enterprise Services organization under a newly appointed Associate Chief Information Officer. With a Fiscal Year 2007 estimated budget of \$85.9 million, the Enterprise Services organization is structured into 2 functions: Business Integration and Systems Integration. This restructuring of multiple MITS organization functions into the Enterprise Services organization included 667 IRS employees as of May 1, 2007.

***The MITS organization's management of its Highest Priority Initiatives through the Enterprise Services organization is improving its service to customers. These issues included successful implementation of initiatives to transition the Modernization program integrator role to the IRS.***

In Calendar Year 2006, the IRS continued work to assume the role as integrator for the Modernization program effort. In January 2005, due to budget reductions and concerns about the adequacy of the PRIME contractor's performance, the IRS began transitioning numerous activities from the PRIME contractor and taking over the primary role as the systems integrator

---

<sup>6</sup> Appendix VII presents the *Highest Priority Initiatives* identified by the IRS and their status as of April 2007.



---

## *Annual Assessment of the Business Systems Modernization Program*

---

for all projects. The systems integrator role is a significant operational change for the IRS, requiring new procedures, personnel, and offices. The IRS has successfully taken the first steps to transition modernization activities away from the PRIME contractor and is taking additional actions to build on these initial steps.

### ***Although the Internal Revenue Service Has Made Advances in Its Modernization Effort, It Has Not Maintained Anticipated Progress***

Since Fiscal Year 2002, our 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.
- 4) Ensure contractor performance and accountability are effectively managed.

### **Implement planned improvements in key management processes and commit necessary resources to enable success**

The MITS organization has taken steps to assume the integrator role of the Modernization program. It is in the process of transitioning these activities and developing mature management capabilities and repeatable processes. During Calendar Year 2006, we reported the need for management process improvements in the following areas:

- The IRS has not developed performance measures for all of the transitioned activities that can be measured. The Transition Management Performance Measurement Process did not provide a means to measure the interim status of the Transition Management process and its resultant products.
- The Transition Management Office can further improve transition efforts by ensuring project readiness activities adhere to guidance. The Integrated Financial System project did not follow guidance that required it to validate and control readiness activities to help ensure completion of the Transition Management Plan.
- To ensure the Federally Funded Research and Development Corporation continues to meet the IRS' needs, the IRS should more effectively monitor the contractor's performance in terms of timeliness, quality, and cost. For example, the IRS did not prepare a Task Order Monitoring Plan, a practice commonly employed for modernization task orders, for this contractor's task orders. A Task Order Monitoring Plan describes the



---

## *Annual Assessment of the Business Systems Modernization Program*

---

various Federal Government roles and responsibilities for monitoring and documenting the contractor's performance against timeliness, quality, and cost goals.

- Post Implementation Reviews assess the effect of a new information technology project by comparing and evaluating actual project results to estimates of cost, schedule, performance, and mission improvement outcomes. Federal law,<sup>7</sup> executive branch guidance,<sup>8</sup> and the IRS Enterprise Life Cycle establish the need to perform Post Implementation Reviews after project completion and after completion of major project releases. However, the IRS has completed only one Post Implementation Review since the Modernization program began. Although existing procedures provide adequate directions for performing Post Implementation Reviews, the Program Performance Management office has not scheduled Reviews for all projects that have exited milestones or for deployed releases. The Chief Information Officer stated the MITS organization does not have the resources to perform Post Implementation Reviews, and it is uncertain when it will begin performing them.
- The Enterprise Services organization needs to further define its missions and goals, validate staffing assignments, and create performance measures. In Calendar Year 2005, the MITS organization began consolidating several existing functions and offices to form the new Enterprise Services organization under a newly appointed Associate Chief Information Officer, in an effort to improve services provided to internal customers. However, the overall mission, purpose, and goals of the Enterprise Services organization at the program level need to be defined and detailed to provide the necessary direction and oversight to the Enterprise Services organization functions and their offices.

***The key focuses of Post Implementation Reviews are to assess the effect of new projects on the IRS mission, customers, workforce, and technology.***

Without consistent implementation of mature management capabilities and defined, repeatable processes, Modernization projects experienced delays and increased development costs. These delays and increased costs have contributed to the Modernization program delivering projects and releases with fewer capabilities than originally planned. Table 1 shows project cost and schedule variances incurred on Modernization project releases from January 2006 through May 2007, as reported by the IRS.

---

<sup>7</sup> Clinger-Cohen Act of 1996 (Federal Acquisition Reform Act of 1996) (Information Technology Management Reform Act of 1996), Pub. L. No. 104-106, 110 Stat. 642 (codified in scattered sections of 5 U.S.C., 5 U.S.C. app., 10 U.S.C., 15 U.S.C., 16 U.S.C., 18 U.S.C., 22 U.S.C., 28 U.S.C., 29 U.S.C., 31 U.S.C., 38 U.S.C., 40 U.S.C., 41 U.S.C., 42 U.S.C., 44 U.S.C., 49 U.S.C., 50 U.S.C.).

<sup>8</sup> *Management of Federal Information Resources* (Office of Management and Budget Circular No. A-130, dated March 2006).



*Annual Assessment of the  
Business Systems Modernization Program*

**Table 1: Modernization Project Cost and Schedule Variance Summary**

Release	Current Finish Date	Milestone	Cost Variance (Dollars)	Cost Variance (Percent)	Schedule Variance (Days)	Schedule Variance (Percent)
<b>CADE</b>						
1.3.2	January 17, 2006		(\$713,000)	-3%	10	3%
2.1	August 25, 2006	4	\$4,190,000	15%	11	7%
2.2	May 28, 2007	4	\$779,000	3%	101	54%
3	November 20, 2006	2-3	\$0	0%	0	0%
<b>Modernized e-File</b>						
3.2	March 22, 2006	4-5	\$8,550,000	36%	-7	-2%
4	April 24, 2007	4-5	\$750,000	3%	16	5%
5	March 5, 2007	3	\$200,000	4%	30	41%
<b>Account Management Services</b>						
1.1	January 31, 2007	2-3	\$0	0%	0	0%
1.1	April 30, 2007	4a	\$0	0%	0	0%
1.1	September 27, 2007	4b	\$0	0%	0	0%
1.2	March 13, 2007	2-3	\$0	0%	0	0%
<b>Filing and Payment Compliance</b>						
1.1	January 31, 2007	3-5	\$484,000	6%	0	0%
1.2	February 28, 2006	3	(\$7,536,000)	-46%	0	0%
1.2	July 10, 2006	4a	\$0	0%	5	6%
1.2	January 19, 2007	4b	(\$340,000)	-3%	-8	-6%

Source: IRS Applications Development organization – Resources Management office.

**Manage the increasing complexity and risks of the Modernization program**

TIGTA audit reports issued from April 2006 through May 2007 stated that the MITS organization needs to comply with its Enterprise Life Cycle project development guidance. Compliance with project milestone development and exit criteria will help the IRS ensure the contractor meets its responsibilities.

We reported Enterprise Life Cycle compliance gaps on the CADE and Modernized e-File projects and reported the following examples of Modernization project teams not complying with Enterprise Life Cycle guidance:

- Adequate procedures were not in place to ensure all CADE Release 1.3 requirements were timely controlled. When we requested a complete list of Release 1.3 requirements, the project team and the PRIME contractor needed more than 3 months to assemble and provide us with all information relating to the requirements.



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

- CADE Release 2.1 deferred requirements to later releases because all of the work related to the release requirements was not identified during the Enterprise Life Cycle Preliminary Design Phase of the project.
- During the development and deployment of Modernized e-File Release 3.2 in Calendar Year 2006, the project team could not complete plans for release requirements due to funding uncertainties and the uncertainty of the release content and schedule. The project team experienced further difficulties because of extended requirements development, deferrals, and additions. These complexities affected project management's ability to use fixed-price contracts, which provide the highest level of assurance that the Federal Government receives the defined services for the agreed-upon price.
- The IRS did not ensure completed projects and releases were reviewed after implementation, as required by the Enterprise Life Cycle.

***Effective requirements development and management will allow for more effective and efficient project development.***

In addition, the IRS has experienced similar issues with non-Modernization projects such as the Electronic Fraud Detection System. Our initial review of the Electronic Fraud Detection System found that executive oversight was not adequate, risks were not effectively managed, contractor performance was not effectively monitored, and performance-based contracts were not used. During our followup review of the Electronic Fraud Detection System, we found that executive oversight, management of project risks, and contractor performance had improved.

Inconsistent compliance with Enterprise Life Cycle project development controls has contributed to delays in project and release deliveries, increased development costs, and reduced functionality. Application of these controls will become increasingly important as the IRS expands them to both Modernization and non-Modernization projects.

**Maintain the continuity and strategic direction with experienced leadership**

Since our last Modernization annual assessment in April 2006, the MITS organization has undergone significant changes. It completed a major reconfiguration of systems and application development offices and has consolidated all systems development (both Modernization and non-Modernization projects) under one office, the Applications Development organization. This organization was created to allow the MITS organization to better manage development costs and deliver higher quality service to customers. It plans to improve development performance by removing the gaps, overlaps, and inconsistencies inherent with maintaining two separate applications development organizations.



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

The Applications Development organization will also advance MITS organization strategic goals to 1) improve service, 2) deliver Modernization, and 3) increase value. A new Associate Chief Information Officer, Applications Development, was appointed to manage all MITS organization systems and application development activities. The Business Systems Modernization Office no longer exists.

***The MITS organization reconfigured itself with the Applications Development and Enterprise Services offices, refocused its goals in assuming the integrator role for the Modernization program, and began implementing the Information Technology Modernization Vision and Strategy.***

As part of the organizational changes, the Associate Chief Information Officer, Business Systems Modernization, was appointed to the Chief Information Officer position after the resignation of the former Chief Information Officer. The current Chief Information Officer assumed this position in September 2006, becoming the IRS' fifth such Officer in 8 years. The current Associate Chief Information Officer, Applications Development, was appointed in October 2006, after serving as the Deputy Associate Chief Information Officer, Business Integration. Therefore, the Associate Chief Information Officer, Applications Development, has become the sixth executive responsible for the Modernization program in its 9 years of existence.

The MITS organization published its Information Technology Modernization Vision and Strategy in October 2006. The objective of this document was to establish a 5-year plan, focusing on identifying both major and nonmajor investments needed to achieve Modernization goals and defining an integrated portfolio for Fiscal Years 2007 and 2008 investment plans for both major and nonmajor investments.

***The Information Technology Modernization Vision and Strategy recognizes that modernization goals can be achieved through a combination of new systems; leveraging and enhancement of existing systems; and application of common services, applications, and standards.***

The MITS organization has changed the governance roles of the MITS Enterprise Governance Investment Management committee and has established an Executive Advisory Board based on Information Technology Modernization Vision and Strategy processes and categories. In addition, Executive Steering Committee roles have been aligned with the Information Technology Modernization Vision and Strategy categories.

The IRS began assuming the primary Modernization program integrator role from the PRIME contractor during Calendar Year 2005 and identified 14 activities it needed to assume to transition modernization activities from the PRIME contractor. However, as of October 24, 2006, it had assumed only 2 of these 14 activities. For the remaining 12 activities, the IRS had taken positive first steps and established an initial capability. The transition will not



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

be complete until additional actions are taken and the IRS has more time to consistently use new processes and strengthen its new capabilities.

In March 2005, the MITS organization began consolidating several existing functions and offices to form the new Enterprise Services organization under a newly appointed Associate Chief Information Officer, in an effort to improve services provided to internal customers. In May 2006, the Enterprise Services organization documented the missions and goals of its subordinate offices. In early 2007, the validation of these missions and goals was ongoing at many levels of the Enterprise Services organization, and work was underway to define short-term and long-term (transformational) plans, validate staffing assignments, and measure performance. Additional changes to the Enterprise Services organization structure were also being considered.

While these new structures may prove beneficial over the long run, the continuity in Modernization program management has again been interrupted. The continual changes in management add to the time and cost of delivering the Modernization program. For these changes to improve program-level management in the long run, the managers must first go through a learning curve. The MITS organization can achieve the intended benefits from this new structure only with dedication to development and maturation of the processes supporting the Modernization program.

**Ensure contractor performance and accountability are effectively managed**

The IRS uses contractors to perform the vast majority of the Modernization program design and development. Contractors have received 90 percent of the funding for Modernization program work.<sup>9</sup> In Calendar Year 2006, our reviews identified opportunities to improve the IRS' contract management and oversight of the Modernization program.

- Our review of the PRIME Program Management office found that the IRS could strengthen task order monitoring to ensure it is spending Federal Government funds wisely. The IRS did not prepare Quarterly Status Reports, as required by the task order monitoring plan to document monitoring results, and inconsistently implemented some monitoring processes.
- Extended development, deferral, and additions to requirements have made project funding and contract accounting difficult. As the Modernized e-File project was developed, additional funding was needed to add controls to reduce potential system security threats and to implement unplanned system changes. Funds designated for future release development were used

***The IRS can strengthen its management of contractor performance with more timely negotiations, improved controls for monitoring task orders, and implementation of accounting controls to track project requirements.***

---

<sup>9</sup> See Appendix VI for an analysis of Modernization program funding.



---

## **Annual Assessment of the Business Systems Modernization Program**

---

to develop these controls and system changes, although Congress specifically directed the IRS to stop shifting funds between releases and to notify the Congressional committees of any proposed changes to the Business Systems Modernization Expenditure Plans. Further, the Modernized e-File project team has not performed an analysis to assess the cost effect on the current release and the requirements planned for deployment, as well as the effect on funding availability to develop the deferred requirements in future releases.

- Negotiations and approvals of project contracting actions were not always accomplished timely, and performance-based contracts were not used. For example, costs for work on some Modernized e-File project requirements were not expeditiously determined because of incomplete contract negotiations. The IRS Procurement Office has experienced problems in completing some Modernized e-File project contract negotiations with the PRIME contractor. For example, negotiations for costs of work completed by the PRIME contractor on July 31, 2005, were not finalized until July 27, 2006. The Modernized e-File project (b) (4)

As previously discussed, the IRS has experienced similar issues with non-Modernization projects such as the Electronic Fraud Detection System.

Inconsistent contract management activities and inadequate oversight of contractor activities have contributed to project delays, inadequate deliverables, and increased development costs.

### ***The Modernization Program Should Continue to Be Designated As a Material Weakness***

In Fiscal Year 2006, the IRS reported users should limit reliance on its system of management controls because it has remaining material weaknesses as part of the Federal Managers' Financial Integrity Act of 1982<sup>10</sup> reporting requirements. An October 25, 2006, memorandum from the IRS Commissioner stated the IRS completed the actions identified in the Modernization material weakness action plan that was developed in response to the initial identification of the material weakness in Fiscal Year 1995. It is continuing to gather supporting evidence to show sustained performance. However, the Modernization material weakness action plan has not been updated to include weaknesses subsequently reported since 2003 by the TIGFA, the Government Accountability Office, and IRS studies.

The Government Accountability Office and Congress have required matured Modernization program management processes for continued funding. The Software Acquisition Capability Maturity Model is used to measure an organization's capability to manage the acquisition of

---

<sup>10</sup> 31 U.S.C. Sections 1105, 1113, 3512 (2000).



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

software. The Model defines five levels of software acquisition maturity. Each level of maturity indicates process capability and identifies key process areas. For a maturity level to be achieved, all key process areas related to that level must be implemented effectively.

The IRS determined that Software Acquisition Capability Maturity Model level 2 would provide sufficient management processes to effectively manage the Modernization program effort. In March 2003, the Modernization program was certified as compliant with Software Acquisition Capability Maturity Model level 2. This designation indicates the Modernization program has documented a set of repeatable, disciplined management processes that increase the probability of success for the Modernization program.

***To provide a foundation for mature, repeatable software acquisition processes, the IRS chose to implement the Software Engineering Institute's Software Acquisition Capability Maturity Model.***

In August 2006, the Software Engineering Institute released the updated version of its Software Acquisition Capability Maturity Model, now called the Capability Maturity Model Integrated. The major themes of the Capability Maturity Model Integrated are to reduce the size and complexity of the Model, increase Model coverage, and increase confidence in appraisal results. With the release of the Capability Maturity Model Integrated, the Software Engineering Institute announced that existing Software Acquisition Capability Maturity Model certifications will expire on August 25, 2007. Continued reference to the IRS as a certified Capability Maturity Model Integrated organization will require the IRS to be reappraised.

As discussed previously, the IRS continues to encounter problems related to the four challenges it needs to overcome to deliver a successful modernization effort, indicating program risks remain. In addition, the Government Accountability Office continues to include the Modernization program on its list of high-risk programs.

The IRS has continued to recognize the importance of improving the Modernization program. The MITS organization is continuing to address significant challenges and program barriers by addressing the *Highest Priority Initiatives*. Initially, IRS executives and managers use this process to identify and seek resolution for the highest priority initiatives facing the Modernization program. IRS executives and senior managers are appointed to oversee the plans to resolve each of the highest priority initiatives, and progress is reported monthly. New initiatives are identified every 6 months. This process is in its sixth 6-month cycle and has been expanded to include initiatives affecting the entire MITS organization.

Although the MITS organization has taken actions to address initiatives affecting its effectiveness and efficiency, the Modernization material weakness should not be downgraded until the four challenges have been adequately resolved.



*Annual Assessment of the  
Business Systems Modernization Program*

---

## **Recommendation**

**Recommendation 1:** The Chief Information Officer should 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.

**Management's Response:** The Chief Information Officer agreed with this recommendation, acknowledging that the *Highest Priority Initiatives* process is a prescribed 6-month cycle for the MITS Associate Chief Information Officer organizations to identify, select, manage, and prioritize initiatives that executive leadership considers crucial for continued strategic growth and success. Corrective actions are evaluated and submitted as *Highest Priority Initiatives* candidates, when appropriate, and are selected based upon executive leadership discretion. In this manner, the IRS will continue to execute the *Highest Priority Initiatives* process and include Modernization program corrective actions from TIGTA and Government Accountability Office reports. The IRS will continue to deliver monthly *Highest Priority Initiatives* reports until it is able to downgrade the Modernization material weakness.



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

## Appendix I

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to assess the progress of the IRS' Business Systems Modernization (Modernization) program for Fiscal Year 2007, as required by the IRS Restructuring and Reform Act of 1998.<sup>1</sup> To accomplish this objective, we:

- I. Determined the current condition of the Modernization program.
  - A. Reviewed TIGTA reports issued from April 2006 through April 2007<sup>2</sup> and five previous Modernization program annual assessment reports (issued in Fiscal Years 2002, 2003, 2004, 2005, and 2006).<sup>3</sup>
  - B. Reviewed recent IRS Oversight Board documents to identify current IRS Oversight Board issues and concerns.
  - C. Reviewed Government Accountability Office reports relevant to Modernization program activities.
- II. Determined the status and condition of the Modernization program reported by the IRS by reviewing the following documentation.
  - A. The Systems Modernization Material Weakness Plan.
  - B. The Information Technology Modernization Vision and Strategy<sup>4</sup> documents.
  - C. The Business Systems Modernization Expenditure Plans and evaluated any cost, schedule, and functionality variances. We did not validate the information provided by the IRS on the cost, scope, and business value of the Modernization program.
  - D. The IRS' *Highest Priority Initiatives*<sup>5</sup> status reports for the Modernization program.

---

<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>2</sup> See Appendix IX for a detailed list of recent TIGTA reports and associated findings.

<sup>3</sup> *Annual Assessment of the Business Systems Modernization Program* (Reference Number 2002-20-189, dated September 2002); *Annual Assessment of the Business Systems Modernization Program* (Reference Number 2003-20-208, dated September 2003); *Annual Assessment of the Business Systems Modernization Program* (Reference Number 2004-20-107, dated June 2004); *Annual Assessment of the Business Systems Modernization Program* (Reference Number 2005-20-102, dated August 2005); and *Annual Assessment of the Business Systems Modernization Program* (Reference Number 2006-20-102, dated June 2006).

<sup>4</sup> See Appendix X for a glossary of terms.

<sup>5</sup> See Appendix VII for details on the *Highest Priority Initiatives*.



*Annual Assessment of the  
Business Systems Modernization Program*

---

**Appendix II**

*Major Contributors to This Report*

Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs)  
Gary V. Hinkle, Director  
Edward A. Neuwirth, Audit Manager  
Michael A. Garcia, Senior Auditor  
Glen J. Rhoades, Senior Auditor  
Charlene Elliston, Auditor



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

**Appendix III**

*Report Distribution List*

Acting Commissioner C  
Office of the Commissioner – Attn: Acting Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Associate Chief Information Officer, Applications Development OS:CIO:AD  
Associate Chief Information Officer, Enterprise Services OS:CIO:ES  
Director, Procurement OS:A:P  
Director, Stakeholder Management OS:CIO:SM  
Deputy Associate Chief Information Officer, Applications Development OS:CIO:AD  
Deputy Associate Chief Information Officer, Business Integration OS:CIO:ES:BI  
Deputy Associate Chief Information Officer, Systems Integration OS:CIO:ES:SI  
Director, Test, Assurance, and Documentation OS:CIO:AD:TAD  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Associate Chief Information Officer, Applications Development OS:CIO:AD  
    Director, Procurement OS:A:P  
    Director, Program Oversight OS:CIO:SM:PO



*Annual Assessment of the  
Business Systems Modernization Program*

**Appendix IV**

*Modernization Projects and Status*

Table 1 presents the Modernization projects initiated by the IRS and the status of these projects as of April 2007. Projects are presented by year in the order in which they were initiated.

**Table 1: Modernization Projects**

Project Name	Year Initiated/ Year Launched	Project Description	Project Status per the IRS
Custodial Accounting Project	Initiated 1999/ Not Launched	Uses a data warehousing approach for storing, analyzing, and reporting taxpayer accounts and collections information.	Canceled February 2005.
Infrastructure <sup>1</sup> Shared Services: Security and Technology Infrastructure Release	Initiated 1999/ Launched 2002	Provides a customer-focused technical infrastructure for secure telephone and electronic interaction among employees, tax practitioners, and taxpayers.	<ul style="list-style-type: none"> <li>• Provides secure Internet solutions for registered and employee users and related registration processes, security access controls, intrusion detection, and audit trail processing.</li> <li>• Is critical to the success of the Integrated Financial System, e-Services, Internet Refund/Fact of Filing, Modernized e-file, and Internet Employee Identification Number projects that rely on secure, robust portal access.</li> <li>• Supports the acquisition, installation, and operation of the development and test environments that support all modernization initiatives. The increased stability of the Development, Integration, and Test Environment and timely acquisition of hardware/software to support project schedules has contributed significantly to improved project performance.</li> </ul>

<sup>1</sup> See Appendix X for a glossary of terms.



*Annual Assessment of the  
Business Systems Modernization Program*

<b>Project Name</b>	<b>Year Initiated/ Year Launched</b>	<b>Project Description</b>	<b>Project Status per the IRS</b>
Customer Communications	Initiated 1999/ Launched 2001	Improves communications infrastructure, including telephone call management, call routing, and customer self-service applications.	<ul style="list-style-type: none"> <li>• 68,000 calls in one 3-minute period during initial week (coincided with start of the Advanced Tax Refund of 2001).</li> <li>• 50 percent reduction in wait time for assistants to answer calls.</li> <li>• 50 percent reduction in abandoned calls.</li> <li>• More accurate prerouting of calls.</li> </ul>
Customer Relationship Management Exam	Initiated 1999/ Launched 2001	Provides standard tax computation software to Large and Mid-Size Business Division revenue agents.	<ul style="list-style-type: none"> <li>• Deployed to almost 4,000 Large/Medium/Small Business revenue agents.</li> <li>• Taxpayers can independently verify a revenue agent's computations.</li> <li>• Allows for "what-if" computations to better use the examiners' and taxpayers' time.</li> </ul>
Enterprise Systems Management	Initiated 2000/ Launched 2002	Executes a strategy to provide network and systems management to improve the information technology infrastructure availability and performance.	<ul style="list-style-type: none"> <li>• Provides enterprise systems management and monitoring of the e-Services, Integrated Financial System, Modernized e-File, and Internet Refund/Fact of Filing projects and core infrastructure systems.</li> <li>• Gathers information and provides appropriate response through monitors at the component, business, and enterprise levels.</li> <li>• Provides reliability, high availability, and optimal performance of complex e-business infrastructure and applications, helping to meet and exceed both internal and external service level agreements and reducing total cost of ownership.</li> <li>• Allows for proactive identification and resolution of information technology problems.</li> </ul>



*Annual Assessment of the  
Business Systems Modernization Program*

Project Name	Year Initiated/ Year Launched	Project Description	Project Status per the IRS
CADE	Initiated 2000/ Launched 2004	<p>Provides an online, modernized data infrastructure that will house the authoritative taxpayer account and return data.</p> <p>The CADE replaces the IRS Master File, the repository of all taxpayer information.</p>	<ul style="list-style-type: none"> <li>• Release 1.1 went into production July 12, 2004, issuing refunds over 50 percent faster than the Master File.</li> <li>• The processing of returns in the CADE marks the first time in 40 years that American tax returns have been processed in a system other than the Master File.</li> <li>• Release 1.3.2 was implemented in January 2006. The CADE is now able to process a subset of Forms 1040EZ, 1040, and 1040A with no schedules.</li> <li>• For the 2006 Filing Season, more than 7,372,572 returns were posted by the CADE. The CADE issued more than 2,811,278 electronic and 3,805,085 paper refunds that combined totaled more than \$3,435,883,754.</li> <li>• CADE Release 2.1 became operational in September 2006, expanding the Form 1040 processing to include Schedules A, B, and R; Form 1040A Schedules 1 and 3; and Form 1040 filers claiming the Head of Household filing status.</li> <li>• CADE Release 2.2 began supporting the 2007 Filing Season in March 2007. This release includes filing season changes and capabilities to handle the Telephone Excise Tax Refund and additional Form 1040 schedules.</li> <li>• To date, the CADE has posted 8,587,976 returns and issued more than 8,441,893 refunds totaling in excess of \$9,457,341,713.</li> <li>• Direct deposit refunds continue to be issued 4 business days after posting to the CADE, and paper refunds continue to be issued 6 business days after posting to the CADE.</li> </ul>



*Annual Assessment of the  
Business Systems Modernization Program*

Project Name	Year Initiated/ Year Launched	Project Description	Project Status per the IRS
CADE (continued)			<ul style="list-style-type: none"> <li>• The IRS continues to quantify taxpayer savings due to decreased cycle time for CADE-processed returns. Since Release 2.2 was implemented in March 2007, more than \$823,303 in potential interest earned for direct deposit refunds (3.5 days for the CADE versus 7 days for legacy-processed returns), more than \$1,335,736 in potential interest earned for paper refunds (7 days quicker than legacy-processed returns), and more than \$5,887,000 in potential Refund Anticipation Loan fees were eliminated by CADE processing.</li> </ul>
e-Services	Initiated 2000/ Launched 2003-2004	<p>Focuses on revolutionizing the way taxpayers transact and communicate with the IRS.</p> <p>Creates a web portal and value adding e-Services to promote the goal of conducting most of the IRS' transactions with tax practitioners electronically.</p>	<ul style="list-style-type: none"> <li>• More than 230,000 online registration participants of the Registered User Portal.</li> <li>• More than 309,000 Electronic Return Originator applications for electronic filing (<i>e-file</i>).</li> <li>• More than 381,000 online requests for Preparer Taxpayer Identification Numbers.</li> <li>• More than 196 million bulk Taxpayer Identification Number match requests processed.</li> <li>• More than 7.8 million interactive Taxpayer Identification Number match requests since launch.</li> <li>• Transcript Delivery System processed, as of April 10, 2007, more than 2,243,704 requests via the Registered User Portal. Through February 2007, more than 359,000 transcripts were processed using the new Income Verification Express Services user fee functionality, with potential IRS revenue of more than \$1.6 million.</li> <li>• Transcript Delivery System processed</li> </ul>



*Annual Assessment of the  
Business Systems Modernization Program*

Project Name	Year Initiated/ Year Launched	Project Description	Project Status per the IRS
e-Services (continued)			<p>more than 10.7 million requests for transcripts via the Employee User Portal since launch in May 2005.</p> <ul style="list-style-type: none"> <li>• More than 125,000 Power of Attorney requests received through Disclosure Authorization.</li> <li>• Received and processed more than 26,000 requests via Electronic Account Resolution.</li> <li>• The Taxpayer Identification Number matching tool in the current suite of e-Services applications has uncovered more than \$35.7 million in potential unpaid taxes on Miscellaneous Income (Form 1099 series).</li> <li>• New fingerprinting capability reduced turnaround time for fingerprint card checks from an average of 30 days to an average of 1 day for cards with “hits” and to an average of 15 minutes for cards with “no hits.”</li> <li>• Total operational savings (print/mail/labor costs) of more than \$45 million for e-File Application, Preparer Taxpayer Identification Numbers, Disclosure Authorization, Transcript Delivery System, Electronic Account Resolution, and Address Change via the Registered User Portal and Employee User Portal.</li> <li>• E-Services and Modernized e-File were 2 of 11 winners of the 2005 <i>Government Computer News</i> Agency Award for Innovation, out of a field of 132 nominations.</li> </ul>
HR Connect	Initiated 2001/ Launched 2002	Delivers an enterprise solution to allow IRS employees to access and manage their human resources information online.	<ul style="list-style-type: none"> <li>• All IRS employee accounts are now on HR Connect.</li> <li>• Accessible by kiosks for campus employees who do not have desktop access.</li> </ul>



*Annual Assessment of the  
Business Systems Modernization Program*

Project Name	Year Initiated/ Year Launched	Project Description	Project Status per the IRS
HR Connect (continued)			<ul style="list-style-type: none"> <li>• HR Connect upgraded the software platform to PeopleSoft 8.3<sup>®</sup>; enhancements include increased employee self-service functionality and additional management reports.</li> <li>• HR Connect Workforce Analytics offers management information to each business unit based on its organizational requirements (e.g., the status of the workforce, vacancies, upcoming retirements, and pending personnel actions are available at each management level).</li> <li>• Cited by the IRS Commissioner as a factor in the redirection of roughly 750 staff years to enforcement.</li> </ul>
Integrated Financial System	Initiated 2001/ Release 1 launched in 2004	<p>Operates as the new IRS accounting system, replacing the IRS' core financial systems, including expenditure controls, accounts payable, accounts receivable, general ledger, budget formulation, and purchasing controls.</p> <p>The Integrated Financial System manages the IRS' \$10.4 billion operating budget for administering tax payments, collecting taxes, and enforcing tax laws. Currently, the Integrated Financial System is in an operations and maintenance phase.</p>	<ul style="list-style-type: none"> <li>• Achieved initial operating capability on November 10, 2004, and achieved full operating capability on January 31, 2005.</li> <li>• More than 2,100 end users have been trained and are using the Integrated Financial System daily.</li> <li>• The monthly Statement of Transactions (Form SF-224) and Treasury Reporting files have been submitted to the Department of the Treasury on time since going live in November 2004.</li> <li>• The IRS received an "unqualified opinion on its financial statements" from the Government Accountability Office for Fiscal Year 2006 for the second consecutive year under the Integrated Financial System. Again, the Government Accountability Office did not issue any systemic audit inquiries or matters for further consideration relating to the Integrated Financial System.</li> <li>• Moved the Statement of Net Cost to the Business Warehouse, improving performance and timeliness of cost</li> </ul>



*Annual Assessment of the  
Business Systems Modernization Program*

Project Name	Year Initiated/ Year Launched	Project Description	Project Status per the IRS
Integrated Financial System (continued)			<p>information to decision makers. Allowed the IRS to confidently use the automated Statement of Net Cost for Financial Reporting and audit purposes, eliminating the very labor-intensive, manual Statement of Net Cost.</p> <ul style="list-style-type: none"> <li>• Improved sender cost information in the allocation process that provided transparency to end users on overhead costs allocated to their organizations.</li> <li>• Implemented new Purchase Card interface among the Integrated Financial System, the Request Tracking System, and the Integrated Procurement System, which resulted in an automated process for reconciliation and payment of IRS Purchase Card invoices in the Integrated Financial System. This new process eliminated a very labor-intensive, error-prone, and costly manual process, freeing up valuable business unit resources. It also provides timely and accurate information on Purchase Card funding, positions the IRS to increase rebates, and improves audit information.</li> <li>• Worked with the Procurement Office on improved Material Group coding and guidance facilitating more accurate accounting information on procurement actions. This resulted in improved financial reporting information and reduced audit risk.</li> <li>• The Monthly Treasury Reporting file has been submitted to the Department of the Treasury within a 3-day close time period since the Integrated Financial System went into production in November 2004.</li> <li>• Developed eight Status of Funds workbook reports as requested by the business units.</li> </ul>



*Annual Assessment of the  
Business Systems Modernization Program*

<b>Project Name</b>	<b>Year Initiated/ Year Launched</b>	<b>Project Description</b>	<b>Project Status per the IRS</b>
Integrated Financial System (continued)			<ul style="list-style-type: none"> <li>• Implemented improved upward and downward adjustment program.</li> <li>• Developed new business processes and configured the Integrated Financial System to support the Private Collection Agency initiative. The IRS has collected approximately \$17.8 million to date.</li> </ul>
Internet Refund/ Fact of Filing	Initiated 2001/ Launched 2002	Improves customer self-service to the taxpayer by providing instant refund status information and instructions for resolving refund problems to taxpayers with Internet access.	<ul style="list-style-type: none"> <li>• Processed more than 22,677,344 refund status/fact of filing inquiries (October 1, 2006 to April 1, 2007).</li> <li>• Received more than 28,345,632 inquiries so far in Fiscal Year 2007 (October 1, 2006 to April 1, 2007).</li> </ul>
Advance Child Tax Credit	Initiated 2002/ Launched 2003	Modifies the Internet Refund/Fact of Filing application to provide taxpayers with Advance Child Tax Credit refund status on the Internet.	<ul style="list-style-type: none"> <li>• 15.5 million inquiries in 2003.</li> <li>• 12.3 million inquiries in 2004.</li> <li>• Application has served its purpose; its life cycle ended on December 31, 2004.</li> </ul>
Internet Employee Identification Number	Initiated 2002/ Launched 2003	Allows businesses and taxpayers to apply for and receive Employee Identification Numbers over the Internet.	<ul style="list-style-type: none"> <li>• 7,113,658 Internet Employee Identification Number applications received to date (as of March 24, 2007).</li> </ul>
Customer Account Management	Initiated 2002/ Not Launched	Interfaces the redesigned business processes to be used daily by IRS customer service representatives. Due to budget constraints, the project has not been funded since Fiscal Year 2003.	<ul style="list-style-type: none"> <li>• Suspended.</li> </ul>
Filing and Payment Compliance/ Collection Contract Support	Filing and Payment Compliance Initiated 2001	Improves the processes and technologies that support the Filing and Payment Compliance Modernization and is an end-to-end strategy to resolve payment and filing compliance issues quickly and	<ul style="list-style-type: none"> <li>• Release 1 will provide infrastructure, processes, and organizational structure to implement the law authorizing private debt collection.<sup>2</sup></li> </ul>

<sup>2</sup> American Jobs Creation Act of 2004, Pub. L. No. 108-357, 118 Stat. 1418 (2004).



*Annual Assessment of the  
Business Systems Modernization Program*

Project Name	Year Initiated/ Year Launched	Project Description	Project Status per the IRS
Filing and Payment Compliance/ Collection Contract Support (continued)	Filing and Payment Compliance Suspended 2002  Collection Contract Support Initiated 2003  Filing and Payment Compliance and Collection Contract Support Combined 2004  Launched 2006	fairly. The Filing and Payment Compliance strategy has 3 ultimate business goals to be achieved in an environment that ensures taxpayer rights are protected and customer satisfaction is improved: 1) resolve all balance-due cases above a minimum threshold, 2) shorten the filing compliance life cycle to resolve issues before the next filing due date, and 3) shorten the payment compliance life cycle to 6 months for nonenforcement cases.	<ul style="list-style-type: none"> <li>• Release 1.1 was partially released in January 2006.</li> <li>• Release 1.1 was retired on January 31, 2007.</li> <li>• Release 1.2 went live on January 22, 2007.</li> <li>• During the 29-week period from initial case placements on September 7, 2006, to March 22, 2007, the Filing and Payment Compliance strategy placed more than 33,000 cases with contractors, which facilitated the collection of more than \$17.8 million on cases formerly unassigned for active collection.</li> <li>• During Fiscal Year 2007, gross revenue received as a result of the private debt collection program is projected to be between \$47,752,389 and \$65,026,017. With \$3,018,000 commissions paid to the Private Collection Agencies, the net benefit to the Department of the Treasury is approximately \$14,062,000.</li> <li>• There have been no identified instances of fraud or misuse of taxpayer information.</li> </ul>
Modernized e-File	Initiated 2002/ Launched 2004	Develops the modernized web-based platform for filing IRS forms electronically.  Provides electronic filing of nearly 100 forms and schedules for large corporations and small businesses (Form 1120 series), tax-exempt organizations (Form 990 series) and partnerships (Form 1065 series), and associated extension forms (e.g., Form 7004).	<ul style="list-style-type: none"> <li>• Release 1 launched in February 2004.</li> <li>• Release 2 launched in August 2004.</li> <li>• Release 3.1 launched in January 2005.</li> <li>• Release 3.2 launched in January 2006.</li> <li>• Release 3.2 completed in 2006 with more than 981,000 accepted submissions out of 1.2 million submitted returns.</li> <li>• More than 15,000 Forms 1120 mandated returns (corporations with assets of greater than \$50 million) received since Release 3.2 launch (as of December 27, 2006).</li> </ul>



*Annual Assessment of the  
Business Systems Modernization Program*

Project Name	Year Initiated/ Year Launched	Project Description	Project Status per the IRS
Modernized e-File (continued)			<ul style="list-style-type: none"> <li>• More than 1,100 Forms 990 mandated returns (organizations with assets of greater than \$100 million) received since Release 3.2 launch (as of December 27, 2006).</li> <li>• Release 4 was delivered on January 8, 2007, for the fourth season of electronic filing allowing select businesses and tax-exempt organizations to file their Federal and State forms in one transaction and States to retrieve their returns from the Modernized e-File system. Release 4 implements the ability to receive Forms 1065 and 1065B (Partnerships), meeting the mandate for taxpayers with 100 or more partners to file electronically. More than 1,195,826 returns/extensions received since launch, a 193 percent increase from 2006 (as of April 3, 2007).</li> <li>• More than 103,477 Forms 1120 mandated returns (corporations with assets of greater than \$10 million) received since launch (as of April 3, 2007).</li> <li>• Feedback from external stakeholders indicated satisfaction with the electronic filing experience.</li> <li>• The Modernized e-File project received the 2006 Commissioner's Award for Exceptional Achievement in Modernization.</li> </ul>

Source: IRS status report entitled "IRS Modernization Has Delivered Real Business Value" dated April 2007.



*Annual Assessment of the  
Business Systems Modernization Program*

---

## **Appendix V**

### *Enterprise Life Cycle Overview*

The Enterprise Life Cycle is the IRS' standard approach to business change and information systems initiatives. It is a collection of program and project management best practices designed to manage business change in a successful and repeatable manner. The Enterprise Life Cycle addresses large and small projects developed internally and by contractors.

The Enterprise Life Cycle includes such requirements as:

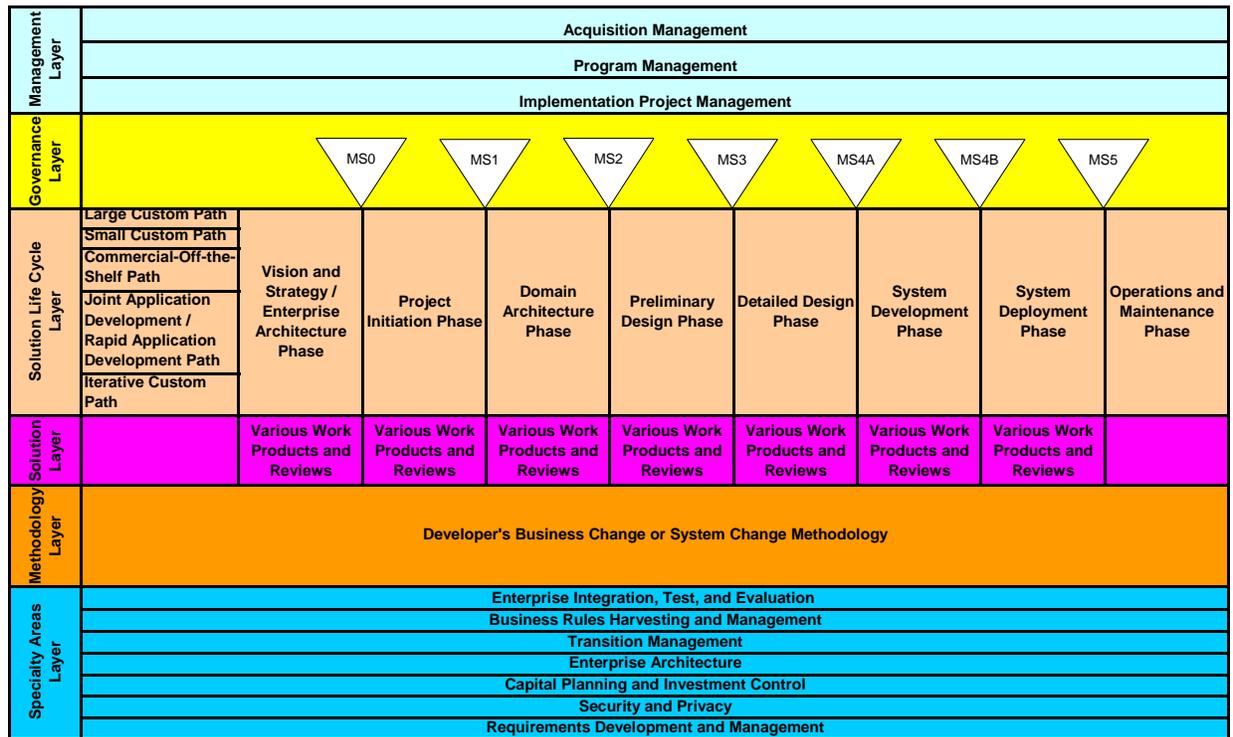
- Development of and conformance to an enterprise architecture.
- Improving business processes prior to automation.
- Use of prototyping and commercial software, where possible.
- Obtaining early benefit by implementing solutions in multiple releases.
- Financial justification, budgeting, and reporting of project status.

In addition, the Enterprise Life Cycle improves the IRS' ability to manage changes to the enterprise; estimate the cost of changes; and engineer, develop, and maintain systems effectively. Figure 1 provides an overview of the layers, paths, phases, and milestones (shown as "MS" in Figure 1) within the Enterprise Life Cycle Framework.



*Annual Assessment of the  
Business Systems Modernization Program*

**Figure 1: Enterprise Life Cycle Framework**



Source: Graphical representation of the Enterprise Life Cycle Framework modified from the Enterprise Life Cycle Guide.

## Enterprise Life Cycle Layers

The Enterprise Life Cycle is a framework for organizing and using IRS directives, processes, procedures, templates, and standards to accomplish business change. It is organized as a set of six interacting layers.

- The **Management Layer** specifies how to plan and control business change programs, projects, acquisitions, and solutions throughout the Enterprise Life Cycle.
- The **Governance Layer** specifies additional controls imposed from outside the project or program.
- The **Solution Life Cycle Layer** specifies what should be done but not how to do it.
- The **Solution Layer** manages the solution as it is produced, including providing standards for consistent solution specification and formal review of solution content. This Layer provides control over work products that may be produced by multiple internal and external developers using differing methodologies.



---

## *Annual Assessment of the Business Systems Modernization Program*

---

- The **Methodology Layer** details how to do the work and specifies a unique set of work products to be produced. Specific methodologies are not a part of the Enterprise Life Cycle Framework.
- The **Specialty Areas Layer** provides additional guidance for areas of particular importance within the IRS. These areas include Enterprise Integration, Test, and Evaluation; Business Rules Harvesting and Management; Transition Management; Enterprise Architecture; Capital Planning and Investment Control; Security and Privacy; and Requirements Development and Management.

### ***Enterprise Life Cycle Paths***

A path specifies a unique “philosophy” or orientation for performing the work. Although the Enterprise Life Cycle specifies a standard for the work required to produce and operate business change solutions, there are multiple ways to approach and accomplish the required work. Paths are like alternate roads, each of which crosses different terrain, but all of which lead to the same destination. The Enterprise Life Cycle provides five distinct paths or approaches to developing systems:

- The **Large Custom Path** is for large projects.
- The **Small Custom Path** is for small projects.
- The **Commercial-Off-the-Shelf Path** is a commercial software-based approach.
- The **Joint Application Development/Rapid Application Development Path** is a highly accelerated, prototyping-based approach for very small, standalone solutions or solution components.
- The **Iterative Custom Path** is a hybrid approach that combines elements of the other approaches.

### ***Enterprise Life Cycle Phases and Milestones***

A phase is a broad segment of work encompassing activities of similar scope, nature, and detail and providing a natural breakpoint in the life cycle. Each phase begins with a kickoff meeting and ends with an executive management decision point (called a milestone) at which IRS executives make “go/no-go” decisions for continuation of a project. Project funding decisions are often associated with milestones.



*Annual Assessment of the  
Business Systems Modernization Program*

**Figure 2: Enterprise Life Cycle Phases and Milestones**

Phase	General Nature of Work	Concluding Milestone
Vision and Strategy/ Enterprise Architecture Phase	High-level direction setting. This is the only phase for enterprise planning projects.	0
Project Initiation Phase	Startup of development projects.	1
Domain Architecture Phase	Specification of the operating concept, requirements, and structure of the solution.	2
Preliminary Design Phase	Preliminary design of all solution components.	3
Detailed Design Phase	Detailed design of solution components.	4A
System Development Phase	Coding, integration, testing, and certification of solutions.	4B
System Deployment Phase	Expanding availability of the solution to all target users. This is usually the last phase for development projects.	5
Operations and Maintenance Phase	Ongoing management of operational systems.	System Retirement

*Source: The Enterprise Life Cycle Guide.*



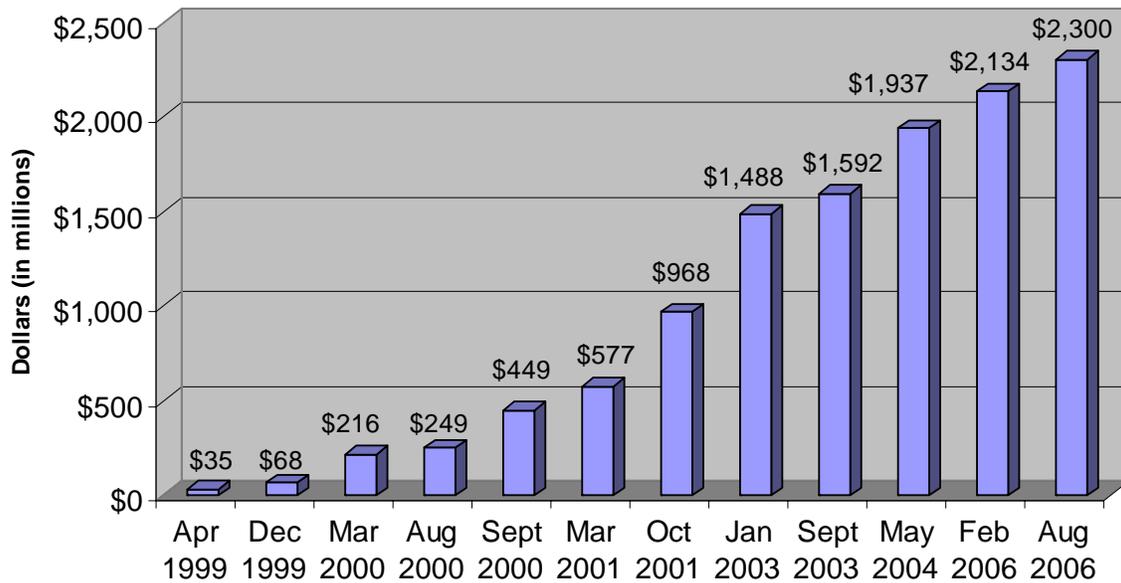
Annual Assessment of the  
Business Systems Modernization Program

Appendix VI

Modernization Program Funding Timeline

Chart 1 depicts cumulative funding received by the Modernization program for contractor costs.

**Chart 1: Modernization Program Funding Timeline  
(dollars are cumulative)**



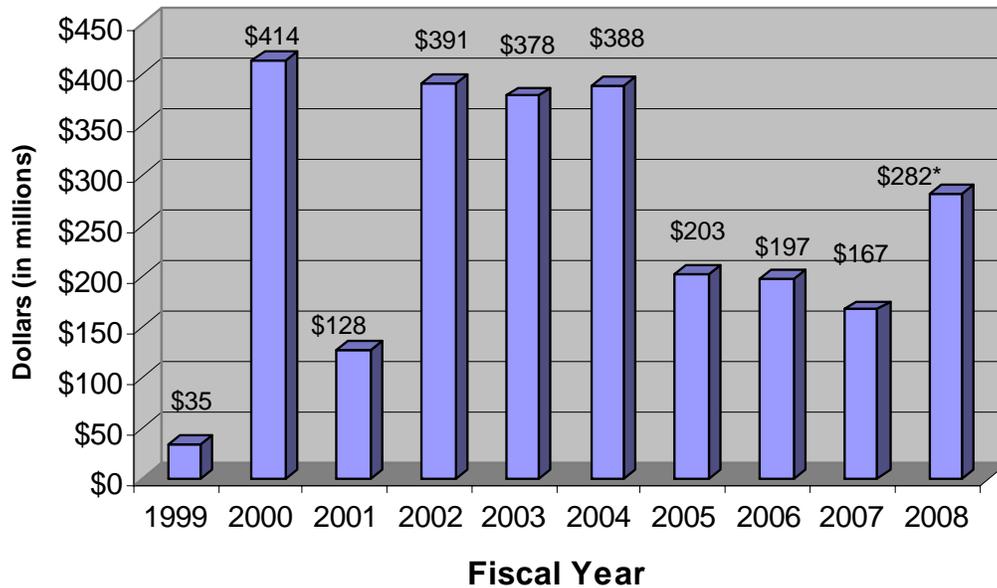
Source: Modernization Expenditure Plans.



*Annual Assessment of the  
Business Systems Modernization Program*

Chart 2 depicts a timeline of the funding received annually by the Modernization program for program management and development of business and infrastructure projects.

**Chart 2: Modernization Program Funding by Fiscal Year**



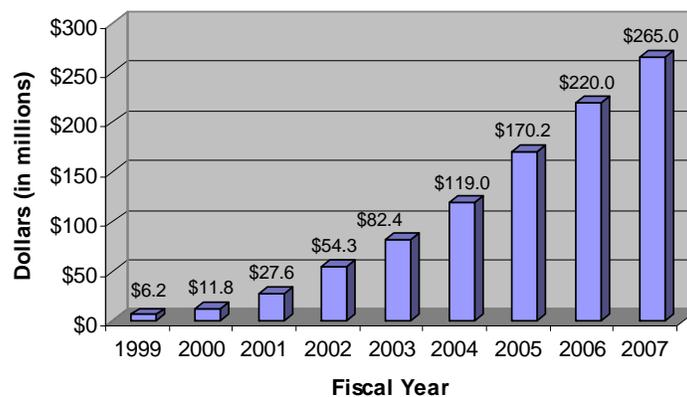
Source: *Modernization Expenditure Plans*. \* NOTE – The 2008 amount has not yet been appropriated; the figure is from the President’s Fiscal Year 2008 Budget Request. This amount includes an estimated \$45 million to fund associated IRS labor costs.



*Annual Assessment of the  
Business Systems Modernization Program*

Chart 3 depicts the cumulative funding received by the Modernization program for noncontractor costs of managing Modernization program activities. The IRS stated approximately 25 percent of its noncontractor budget since Fiscal Year 2001 has been used to support non-Modernization program activities in the IRS.

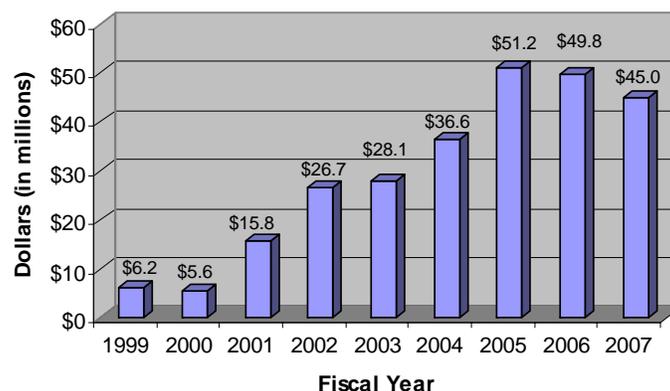
**Chart 3: Noncontractor Modernization Funding Timeline by Fiscal Year  
(dollars are cumulative)**



*Source: Actual expenditures for Fiscal Years 1999 through 2006  
and the budget estimate for Fiscal Year 2007 provided by the IRS.*

Chart 4 depicts a timeline of the funding received annually by the Modernization program for noncontractor costs of managing Modernization program activities.

**Chart 4: Noncontractor Modernization Costs by Fiscal Year**



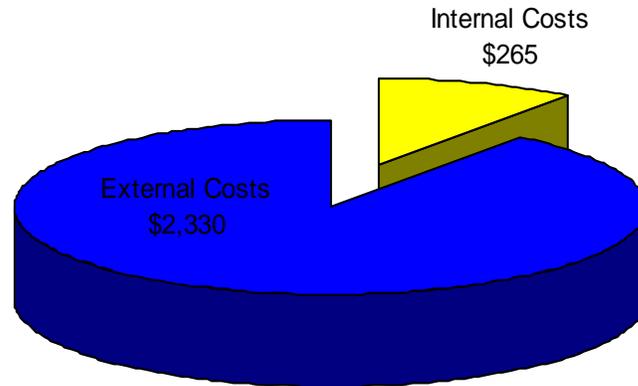
*Source: Actual expenditures for Fiscal Years 1999 through 2006  
and the budget estimate for Fiscal Year 2007 provided by the IRS.*



*Annual Assessment of the  
Business Systems Modernization Program*

Chart 5 depicts the funding received by the Modernization program for noncontractor and external (contractor) costs of managing Modernization program activities.

**Chart 5: Internal and External Modernization Program Costs (in millions)**



*Source: Actual internal expenditures for Fiscal Years 1999 through 2006 and the internal budget estimate for Fiscal Year 2007 provided by the IRS. The external costs were derived from Modernization expenditure plans.*



*Annual Assessment of the  
Business Systems Modernization Program*

**Appendix VII**

*Highest Priority Initiatives*

The IRS created a number of *Highest Priority Initiatives* to develop, implement, and execute a variety of activities within the MITS organization. Table 1 lists the *Highest Priority Initiatives*<sup>1</sup> identified by the IRS and their status as of May 2007.

**Table 1: IRS Highest Priority Initiatives**

Highest Priority Initiatives (HPI)	Status	Description
HPI-30	Closed	Enterprise Services: Build out Disaster Recovery Infrastructure for the Integrated Financial System in the Enterprise Computing Center <sup>2</sup> – Memphis.
HPI-32	Closed	Enterprise Services: (Carryover) Integrate Change Management into Configuration Management function.
HPI-39	Closed	Applications Development: Build on existing Business Systems Modernization recruitment strategy to develop a recruitment plan to address aging workforce and shortages.
HPI-40	Closed	Applications Development: Standup of productivity measuring system.
HPI-41	Closed	Applications Development: Develop audit trails strategy and execution plan.
HPI-42	Closed	Applications Development: Applications Development standup – 2nd Phase.
HPI-43	Closed	Applications Development: Develop an electronic filing strategy going forward.
HPI-44	Closed	Enterprise Services: Institutionalize the Information Technology Modernization Vision and Strategy.
HPI-45	Closed	Enterprise Services: Demand Management.
HPI-46	Closed	Enterprise Services: Health Check Triage.
HPI-47	Closed	Enterprise Services: Service-Based Architecture and Enterprise Application Integration Broker Follow-on Integration (Carryover of HPI-28 and HPI-36)
HPI-48	Closed	Enterprise Services: Update Enterprise Transition Plan and Release Architecture to reflect results of the Information Technology Modernization Vision and Strategy.
HPI-49	Closed	Enterprise Services: Develop a data strategy to guide projects that extract data from the Master File.

<sup>1</sup> The *Highest Priority Initiative* numbers that are skipped in Table 1 are unrelated to the transition of program management activities away from the PRIME contractor.

<sup>2</sup> See Appendix X for a glossary of terms.



*Annual Assessment of the  
Business Systems Modernization Program*

Highest Priority Initiatives (HPI)	Status	Description
HPI-50	Closed	Enterprise Services: Strengthen IRS system integration capability through hiring of candidates for current senior technical vacancy.
HPI-51	Closed	Applications Development: Standup of code quality measures.
HPI-52	Closed	Enterprise Services: Clarify mission operating model for the Enterprise Services organization.
HPI-53	Closed	Enterprise Services: Tiered Program Management/Project Health Assessment Process.
HPI-54	Closed	Enterprise Services: Define governance structures and process across all projects.
HPI-55	Closed	Enterprise Services: Implement Best Practices for Requirements Development and Management.
HPI-56	Closed	Enterprise Services: Business Integration will establish and execute a plan to hire additional employees to fill its current vacancies. This will occur in two phases.
HPI-57	Closed	Applications Development: Establish strategic plans for each Application Development Domain based on Information Technology Modernization Vision and Strategy plans and steady state commitments (replacing current process of rolling over base from prior year).
HPI-58	Closed	Enterprise Services: Continue to strengthen IRS Enterprise Services organization technical capabilities through hiring of candidates for current Systems Integration vacancies.
HPI-59	Closed	Enterprise Services: Data Strategy Phase 2.
HPI-60	Closed	Enterprise Services: Align IRS Service Oriented Architecture with Information Technology Modernization Vision and Strategy.
HPI-61	Closed	Enterprise Services: Develop Enterprise Capacity Planning and Performance Engineering Plan within the Enterprise Services organization.
HPI-62	Closed	Applications Development: Develop a strategy to manage software transmittals scheduling in the Applications Development organization to reduce the number of transmittals.
HPI-63	Closed	Applications Development: Institutionalize a tiered Program Office Model for the Applications Development organization to include all Current Production Environment projects except Major Investments.
HPI-64	Closed	Applications Development: Further refine the new Applications Development organization.

*Source: Identification of Applications Development organization and Enterprise Services organization Highest Priority Initiatives provided by IRS management from IRS status reports as of May 2007.*



*Annual Assessment of the  
Business Systems Modernization Program*

**Appendix VIII**

*Open Recommendations Related to Modernization  
Program Material Weaknesses*

Table 1 lists TIGTA audit recommendations with current IRS open corrective actions related to the Modernization program material weakness.

**Table 1: TIGTA Recommendations Related to the  
Modernization Program Material Weakness**

<b><i>The Modernization, Information Technology and Security Services Organization Needs to Take Further Action to Complete Its Human Capital Strategy (Reference Number 2003-20-209, dated September 2003)</i></b>	
2003-20-209 Finding 1, Recommendation 1	To ensure the MITS organization has sufficient data to determine human capital demands, the Chief Information Officer needs to support the Director, Management Services, to work with offices throughout the MITS organization to identify the human capital demand. The demand includes information to adequately plan the number, location, and assignment schedule of human capital assets for existing information systems (from owners in the Information Technology Services organization) and future MITS organization operations (from owners in the Business Systems Modernization program). Due Date: December 31, 2010.
2003-20-209 Finding 2, Recommendation 1	To ensure the MITS organization has adequate staffing to meet its needs, the Chief Information Officer should charge the Director, Management Services, to develop detailed hiring and retention plans. These plans should consider staff position “return on investment” as a consideration for determining the type of talent to recruit or retain and should be incorporated into the MITS organization’s human capital strategy with relevant links to its budget. Recruiting: Prioritize the most critical skill needs and position locations with project development, deployment, implementation, and operation schedules. Proceed with hiring specific skills based on decisions for recruiting the subject position with either fully trained or trainable talent or through an internship position. Retention: Identify and compile retention incentives into a plan to maintain the MITS organization talent pool. Due Date: December 31, 2010.
<b><i>Risks Are Mounting as the Integrated Financial System Project Team Strives to Meet an Aggressive Implementation Date (Reference Number 2004-20-001, dated October 2003)</i></b>	
2004-20-001 Finding 2, Recommendation 1	To ensure a high-quality system is delivered, the Chief Information Officer should ensure the disaster recovery environment is completely built out and tested as soon as possible. Due Date: December 31, 2010.
<b><i>The Office of Release Management Can Improve Controls for Modernization Program Coordination (Reference Number 2004-20-157, dated September 2004)</i></b>	
2004-20-157 Finding 1, Recommendation 1	To help provide clear direction in the development of the Modernization program, the Chief Information Officer should determine whether and how the Business Systems Modernization Office will fulfill the Modernization program integrator role and document the related responsibilities and processes. Due Date: December 31, 2010.



*Annual Assessment of the  
Business Systems Modernization Program*

<b><i>The Business Systems Modernization Program Has Achieved Mixed Success in Addressing Weaknesses Identified in Internal and External Studies (Reference Number 2006-20-003, dated November 2005)</i></b>	
2006-20-003 Finding 1, Recommendation 2	To ensure study weaknesses and previous recommendations concerning change/configuration management are addressed, the Associate Chief Information Officer, Enterprise Services, should create an overall plan that includes defined tasks, responsible individuals, and estimated completion dates for implementing the standardized configuration management toolset. Due Date: December 31, 2010.
<b><i>The Electronic Fraud Detection System Redesign Failure Resulted in Fraudulent Returns and Refunds Not Being Identified (Reference Number 2006-20-108, dated August 9, 2006)</i></b>	
2006-20-108 Finding 3, Recommendation 4	The Chief Information Officer should defer additional work on the Web Electronic Fraud Detection System until the IRS decides who will perform the Electronic Fraud Detection System work. If some or all of the work will transfer to other business units, the Chief Information Officer should ensure their requirements are identified before initiating a contract for further development of the Web Electronic Fraud Detection System. The contract should be opened to competition. Due Date: December 31, 2010.
<b><i>The Modernization and Information Technology Services Organization's Revised Post Implementation Review Procedure Can Be Improved (Reference Number 2007-20-001, dated October 26, 2006)</i></b>	
2007-20-001 Finding 1, Recommendation 1	The Chief Information Officer should direct the Program Performance Management office to develop a schedule to perform Post Implementation Reviews for releases deployed and to identify and obtain staffing resources commitments needed from the Program Performance Management office, the Office of Program Evaluation and Risk Analysis, and appropriate business unit representatives to effectively execute the Post Implementation Reviews. The Chief Information Officer should also direct the Program Performance Management office to eliminate the requirement to perform Post Reviews of milestone completion activities after milestone exits, with the option of identifying any lessons learned for further project progress through the Milestone Exit Reviews. Due Date: March 1, 2010.
2007-20-001 Finding 1, Recommendation 2	The Chief Information Officer should direct the Program Performance Management office to implement a procedure to control Post Implementation Review results that ensures appropriate executives and decision makers have access to these documents. Due Date: March 1, 2010.
2007-20-001 Finding 1, Recommendation 3	The Chief Information Officer should direct the Program Performance Management office to identify skills and abilities desired for Post Implementation Review team members and ensure team assignments consider these qualifications. The Program Performance Management office should develop a training guide for Post Implementation Review team members to provide them with an understanding of the purpose, objectives, and processes of the Post Implementation Review. Due Date: March 1, 2010.
<b><i>The Internal Revenue Service Is Successfully Taking Steps to Transition Modernization Activities From the PRIME Contractor; However, Difficult Challenges Remain (Reference Number 2007-20-003, dated October 24, 2006)</i></b>	
2007-20-003 Finding 1, Recommendation 1	To ensure the IRS is successful in performing modernization activities, the Chief Information Officer should ensure performance measures are developed for each transitioned modernization activity that can be measured. When traditional performance measures are difficult to develop, the IRS can obtain feedback from modernization stakeholders and users to measure customer satisfaction. Due Date: November 1, 2007.



*Annual Assessment of the  
Business Systems Modernization Program*

<b><i>The Modernized E-File Project Can Improve the Management of Expected Capabilities and Associated Costs (Reference Number 2007-20-005, dated December 27, 2006)</i></b>	
2007-20-005 Finding 3, Recommendation 2	The Chief Information Officer should ensure the IRS Procurement office develops additional guidance to work with project development teams to timely monitor contractor progress and ensure work is properly authorized. Imminent contract expiration dates should also be timely identified so contract modifications and extensions can be approved before contractors perform work, thereby helping prevent work stoppages or potential legal actions. Due Date: September 1, 2007.
<b><i>Business Cases for Information Technology Projects Remain Inaccurate (Reference Number 2007-20-024, dated January 25, 2007)</i></b>	
2007-20-024 Finding 1, Recommendation 1	To ensure project costs are reported accurately, the Chief Information Officer should provide increased oversight and training to ensure Project Managers include complete and realistic cost estimates for their projects and more closely review Project Managers' business cases to ensure realistic cost estimates are provided and costs are substantiated. Particular attention should be paid to the allocation of management, labor, and security costs. Due Date: June 1, 2007.
2007-20-024 Finding 1, Recommendation 2	To ensure project costs are reported accurately, the Chief Information Officer should coordinate with the Department of the Treasury Capital Planning and Investment Control office and follow Office of Management and Budget guidance requiring allocation of management and labor costs to specific projects. Due Date: June 1, 2007.
2007-20-024 Finding 2, Recommendation 1	To ensure earned value management data are accurately computed and disclosed in IRS business cases, the Chief Information Officer should provide additional oversight of Project Managers to ensure sufficient care is taken in developing and reporting earned value management data. Each Project Manager should disclose all significant facts related to the earned value management data, including the significant percentage of costs omitted from earned value calculations and the number of times the project has been rebaselined. These disclosures would help explain how the investment is able to achieve its high performance standards. Due Date: June 1, 2007.
2007-20-024 Finding 2, Recommendation 2	To ensure earned value management data are accurately computed and disclosed in IRS business cases, the Chief Information Officer should ensure reviews are conducted to determine whether contractors' earned value management systems comply with industry standards. Noncompliance and failure to conduct the reviews should be disclosed. Due Date: October 1, 2007.
2007-20-024 Finding 4, Recommendation 1	The Chief Information Officer should ensure the Director, Capital Planning and Investment Control, reviews the IRS Federal Information Security Management Act <sup>1</sup> Master Inventory of major systems annually to ensure business cases are prepared for required projects. Due Date: June 1, 2007.
<b><i>Telecommunication Projects Need Improved Contract Documentation and Management Oversight (Reference Number 2007-20-030, dated March 5, 2007)</i></b>	
2007-20-030 Finding 1, Recommendation 1	The Chief Information Officer should ensure project documentation supports consideration of the Department of the Treasury contracts during the procurement process when comparing alternative solutions for telecommunication services. Due Date: May 1, 2007.

<sup>1</sup> The Federal Information Security Management Act of 2002 (44 U.S.C. § 3541, et seq.) is a United States Federal law enacted in 2002 as Title III of the E-Government Act of 2002 (Pub. L. 107-347, 116 Stat. 2899).



*Annual Assessment of the  
Business Systems Modernization Program*

2007-20-030 Finding 2, Recommendation 1	The Chief Information Officer should analyze all (steady state and development, modernization, and enhancement stage) information technology investments included in the Telecommunications Infrastructure Exhibit 300 to identify projects under development that should be classified as major information technology investments requiring increased executive oversight and the preparation of internal Exhibits 300. Due Date: September 1, 2007.
<b><i>Complete Actions Were Not Taken to Validate the Best Software Solution Was Chosen for the Private Debt Collection Program (Reference Number 2007-20-065, dated April 10, 2007)</i></b>	
2007-20-065 Finding 1, Recommendation 1	The Chief Information Officer should work with officials from the Department of the Treasury and the Office of Management and Budget to determine the level of effort required to develop estimates and supporting documentation for a new Alternatives Analysis for submission to the Department of the Treasury in June 2007. Due Date: August 1, 2007.
<b><i>Continued Improvements Are Needed for the Development and Operations of the New Enterprise Services Organization (Reference Number 2007-20-073, dated April 27, 2007)</i></b>	
2007-20-073 Finding 1, Recommendation 1	To ensure the continued orderly evolution of the Enterprise Services organization, the Associate Chief Information Officer, Enterprise Services, should complete the work necessary to appropriately identify, document, and validate missions and goals at all levels, functions, and offices of the new Enterprise Services organization. Due Date: December 1, 2007.
2007-20-073 Finding 1, Recommendation 2	To ensure the continued orderly evolution of the Enterprise Services organization, the Associate Chief Information Officer, Enterprise Services, should develop and document short-term and long-term transformational plans tied to missions, goals, and strategic plans of the MITS organization and the IRS. Due Date: February 1, 2008.
2007-20-073 Finding 1, Recommendation 3	To ensure resource staffing assignments are commensurate with the work being conducted, the Associate Chief Information Officer, Enterprise Services, should track individual assignments and work products, when applicable; revise Single Entry Time Reporting system codes to provide a more accurate and detailed accounting of staffing and activities; and reevaluate staffing needs based upon current and future workloads to help prioritize and allocate resources. Once workload and resource plans are developed, this information should be used in developing business and action plans for each Enterprise Services organization office. Due Date: April 1, 2008.
2007-20-073 Finding 1, Recommendation 4	To ensure performance is defined and measured, the Associate Chief Information Officer, Enterprise Services, should complete the current performance measures pilot, identify performance measures for offices not included in the performance measures pilot, and identify key performance measures for the entire Enterprise Services organization, based on goals and missions as well as short-term and long-term plans. Due Date: April 1, 2008.
<b><i>The Modernization and Information Technology Services Organization Can Improve Its Budget Formulation, Execution, and Review Processes (Reference Number 2007-20-064, dated May 9, 2007)</i></b>	
2007-20-064 Finding 1, Recommendation 1	The Chief Information Officer should implement a process to develop the entire MITS organization budget in line with the Information Technology Modernization Vision and Strategy's rolling 5-year prioritized plan. The budget process should consider organizational goals for each of the MITS organization components and include costs for operations and maintenance of existing computer systems, telecommunication systems, and other programs such as end-user support and help desk activities. Due Date: October 1, 2008.



*Annual Assessment of the  
Business Systems Modernization Program*

2007-20-064 Finding 2, Recommendation 1	The Chief Information Officer should ensure (1) the draft Budget Cycle procedures are approved and implemented timely and (2) the Financial Management Services organization supplements the budget formulation processes with detailed procedures documenting Financial Management Services organization staff duties and responsibilities for soliciting, receiving, reviewing, and reporting MITS organization budget estimates. Due date: January 1, 2008.
2007-20-064 Finding 3, Recommendation 1	The Chief Information Officer should ensure (1) the draft Budget Cycle document is approved timely and the spending review procedures are implemented and (2) the Financial Management Services organization supplements the spending review reporting with additional procedures that identify Fund Center Changes necessary to realign funds in response to spending review results. Due date: January 1, 2008.

Source: *The Joint Audit Management Enterprise System (as of May 2007) and TIGTA reports issued as of May 2007.*



*Annual Assessment of the  
Business Systems Modernization Program*

**Appendix IX**

*Recent Treasury Inspector General for  
Tax Administration Reports on the  
Internal Revenue Service's Modernization Program*

Table 1 lists TIGTA reports related to the IRS Modernization program issued from April 2006 through May 2007 and the associated findings that included recommendations.

**Table 1: Recent TIGTA Reports and Findings**

Report Title	Findings			
<i>Enhancements to Transition Management Guidance Will Enable Effective and Efficient Modernization Project Implementation</i> (Reference Number 2006-20-054, dated April 2006)	Transition management <sup>1</sup> performance measures need further development.			
<i>The Business Systems Modernization Program Is Receiving Value From Contract Work; However, Monitoring Can Be Strengthened</i> (Reference Number 2006-20-079, dated May 2006)	The Business Systems Modernization program received partial value for two services.	Task order monitoring can be strengthened.		
<i>Focusing Management Efforts on Long-Term Project Needs Will Help Development of the Customer Account Data Engine Project</i> (Reference Number 2006-20-076, dated June 2006)	The PRIME contractor's inadequate testing resulted in reduced capabilities for CADE Release 1.3.	Successful development of the CADE is dependent upon its ability to serve as an efficient and effective foundation for modernized systems and applications.	Controls to manage CADE requirements do not allow ready access for project team use.	Defining CADE project release requirements will help enable the use of fixed-price contracts.

<sup>1</sup> See Appendix X for a glossary of terms.



*Annual Assessment of the  
Business Systems Modernization Program*

Report Title	Findings			
<i>The Electronic Fraud Detection System Redesign Failure Resulted in Fraudulent Returns and Refunds Not Being Identified</i> (Reference Number 2006-20-108, dated August 9, 2006)	The Electronic Fraud Detection System did not have adequate executive oversight.	The Electronic Fraud Detection System risks were not effectively managed.	The contractor's performance was not effectively monitored, and performance-based contracts were not used.	
<i>The Modernization and Information Technology Services Organization's Revised Post Implementation Review Procedure Can Be Improved</i> (Reference Number 2007-20-001, dated October 26, 2006)	Enhancements to post implementation review procedures can make them more effective and efficient.			
<i>Stronger Management Oversight Is Required to Ensure Valuable Systems Modernization Expertise Is Received From the Federally Funded Research and Development Center Contractor</i> (Reference Number 2007-20-002, dated October 20, 2006)	The process to effectively and timely monitor the contractor's performance should be enhanced.			
<i>The Internal Revenue Service Is Successfully Taking Steps to Transition Modernization Activities From the Prime Contractor; However, Difficult Challenges Remain</i> (Reference Number 2007-20-003, dated October 24, 2006)	The IRS should measure how effectively transitioned modernization activities are being performed.			
<i>The Modernized E-File Project Can Improve the Management of Expected Capabilities and Associated Costs</i> (Reference Number 2007-20-005, dated December 27, 2006)	The Modernized e-File project has not completely defined its release requirements and release schedule to allow use of fixed-price contracts.	Extended development, deferral, and additions to requirements have made Modernized e-File project funding and contract accounting difficult.	Negotiations and approvals of Modernized e-File project contracting actions were not always accomplished timely.	
<i>Business Cases for Information Technology Projects Remain Inaccurate</i> (Reference Number 2007-20-024, dated January 25, 2007)	Project costs remain inaccurate.	Progress on development projects continues to be measured inaccurately.	The Department of the Treasury's programming of the ProSight system continues to contribute to inaccuracies in business cases.	Major applications were omitted from the budget submission.



*Annual Assessment of the  
Business Systems Modernization Program*

Report Title	Findings			
<i>Telecommunication Projects Need Improved Contract Documentation and Management Oversight</i> (Reference Number 2007-20-030, dated March 5, 2007)	Project documentation did not show that the Treasury Communications System contract was considered as an acquisition vehicle for development of the Enterprise Remote Access Project.	Telecommunication projects were considered infrastructure projects and not classified as major information technology investments.		
<i>Oversight of the Electronic Fraud Detection System Restoration Activities Has Improved, but Risks Remain</i> (Reference Number 2007-20-052, dated March 29, 2007)	Contracting activities have improved, but a cost reimbursement issue remains.			
<i>Complete Actions Were Not Taken to Validate the Best Software Solution Was Chosen for the Private Debt Collection Program</i> (Reference Number 2007-20-065, dated April 10, 2007)	Efforts to revalidate the alternatives analysis were not sufficient.			
<i>Continued Improvements Are Needed for the Development and Operations of the New Enterprise Services Organization</i> (Reference Number 2007-20-073, dated April 27, 2007)	The Enterprise Services organization needs to further define its missions and goals, validate staffing assignments, and create performance measures.			
<i>The Modernization and Information Technology Services Organization Can Improve Its Budget Formulation, Execution, and Review Processes</i> (Reference Number 2007-20-064, dated May 9, 2007)	The MITS organization budget estimates are not based entirely on program objectives and operations planned for the upcoming budget cycle.	The MITS organization does not have formal procedures for the Budget Formulation process.	Procedures for transferring funds were not followed, and guidance for performing Spending Reviews is not complete.	

Source: TIGTA reports issued from April 2006 through May 2007.



*Annual Assessment of the  
Business Systems Modernization Program*

**Appendix X**

*Glossary of Terms*

<b>Term</b>	<b>Definition</b>
Account Management Services	The Account Management Services project will modernize the capability to collect, view, retrieve, and manage taxpayer information.
Best Practice	A best practice is a technique or methodology that, through experience and research, has proven to reliably lead to a desired result.
Business Rule	A business rule is a statement that defines or constrains some aspect of the business.
Business Rules Harvesting	Business rules harvesting is a general term used to broadly describe the entire set of activities involved in gathering, formalizing, analyzing, and validating business rules for a particular scope.
Campus	The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Customer Account Data Engine (CADE)	The CADE is the foundation for managing taxpayer accounts in the IRS modernization plan. It will consist of databases and related applications that will replace the IRS' existing Master File processing systems and will include applications for daily posting, settlement, maintenance, refund processing, and issue detection for taxpayer tax account and return data.
Deferral	A deferral is an approved request for verification of a requirement or set of requirements to be moved to another phase of testing.
Earned Value Management	Earned value management involves measuring actual cost and work accomplished against the budgeted cost and planned work scheduled. Variances are analyzed for decision making.



*Annual Assessment of the  
Business Systems Modernization Program*

<b>Term</b>	<b>Definition</b>
Electronic Fraud Detection System	The Electronic Fraud Detection System is the primary information system used to support the IRS Criminal Investigation Division's Questionable Refund Program, which is a nationwide program established in January 1997 to detect and stop fraudulent and fictitious claims for refunds on income tax returns.
Enterprise Application Integration Broker	The Enterprise Application Integration Broker is a commercial off-the-shelf solution that will be used to enable the communication and data transformations between components of the Account Management Services organization, the current processing environment, and the CADE.
Enterprise Computing Center	An Enterprise Computing Center supports tax processing and information management through a data processing and telecommunications infrastructure.
Enterprise Integration, Test, and Evaluation	Enterprise Integration, Test, and Evaluation includes processes for integrating multiple components of a solution and conducting various types and levels of testing on the solution.
Enterprise Life Cycle	The Enterprise Life Cycle is a structured business systems development method that requires the preparation of specific work products during different phases of the development process.
Executive Steering Committee	An Executive Steering Committee oversees investments, including validating major investment business requirements and ensuring that enabling technologies are defined, developed, and implemented.
Filing and Payment Compliance	The Filing and Payment Compliance project will provide support for detecting, scoring, and working nonfiler cases (filing compliance) and delinquency cases (payment compliance).
Filing Season	The filing season is the period from January through mid-April when most individual income tax returns are filed.



*Annual Assessment of the  
Business Systems Modernization Program*

<b>Term</b>	<b>Definition</b>
Firm Fixed-Price Task Order	A firm fixed-price task order sets a price that is not subject to any adjustment because of cost overruns incurred by the contractor.
Forms 1040, 1040EZ, and 1040A	Forms 1040, 1040EZ, and 1040A are the series of IRS forms for individual income tax returns.
Individual Master File	The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.
Information Technology Modernization Vision and Strategy	The Information Technology Modernization Vision and Strategy establishes a 5-year plan that drives investment decisions; addresses the priorities around modernizing front-line tax administration and supporting technical capabilities; and leverages existing systems (where possible) and new development (where necessary) to optimize capacity, manage program costs, and deliver business value on a more incremental and frequent basis.
Infrastructure	Infrastructure is the fundamental structure of a system or organization. The basic, fundamental architecture of any system (electronic, mechanical, social, political, etc.) determines how it functions and how flexible it is to meet future requirements.
Logical Design	Logical design describes the functions required of a system; that is, what is to be done, not how it will be done. Logical design is concerned with the processes to be performed.
Master File	The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Milestone	Milestones provide for “go/no-go” decision points in a project and are sometimes associated with funding approval to proceed.



*Annual Assessment of the  
Business Systems Modernization Program*

<b>Term</b>	<b>Definition</b>
Modernized e-File	The Modernized e-File project develops the modernized, web-based platform for filing approximately 330 IRS forms electronically, beginning with the U.S. Corporation Income Tax Return (Form 1120), U.S. Income Tax Return for an S Corporation (Form 1120S), and Return of Organization Exempt From Income Tax (Form 990). The project serves to streamline filing processes and reduce the costs associated with a paper-based process.
PRIME Contractor	The PRIME contractor is the Computer Sciences Corporation, which heads an alliance of leading technology companies brought together to assist with the IRS' efforts to modernize its computer systems and related information technology.
Release	A release is a specific edition of software.
Return on Investment	Return on investment is the net profit or loss in an accounting period divided by the capital investment used during the period, usually expressed as an annual percentage return.
Task Order	A task order is an order for services placed against an established contract.
Tax Gap	The tax gap is the difference between the annual Federal tax obligation and the amount of tax that taxpayers pay voluntarily and timely.
Transition Management	Transition management helps ensure personnel and organizations are prepared to receive, use, operate, and maintain the business processes and technology provided by business change solutions.
Vision and Strategy	The Vision and Strategy phase translates the fundamental business strategy into a transformation strategy for business processes, information technology, and organizational change.



*Annual Assessment of the  
Business Systems Modernization Program*

**Appendix XI**

*Management's Response to the Draft Report*



CHIEF INFORMATION OFFICER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

**RECEIVED**

JUL 26 2007

July 26, 2007

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard A. Spires  
Chief Information Officer

SUBJECT: Draft Audit Report – Annual Assessment of the Business Systems  
Modernization Program (Audit #20072003) (i-trak #2007-26305)

Thank you for the opportunity to review the subject draft audit report and to meet with the audit team to discuss earlier draft report observations. As a result of our meetings, the audit team has incorporated some of our suggestions into the draft report.

We appreciate your recognition that the IRS' Business System Modernization program continued to deliver project releases during the 2006 calendar year that improve taxpayer service. For example:

- The Customer Account Data Engine (CADE) provides new capabilities that accelerate taxpayer access to account information by up to 7 days.
- The Modernized e-File (MeF) enables corporations to file both Federal and State returns concurrently. Additionally, expansion of the system's base to include partnership income tax returns added another 2.7 million potential users to MeF.
- The Filing and Payment Compliance (F&PC) release will help eliminate backlogs in the large number of outstanding tax liabilities.

We are also pleased that your report points out that the Modernization and Information Technology Services organization is addressing significant challenges and program barriers through its High Priority Initiative program.

We would like to mention that much has been accomplished since the data gathering for this audit was completed. The Transition Management Office (TMO) has developed and implemented a Performance Measurements Program that includes metrics to assist the TMO in identifying potential risks and issues for appropriate action. We have also developed monitoring plans for conducting and documenting periodic evaluations of the Federally Funded Research and Development Corporation (FFRDC) contractor, beginning with the 07 task orders. In addition, the IRS is continually revising and improving the Post Implementation Review process, as well as implementing process improvements that address many of the previously identified gaps and recommendations.



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

2

We would also like to explain, and subsequently provide some perspective for, the 36% cost overrun relative to release 3.2 of MeF, reflected in Table 1 of the report. A large part of the overrun is attributable to unanticipated security requirements that were needed prior to the release going live. Additional software changes, significant testing, and stress testing were also required to accommodate mandated large filers. Lastly, we addressed an unanticipated number of defects prior to the release going live.

As always, we appreciate the audit team's advice on ways to further improve the process to effectively manage and monitor business requirements. We fully agree with the recommendation reflected in the report and the attachment to this memo details our planned actions to implement your recommendation.

We appreciate your continued support and the valuable assistance and guidance that your team provides. If you have any questions, please contact me at (202) 622-6800. Members of your staff may also contact Perry Robinett, Director of Program Oversight Coordination, at (202) 283-6283.

Attachment



---

*Annual Assessment of the  
Business Systems Modernization Program*

---

Attachment

Draft Audit Report – Annual Assessment of the Business Systems Modernization Program  
(Audit #200720003) (i-trak #2007-26305)

---

**RECOMMENDATION #1:** The Chief Information Officer should 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 Modernization program can begin to achieve resolution of the challenges identified in this report, and subsequently address downgrading the Modernization material weakness.

**CORRECTIVE ACTION #1:** We agree with the recommendation. The High Priority Initiative (HPI) process is a prescribed six-month cycle for the Modernization and Information Technology Services' Associate Chief Information Officer organizations to identify, select, manage, and prioritize initiatives that executive leadership considers crucial for continued strategic growth and success. Corrective actions are evaluated and submitted as HPI candidates, when appropriate, and are selected based upon executive leadership discretion. In this manner, the IRS will continue to execute the HPI process and include Modernization program corrective actions from TIGTA and Government Accountability Office reports. The IRS will continue to deliver monthly HPI reports until it is able to downgrade the Modernization material weakness.

**IMPLEMENTATION DATE:** December 31, 2010

**RESPONSIBLE OFFICIAL:** Deputy Associate Chief Information Officer, Business Integration

**CORRECTIVE ACTION MONITORING PLAN:** We enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.