



*Modernization Program Uncertainties Are  
Affecting the Account Management Services  
Project Development*

**June 9, 2009**

**Reference Number: 2009-20-071**

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.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 9, 2009

**MEMORANDUM FOR CHIEF TECHNOLOGY OFFICER**

*Michael R. Phillips*

**FROM:**

Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Modernization Program Uncertainties Are Affecting the Account Management Services Project Development (Audit # 200820010)

This report presents the results of our review of the Account Management Services (AMS) project release<sup>1</sup> development. The overall objectives of this review were to determine whether the AMS project management team is following established systems development processes to ensure effective and efficient delivery of AMS Releases 1.3 and 2.1 and to assess the adequacy of internal controls to ensure appropriate expenditure and reporting of funds used to support AMS system release activities. This review was part of our Fiscal Year 2009 Annual Audit Plan under the major management challenge of Modernization of the Internal Revenue Service (IRS).

*Impact on the Taxpayer*

The AMS system will provide IRS employees with immediate access to taxpayer account data and the ability to perform instantaneous transaction processing and daily account settlement. Although the AMS project management team generally followed established systems development processes to deliver Releases 1.3 and 2.1, IRS management needs to decide what future project development plans will be followed and improve project funding controls. Addressing these issues will allow the AMS system to help meet the ongoing need to modernize tax administration processes, applications, and technologies, and to enhance the level of service provided to the nation's taxpayers.

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



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### Synopsis

Our assessment of project management controls and activities in the development and deployment of AMS Releases 1.3 and 2.1 found that adequate documentation was developed and maintained to meet Enterprise Life Cycle<sup>2</sup> requirements for deliverables and work products, as well as project work breakdown structure schedules, task orders and modifications, and meeting minutes.

In Calendar Year 2007, the IRS conducted an extensive technical analysis on the future of the AMS system, the Customer Account Data Engine, and the Integrated Data Retrieval System. This analysis subsequently resulted in a decision to modernize and reuse the Integrated Data Retrieval System,

eliminating the need to develop many of the capabilities originally planned for the AMS system.

In August 2008, the IRS Commissioner established a Program Integration Office to manage the migration of taxpayer account processing to a modernized environment. This Office concluded that the original capabilities planned for the AMS system were not consistent with revised modernization goals. A recommendation to stop all activities on AMS Release 2.2 and future releases was approved by the Customer Service Executive Steering Committee on September 22, 2008.

Because of these tentative plans about its future, IRS executives need to make several strategic decisions that will affect the future of the AMS system. The longer these decisions are delayed, the greater the risk of costly rework.

Although contracted work for the AMS system was performance-based, timely finalized, and monitored, the contract was not developed in a manner to appropriately control spending across releases. Because of the form of the contract and the absence of key internal controls over funding, the AMS project management team experienced difficulty in managing project funding for Releases 1.3, 2.1, 2.2, and 3.1. Expenses for infrastructure were obligated from Release 1.3 to implement requirements for projected IRS users through Release 3.1. This resulted in a shortfall of available funding to complete Release 1.3 application development activities.

The AMS project management team decided to spend money across releases in order to proceed with project development. They initially approved spreading infrastructure costs across multiple releases because these costs do in fact benefit multiple releases. However, because some development work was associated with project infrastructure, budget managers began to spend development funds in the same way. Ultimately, development not associated with infrastructure

***The AMS project management team completed deployment of Release 1.3 on February 20, 2009. Release 2.1 is on track for its scheduled August 5, 2009, delivery.***

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<sup>2</sup> See Appendix IV for an overview of the Enterprise Life Cycle.



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was paid for by using funds from future releases to support current releases (i.e., cross-release spending). The AMS project management team agreed that formally reallocating the money through the existing governance process would have been the proper method for handling the funding shortfalls.

### *Recommendations*

The Chief Technology Officer should ensure that AMS project management activities follow the appropriate governance process to redirect remaining AMS funding to complete Releases 1.3 and 2.1. To address the need to improve controls over project funding, the Chief Technology Officer should consider directing project management teams and contracting officers to propose modernization task orders with the ability to readily account for system development activity funding on a release basis and, for major modernization development projects, on a milestone basis. Actions should be taken to reinforce existing governance procedures to Modernization and Information Technology Services organization executives and managers about release-specific project funding. In addition, the Chief Technology Officer should provide training and desk procedures on the proper use of release-specific (and, where applicable, milestone-specific) project funding. The procedures should provide detailed steps for preparing, reviewing, and approving requisitions.

### *Response*

The IRS agreed with our recommendations. The Account Management Services project request to realign funds to complete Releases 1.3 and 2.1 followed the governance process, received approval from governance committees, and notified external stakeholders. The Associate Chief Information Officer for Management's Financial Management Services Business Systems Modernization team will meet with the Procurement organization and Business Systems Modernization project managers to assess current practices and determine what changes are necessary to implement our contracting recommendations. The Modernization and Information Technology Services organization will reinforce existing governance procedures to ensure that this topic is included as an agenda item for discussion at appropriate Executive Steering Committee meetings. Further, formal desk procedures, including the appropriate use of release-specific and milestone-specific project funding, are under development. Management's complete response to the draft report is included as Appendix VI.

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



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*Abbreviations*

AMS	Account Management Services
IRS	Internal Revenue Service



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### *Background*

The Account Management Services (AMS) system will provide Internal Revenue Service (IRS) employees in multiple business operating divisions with immediate access to taxpayer account data. The AMS system also has the ability to perform instantaneous transaction processing and daily account settlement, which are critical to improving customer service. In addition, the AMS system will provide IRS employees with the ability to access and update taxpayer accounts regardless of whether the data reside in the current Master File<sup>1</sup> processing environment or in the modernized Customer Account Data Engine.

***The IRS chartered the AMS project management team to meet the ongoing need to modernize tax administration processes, applications, and technologies, and to enhance the level of service provided to the nation's taxpayers.***

Work was initiated in May 2006 to design and develop the AMS system. The AMS system plans include capabilities to 1) provide IRS employees with data presentation services to display and validate changes to update taxpayer accounts, 2) store and manage actions and activities by IRS employees, such as work assignments, transfers, case closures, and generation of letters to the taxpayer, and 3) implement applications that monitor taxpayer accounts for followup activity or deferred actions.

The first release of the AMS system delivered the capability to update authoritative taxpayer account data on a daily basis to more than 33,000 customer service representatives.

- AMS Release 1.1 updated taxpayer accounts to the Customer Account Data Engine using the Enterprise Architecture Integration Broker.
- AMS Release 1.2 built the framework necessary to view and monitor taxpayer accounts, capture activity history, and automate the managing and reporting of work to an online process.
- AMS Release 1.3 merges existing IRS Desktop Integration and Correspondence Imaging System applications into the AMS system.

AMS Release 2.1 plans include extending the capabilities established by Release 1.3 and providing new enterprise-wide services that were not previously available as part of the existing Desktop Integration and Correspondence Imaging System applications. With this release, the

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



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AMS system will improve technology and business processes to address taxpayer needs more quickly, efficiently, and accurately. Specifically, Release 2.1 will:

- Enable IRS employees to view and access taxpayer account and image data directly from either the current processing environment or modernized systems using a single, integrated environment called the Virtual Case Folder.
- Provide the ability for online name changes to either the current processing environment or modernized accounts.
- Implement improvements for electronic routing of forms and access to additional current processing environment systems.

In Fiscal Years 2005, 2006, and 2008, the AMS Releases 1.1, 1.2, 1.3, and 2.1 obtained funding for development activities totaling more than \$41 million as shown in Figure 1.

**Figure 1: Account Management Services Project Funding**

<b>Release</b>	<b>Milestone</b>	<b>Fiscal Year 2005 (in millions)</b>	<b>Fiscal Year 2006 (in millions)</b>	<b>Fiscal Year 2008 (in millions)</b>	<b>Release Totals (in millions)</b>
<b>1.1</b>	2/3	\$4.011	-	-	-
<b>1.1</b>	4a	\$1.421	-	-	-
<b>1.1</b>	4b	-	\$2.007	-	<b>\$7.439</b>
<b>1.2</b>	2/3	-	\$3.489	-	-
<b>1.2</b>	4a	-	\$1.793	-	-
<b>1.2</b>	4b	-	\$3.463	-	<b>\$8.745</b>
<b>1.3</b>	2/3	-	\$2.596	-	-
<b>1.3</b>	4a	-	\$1.655	-	-
<b>1.3</b>	4b	-	-	\$8.509	<b>\$12.760</b>
<b>2.1</b>	2/3	-	\$4.949	-	-
<b>2.1</b>	4a	-	-	\$3.282	-
<b>2.1</b>	4b	-	-	\$3.979	<b>\$12.210</b>
<b>Totals</b>		<b>\$5.432</b>	<b>\$19.952</b>	<b>\$15.770</b>	<b>\$41.154</b>

Source: IRS Business Systems Modernization Expenditure Plans for Fiscal Years 2005, 2006, 2007, and 2008.



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This review was performed at the Modernization and Information Technology Services organization facilities in New Carrollton, Maryland, during the period August 2008 through February 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This review was included in the Treasury Inspector General for Tax Administration Fiscal Year 2009 Annual Audit Plan under the major management challenge of Modernization of the IRS. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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*Results of Review*

***The Account Management Services Project Management Team  
Generally Followed Established Systems Development Processes***

The AMS project management team completed deployment of Release 1.3 on February 20, 2009. Release 2.1 is on track for its scheduled delivery on August 5, 2009. Our assessment of project management controls and activities in development and deployment of these releases found that adequate documentation was developed and maintained to meet Enterprise Life Cycle<sup>2</sup> requirements for deliverables and work products, as well as project work breakdown structure schedules, task orders and modifications, and meeting minutes. The AMS project management team adequately implemented the following management controls for developing Releases 1.3 and 2.1.

**Configuration Management:** The configuration management plan addresses key items required by the Enterprise Life Cycle. The project management team performed the required configuration audits prior to the exit of Release 1.3 Milestone 4b, is following an appropriate formal change request process, and is using a formal process to track changes.

**Risk Management:** The AMS project management and risk management plans provide for comprehensive risk management activities. In addition, the project management team effectively measured the potential quantitative and qualitative effects of risks.

**Requirement Development and Management:** The Business Rules and Requirements Management Office led the requirements development activities and was the first approving office on the Business Systems Requirements Report, which was approved in a timely manner. Information Technology Project Control Reviews and Executive Steering Committee meetings regularly identify AMS system requirement issues and their appropriate resolution.

Requirements were documented in accordance with the Enterprise Life Cycle guidance into the Business Systems Requirements Report. The Design Specifications Report and Business Systems Requirements Report both provide bidirectional traceability for requirements. Bidirectional traceability provides assurance that the requirements expected and approved to be deployed are the requirements that are actually deployed.

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<sup>2</sup> See Appendix IV for an overview of the Enterprise Life Cycle.



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**Transition Management:** The AMS transition management plan adequately addressed the topics required by the Enterprise Life Cycle and Transition Management Office Transition Management Guide. It covers the following areas as required by the Guide and template:

- Change requests.
- Impact assessments.
- User and third-party training.
- Staffing and funding.
- Operational documentation.
- Definitions of post-Milestone 5 roles, responsibilities, and changes.

### ***Work Has Been Suspended on Future Account Management Services Project Releases***

During Calendar Year 2007, the IRS conducted an extensive technical analysis on the future of the AMS system, the Customer Account Data Engine, and the Integrated Data Retrieval System. As part of this analysis, the IRS evaluated the long-term modernization goals and objectives.

Under the advice of executives from the IRS business operating divisions and the Modernization and Information Technology Services organization, the IRS Commissioner subsequently decided that the IRS would pursue an approach to modernize and reuse the Integrated Data Retrieval System. This decision eliminated the need to develop many capabilities originally planned for the AMS system, such as directly updating taxpayer accounts for use by the Customer Account Data Engine. As part of the Integrated Data Retrieval System modernization and reuse strategy, the Customer Account Data Engine will link directly to the Integrated Data Retrieval System and direct access to the AMS system will no longer exist.

In August 2008, the IRS Commissioner established a Program Integration Office to manage the migration of taxpayer account processing to a modernized environment. The Program Integration Office subsequently performed a portfolio review that included an assessment of AMS Releases 2.1 and 2.2. The assessment concluded that the original capabilities planned for the AMS system were not consistent with Program Integration Office goals for the modernization of taxpayer accounts. The Program Integration Office recommendation to stop all activities on AMS Release 2.2 and future releases was approved by the Customer Service Executive Steering Committee on September 22, 2008.

Because of these tentative plans about its future, IRS executives from the business operating divisions and the Modernization and Information Technology Services organization need to make several strategic decisions about the future of the AMS system. The longer it takes to make these decisions, the greater the risk of costly rework.



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### **Recommendation**

**Recommendation 1:** The Chief Technology Officer should ensure that the AMS project development activities follow the appropriate governance process to redirect remaining AMS funding to complete Releases 1.3 and 2.1.

**Management's Response:** The IRS agreed with this recommendation. The Account Management Services project request to realign funds to complete Release 1.3 and 2.1 followed the governance process. The request received approval from the Customer Service Executive Steering Committee on December 5, 2008, and from the Modernization and Information Technology Services Enterprise Governance Board on January 23, 2009. Notification was made to the Department of the Treasury and the Office of Management and Budget.

### ***Adequate Project Funding Controls Were Not Implemented***

The task order and related work requests for the AMS system were performance-based, timely finalized, and monitored. However, the AMS task order was not developed in a manner to appropriately control spending across the various releases, and key internal controls over AMS funding were not implemented.

The AMS project management team experienced difficulty in managing project funding for Releases 1.3, 2.1, 2.2, and 3.1. Expenses for infrastructure were obligated from Release 1.3 to provide capability to implement requirements for projected IRS users through Release 3.1. This resulted in a shortfall of available funding to complete Release 1.3 application development activities.

The Modernization and Information Technology Services organization executives and AMS project managers identified the need for additional Release 1.3 funding. However, instead of reallocating and transferring the funding through the existing governance process, they used funds from future releases for the current release (i.e., cross-release spending) to proceed with project development.

The AMS project management team decided to spend money across releases in order to proceed with project development. They initially approved spreading infrastructure costs across multiple releases because these costs do in fact benefit multiple releases. However, because some development work was associated with project infrastructure, budget managers began to spend development funds in the same way. Ultimately, development not associated with infrastructure was paid for using cross-release spending. When one release was low on funding, they procured assets and services for that release by charging the expense to other releases. The AMS project management team agreed that formally reallocating the money through the existing governance process would have been the proper method for handling the funding shortfalls.



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Project development funds totaling almost \$5.4 million were spent across various AMS releases. A total of 15 cross-release spending transactions were made for development costs between January 14, 2008, and November 20, 2008. Of the 15 cross-release spending transactions:

- Eight transactions totaling almost \$3.2 million involved requisitions where the narrative descriptions of work to be performed clearly did not match the funding source, referred to as the internal order code. Adequate internal controls where the narrative description is compared to the internal order code would have identified these transactions as inappropriate.
- Seven transactions involved requisitions where narrative descriptions and internal order codes did not identify that another release was charged with costs.
  - Two transactions totaling approximately \$771,724 had narrative descriptions that matched the internal order codes. However, the development work performed for these transactions supported other releases.
  - Five transactions totaling almost \$1.5 million had narrative descriptions that did not clearly identify the release supported by the transaction.

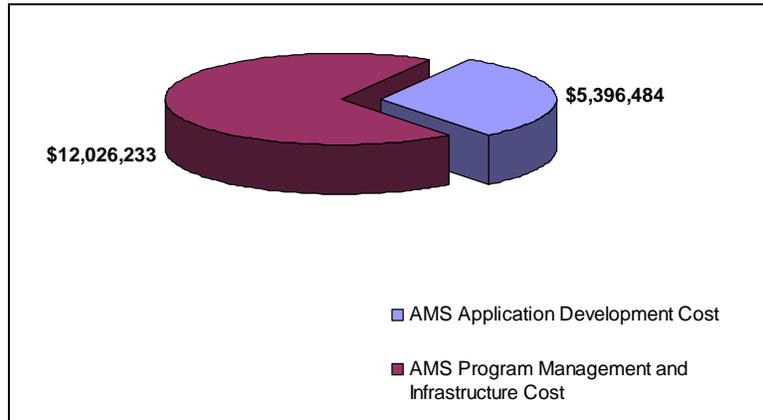
The IRS informed us about the specific releases these seven transactions actually supported and confirmed that the transactions involved cross-release spending. An adequate internal control would require a review by the project manager to assure that the work requisitioned is clearly and completely described in the requisition narrative description and that the work supports the appropriate release activity.

A total of approximately \$17.4 million was spent across AMS releases, comprised of almost \$5.4 million of development costs discussed previously, and about \$12 million of infrastructure and project management costs. These infrastructure and project management costs did benefit multiple releases. However, allocation of these funds to multiple releases did not go through the Modernization and Information Technology Services organization's governance process for approval. Figures 2 through 5 present a breakdown of the cross-release spending transactions.



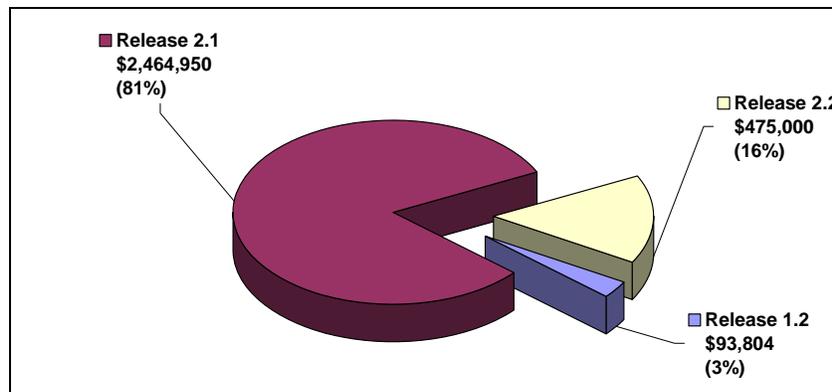
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**Figure 2: Total AMS Cross-Release Spending From All Releases**



Source: IRS Integrated Financial System and Requisition Tracking System.

**Figure 3: Release 1.3 Obtained \$3,033,754 in Project Development Funding From 3 Different Releases**

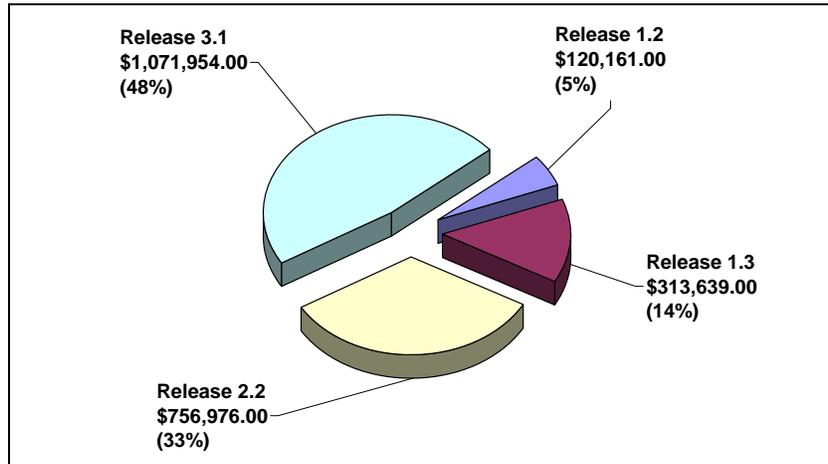


Source: IRS Integrated Financial System and Requisition Tracking System.



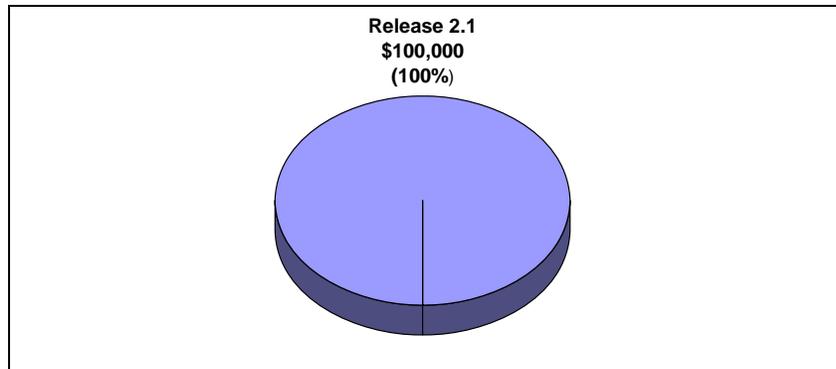
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**Figure 4: Release 2.1 Obtained \$2,262,730 in Project Development Funding From 4 Different Releases**



Source: IRS Integrated Financial System and Requisition Tracking System.

**Figure 5: Release 2.2 Obtained \$100,000 in Project Development Funding From Release 2.1**



Source: IRS Integrated Financial System and Requisition Tracking System.

While the cross-release spending occurred with management’s knowledge, several internal controls that could have prevented it were not in place.

**AMS system contract work was not release-specific**

As required by Congress and the Government Accountability Office, the Modernization and Information Technology Services organization reports on modernization project costs and deployment schedules in the Business Systems Modernization Expenditure Plan. The Expenditure Plan reports project costs and schedules by system, release, and milestone. However, the AMS project development task order was not release- or milestone-specific.



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Neither the task order nor 14 of 15 modifications limited contracted work to an individual AMS project release.

With a contract of this scope, control over spending for each release can be difficult. The absence of a release-specific contract contributed to cross-release spending. A release-specific contract may have provided improved controls for employees, including requisition preparers, approving officials, the financial plan manager, and management, to prevent cross-release spending.

### **The existing governance process was not used to reallocate funds across releases**

Existing procedures provide for formal reporting and reallocation of funds through the governance process. As discussed previously, the Modernization and Information Technology Services organization and the AMS project management team chose not to report shortfalls to the Customer Service Executive Steering Committee and the Modernization and Information Technology Services Enterprise Governance Committee. Instead, they chose to alleviate funding shortfalls through cross-release spending.

***Funding for modernization projects is unique compared to funding for the remainder of IRS operations.***

### **Employees were not properly trained and there were no written procedures for preparing, reviewing, or approving requisitions**

Our review of questionable development requisitions found cross-release spending transactions containing narrative descriptions and coding that could have identified the transaction as potentially inappropriate. However, employees and managers working with AMS project requisitions did not identify the transactions as inappropriate because they were not properly trained and did not have written operating procedures.

Modernization funding is controlled through the Business Systems Modernization Expenditure Plan. A proposed modernization project's budgets and status are presented in the Expenditure Plan with details at the project release and milestone levels. Before funding is made available, the Expenditure Plan must be reviewed by the Government Accountability Office and approved by Congress. To enable proper reporting, all expenditures must be accounted for at the project release and milestone levels. In addition, modernization funding is made available on a schedule that does not mirror the IRS fiscal year.

Many of the employees or managers involved in the requisition development and approval process had prior training or experience with IRS budgeting, funding, and requisitions. However, no formal training is available for working with Business Systems Modernization requisitions, expenditures, and accounting.

None of the employees we interviewed that were responsible for preparing and approving AMS project requisitions had any written procedures on how to properly 1) work with Business



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Systems Modernization accounting codes and expenditures or 2) prepare, review, and approve Business Systems Modernization requisitions. In addition, they were not instructed to compare the requisition coding to the narratives to determine the accuracy of expenditures.

The Chief Financial Officer developed a detailed list of release-specific accounting codes and updates it quarterly. The list is available to IRS employees on the Chief Financial Officer's web site for reference. However, other than the AMS project's Budget Manager, project employees, and managers working with AMS project requisitions were unaware that these codes were available for reference.

Most of the employees and managers interviewed were unfamiliar with release-specific accounting codes. Some did not know that project expenses were tracked down to the release level. Most were unaware of rules and procedures regarding cross-release spending and how to prepare, review, or approve a transaction in a way that would prevent such spending. Adequate training and formal procedures for preparing, reviewing, or approving requisitions would have helped employees identify and possibly prevent most of the AMS project cross-release spending.

### **Management Actions:**

As a result of the identification of the cross-release spending, Modernization and Information Technology Services organization management took the following steps to properly execute budget allocation and funding actions that required Customer Service Executive Steering Committee approval:

- Allocated architecture costs across all available releases.
- Allocated infrastructure expenses benefiting multiple releases.
- Identified required realignment actions to continue funding the development of Releases 1.3 and 2.1 in excess of original planned amounts.

To implement the budget allocation and change actions, the Modernization and Information Technology Services organization:

- Obtained Customer Service Executive Steering Committee concurrence with architecture and infrastructure funding approaches.
- Obtained Customer Service Executive Steering Committee approval of AMS project budget realignments.
- Used incremental funding to begin procurement actions to avoid a work stoppage.
- Temporarily used the Business Systems Modernization management reserve account to fund the AMS project realignment change request.
- Obtained Modernization and Information Technology Services organization Enterprise Governance Committee approval and provided notification to external stakeholders.



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- Submitted change requests for the Business Systems Modernization Expenditure Plan.
- Approved the Corrective Action Plan for the Exhibit 300 Capital Asset Plan and Business Case.

In addition, Modernization and Information Technology Services organization management informed us that they had instituted a control to prevent inappropriate funding from releases and milestones that have not been initiated. The control denies access to release and milestone funds through the Integrated Financial System until the project starts work related to those particular releases or milestones.

### ***Recommendations***

The Chief Technology Officer should:

**Recommendation 2:** Direct project management teams and contracting officers to propose modernization task orders with the ability to readily account for system development activity funding on a release basis and, for major modernization development projects, on a milestone basis. Designating contract activities for specific release and milestone capital development activities will provide clear funding and reporting traceability and more accessible assessments of contract funding progress.

**Management's Response:** The IRS agreed with this recommendation. The Associate Chief Information Officer for Management's Financial Management Services Business Systems Modernization team will meet with:

- The Procurement organization to discuss how the recommendation can be incorporated with Procurement guidelines.
- Business Systems Modernization project managers to assess current practices and determine what changes are necessary to ensure implementation of our recommendations, amended if necessary by Procurement's input.

Based on the results of these discussions, the Financial Management Services Business Systems Modernization team will issue budgetary guidelines. IRS management does not believe there is a governance impact to Recommendation 2.

**Recommendation 3:** Reinforce existing governance procedures to Modernization and Information Technology Services organization executives and managers about release-specific project funding, the need to gain approval of funding reallocations, and requirements to communicate these changes to stakeholders.

**Management's Response:** The IRS agreed with this recommendation. The Associate Chief Information Officer for Management's Financial Management Services Business Systems Modernization team will review current policies/procedures regarding



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Business Systems Modernization release-specific project funding, parameters around funding reallocations, and external stakeholder notifications to ensure they reflect the latest guidance. The team will then reissue existing policies/procedures to information technology executives and managers. In addition, the team will partner with the Enterprise Services' Program Governance Office to reinforce existing governance procedures and to ensure that this topic is included as an agenda item for discussion at appropriate Executive Steering Committee meetings.

**Recommendation 4:** Provide training and desk procedures on the proper use of release-specific (and, where applicable, milestone-specific) project funding. The procedures should provide detailed steps for preparing, reviewing, and approving requisitions. The procedures should include, at a minimum, the following controls:

- 1) When requisitions are initiated, requisition preparers, financial plan managers, and approvers must:
  - a) Verify that the narrative describing the work to be performed in the requisition is clear and identifies the project release supported.
  - b) Compare the internal order code to the narrative to ensure that the correct release is being charged for the expense.
- 2) Before requisitions are executed, the project manager must verify that the actual work requisitioned supports the release to be charged for the cost.

**Management's Response:** The IRS agreed with this recommendation. The suggested controls have been discussed with Applications Development organization requisition preparers, reviewers, and approvers and are now in place. Formal desk procedures, including the appropriate use of release-specific and milestone-specific project funding, are under development.



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## **Appendix I**

### *Detailed Objectives, Scope, and Methodology*

The overall objectives of this review were to determine whether the AMS project management team is following established systems development processes to ensure effective and efficient delivery of AMS Releases<sup>1</sup> 1.3 and 2.1 and to assess the adequacy of internal controls to ensure appropriate expenditure and reporting of funds used to support AMS project release activities. This review was part of our Fiscal Year 2009 Annual Audit Plan under the major management challenge of Modernization of the IRS.

To accomplish our objectives, we identified the internal control guidance for the AMS system's development. This guidance includes the Enterprise Life Cycle<sup>2</sup> and the Internal Revenue Manual. We assessed the adequacy of AMS project development activities in relation to the guidance provided by these internal control systems. We also assessed the adequacy of AMS project development and program plans by reviewing Business Systems Modernization program and project documentation and data provided by the IRS, the Business Systems Modernization Expenditure Plans, and the Exhibit 300, Capital Asset Plan and Business Case, required by the Office of Management and Budget. We supported this work by interviewing Applications Development organization and Enterprise Services organization personnel. Specifically, we:

- I. Determined whether the AMS project management team followed established systems development processes to ensure the timely delivery of AMS Release 1.3 with all planned capabilities.
  - A. Obtained the AMS project configuration management plan and interviewed AMS project management to assess project configuration management activities.
  - B. Obtained relevant Item Tracking Reporting and Control System reports to determine whether AMS project risk management processes were sufficient.
  - C. Interviewed AMS project management and obtained relevant requirements management documentation to assess project requirements development and management efforts.
  - D. Determined the adequacy of contract management for Release 1.3 by reviewing the relevant task orders and work requests.
  - E. Determined the adequacy of transition management activities to assess IRS readiness to accept Release 1.3.

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

<sup>2</sup> See Appendix IV for an overview of the Enterprise Life Cycle.



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- F. Determined the adequacy of the Release 1.3 Pilot Plans.
- II. Determined the status of the AMS project management team members' and Wage and Investment Division managers' efforts to deliver new capabilities with AMS Release 2.1 in a timely manner. We accomplished this through interviews and by reviewing electronic AMS project documentation.
  - A. Determined the adequacy of efforts to deliver Virtual Case Folder capabilities.
  - B. Reviewed efforts to move the AMS system to the Employee User Portal and the decision to suspend the New Portal Implementation Project.
  - C. Determined the adequacy of the AMS project management team's efforts to deliver the online capability to update taxpayer names.
  - D. Assessed the status of the design and development work on the AMS system enhancements scheduled for delivery with Release 2.1.
  - E. Assessed the adequacy of Release 2.1 project management controls.
    - 1. Assessed the adequacy of controls concerning management of project resources such as personnel, funding, facilities and tools, and stakeholder coordination and involvement.
    - 2. Assessed the adequacy of controls to manage project requirements.
    - 3. Assessed the adequacy of controls to manage identified project risks and issues.
- III. Assessed the adequacy of internal controls that ensure appropriate expenditure and reporting of funds used to support AMS project release activities.
  - A. Reviewed criteria and assessed the adequacy of controls for the initiation, approval, expenditure, and reporting of modernization project costs. For this subobjective, we analyzed financial data provided by the IRS. We did not independently test the validity of these data.
  - B. Reviewed criteria and assessed the adequacy of controls for transferring funds between releases within a modernization project.



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**Appendix II**

*Major Contributors to This Report*

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Edward A. Neuwirth, Audit Manager

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Bruce Polidori, Senior Auditor

Glen J. Rhoades, Senior Auditor



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*Modernization Program Uncertainties Are Affecting  
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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Chief Information Officer OS:CIO  
Commissioner, Wage and Investment Division SE:W  
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:  
    Commissioner, Wage and Investment Division SE:W  
    Associate Chief Information Officer, Applications Development OS:CIO:AD  
    Acting Director, Procurement OS:A:P  
    Director, Program Oversight OS:CIO:SM:PO



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## **Appendix IV**

### *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 phases and milestones within the Enterprise Life Cycle. 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 (milestone) at which IRS executives make "go/no-go" decisions for continuation of a project. Project funding decisions are often associated with milestones.



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**Figure 1: Enterprise Life Cycle Phases and Milestones**

Phase	General Nature of Work	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*.



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**Appendix V**

*Glossary of Terms*

<b>Term</b>	<b>Definition</b>
Business Systems Modernization	A complex effort that began in Calendar Year 1999 to modernize IRS technology and related business processes.
Capital Asset Plan and Business Case	Also known as Exhibit 300, it is used as a one-stop document for a myriad of information technology management issues such as business cases for investments, agency modernization efforts, and overall project management. The Office of Management and Budget requires each agency to submit an Exhibit 300 twice each year for each major information technology investment.
Correspondence Imaging System	Captures and stores images of correspondence from taxpayers including letters, returned notices, and standard forms.
Customer Account Data Engine	Consists of databases and related applications that will replace the IRS official repository of taxpayer information (the Master File) and provide the foundation for managing taxpayer accounts to achieve the IRS modernization vision.
Customer Service Executive Steering Committee	Has the responsibility for ensuring the successful implementation and integration of modernization projects and related program activities within its portfolio by overseeing investments, including validating major investment business requirements and ensuring that enabling technologies are defined, developed, and implemented.
Desktop Integration	Provides integrated access to multiple systems using only 1 computer terminal and supports more than 30,000 end-users.
Employee User Portal	A web-hosting infrastructure that supports an Intranet portal that allows IRS employees to access business applications and data.
Enterprise Architecture Integration Broker	A commercial off-the-shelf solution that will be used to enable the communication and data transformations between components of the AMS system, the current processing environment, and the Customer Account Data Engine.



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<b>Term</b>	<b>Definition</b>
Enterprise Life Cycle	A structured business systems development method that requires the preparation of specific work products during different phases of the development process.
Governance	An IRS designed enterprise governance model that assigns all information technology projects to an appropriate executive oversight body.
Infrastructure	The fundamental structure of a system or organization. The basic, fundamental architecture of any system (electronic, mechanical, social, political, etc.) that determines how it functions and how flexible it is to meet future requirements.
Integrated Data Retrieval System	An IRS mission-critical system consisting of databases and programs supporting IRS employees working active tax cases. It manages data retrieved from the Master File allowing IRS employees to take specific actions on taxpayer account issues, track status, and post updates back to the Master File.
Integrated Financial System	The IRS' administrative financial accounting system.
Item Tracking Reporting and Control System	An information system used to track and report on issues, risks, and action items in the modernization effort.
Master File	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.
Modernization and Information Technology Services Enterprise Governance Committee	The highest level recommending and decision-making body to oversee and enhance enterprise management of information systems and technology. It ensures strategic modernization and information technology program investments, goals, and activities are aligned with and support 1) the business needs across the enterprise and 2) the modernized vision of the IRS.
New Portal Implementation Project	A project to establish a portal system to provide better access to information, services, and applications for all internal and external IRS user communities.



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<b>Term</b>	<b>Definition</b>
Online Name Changes	Allows IRS employees to make online updates to taxpayer names through a common interface to update the Customer Account Data Engine.
Release	A specific edition of software.
Requirement	A formalization of a need and the statement of a capability or condition that a system, subsystem, or system component must have or meet to satisfy a contract, standard, or specification.
Requisition Tracking System	A web-based application that allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods and services.
Task Order	An order for services planned against an established contract.
Virtual Case Folder	A means for the customer service desktop application to provide a view of taxpayer account and case information to authorized users.
Work Breakdown Structure	A deliverable-oriented grouping of project elements that organizes and defines the total scope of a project. A project schedule used to manage the tasks, task relationships, and resources needed to meet project goals.



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**Appendix VI**

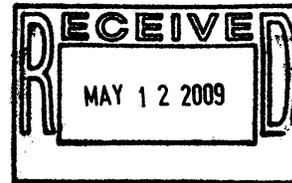
*Management's Response to the Draft Report*



CHIEF TECHNOLOGY OFFICER

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

MAY 06 2009



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Terence V. Milholland  
Chief Technology Officer

*Terence V. Milholland*

SUBJECT:

Draft Audit Report – Modernization Program Uncertainties  
Are Affecting the Account Management Services Project Development  
(Audit #200820010) (i-trak #2009-56906)

Thank you for the opportunity to review your draft audit report and to meet with the audit team to discuss earlier draft report observations. We appreciate your comments and acknowledgment that the Modernization and Information Technology Services organization implemented adequate management controls for developing the Accounts Management Services project. We also acknowledge and appreciate the audit team's advice on ways to further improve the funding control processes and procedures for the Business Systems Modernization program. We agree with the audit recommendations and the attachment to this memo details our planned actions to implement your suggestions.

Your continued support and the assistance and guidance provided by your team are valuable to our business units. If you have any questions, please contact me at (202) 622-6800 or Perry Robinett, Director of Program Oversight, at (202) 283-6283.

Attachment



*Modernization Program Uncertainties Are Affecting  
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Attachment

Draft Audit Report – Modernization Program Uncertainties Are Affecting the Account Management Services Project Development (Audit #200820010) (i-trak #2009-5690)

**RECOMMENDATION #1:** The Chief Technology Officer should ensure that the AMS project development activities follow the appropriate governance process to redirect remaining AMS funding to complete Releases 1.3 and 2.1.

**CORRECTIVE ACTION #1:** We agree with this recommendation. The Account Management Services project request to realign funds to complete Releases 1.3 and 2.1 followed the governance process. The request received approval from the Customer Service Executive Steering Committee on December 5, 2008, and from the Modernization and Information Technology Services Enterprise Governance Board on January 23, 2009. Notification was provided to Treasury and the Office of Management and Budget.

**IMPLEMENTATION DATE:** Completed February 18, 2009 (date of OMB Approval)

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Applications Development

**RECOMMENDATION #2:** The Chief Technology Officer should direct project management teams and contracting officers to propose modernization task orders with the ability to readily account for system development activity funding on a release basis and, for major modernization development projects, on a milestone basis. Designating contract activities for specific release and milestone capital development activities will provide clear funding and reporting traceability and more accessible assessments of contract funding progress.

**CORRECTIVE ACTION #2:** We agree with this recommendation. The Associate Chief Information Officer for Management's Financial Management Services Business Systems Modernization team will meet with:

- The Procurement organization to discuss how the recommendation can be incorporated with Procurement guidelines; and
- Business Systems Modernization project managers to assess current practices, and determine what changes are necessary to ensure implementation of TIGTA's recommendations, amended if necessary by Procurement's input.

Based on the results of these discussions, the Financial Management Services Business Systems Modernization team will issue budgetary guidelines. We do not believe there is a governance impact to Recommendation #2.

**IMPLEMENTATION DATE:** June 1, 2010

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Management

**CORRECTIVE ACTION MONITORING PLAN:** We enter accepted Corrective Actions into the Joint Audit Management Enterprise System and monitor them on a monthly basis until completion.



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*Modernization Program Uncertainties Are Affecting  
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Attachment

Draft Audit Report – Modernization Program Uncertainties Are Affecting the Account Management Services Project Development (Audit #200820010) (i-trak #2009-5690)

**RECOMMENDATION #3:** The Chief Technology Officer should reinforce existing governance procedures to Modernization and Information Technology Services organization executives and managers about release-specific project funding, the need to gain approval of funding reallocations, and requirements to communicate these changes to stakeholders.

**CORRECTIVE ACTION #3:** We agree with this recommendation. The Associate Chief Information Officer for Management's Financial Management Services Business Systems Modernization team will review current policies/procedures regarding Business Systems Modernization release-specific project funding, parameters around funding reallocations and external stakeholder notifications to ensure they reflect the latest guidance. We will then re-issue existing policies/procedures to information technology executives and managers. In addition, the team will partner with the Enterprise Services' Program Governance Office to reinforce existing governance procedures and to ensure that this topic is included as an agenda item for discussion at appropriate Executive Steering Committee meetings.

**IMPLEMENTATION DATE:** February 1, 2010

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Management

**CORRECTIVE ACTION MONITORING PLAN:** We enter accepted Corrective Actions into the Joint Audit Management Enterprise System and monitor them on a monthly basis until completion.

**RECOMMENDATION #4:** The Chief Technology Officer should provide training and desk procedures on the proper use of release-specific (and, where applicable, milestone-specific) project funding. The procedures should provide detailed steps for preparing, reviewing, and approving requisitions. The procedures should include, at a minimum, the following controls:

- 1) When requisitions are initiated, requisition preparers, financial plan managers, and approvers must:
  - a) Verify that the narrative describing the work to be performed in the requisition is clear and identifies the project release supported.
  - b) Compare the internal order code to the narrative to ensure that the correct release is being charged for the expense.
- 2) Before requisitions are executed, the project manager must verify that the actual work requisitioned supports the release to be charged for the cost.

**CORRECTIVE ACTION #4:** We agree with the recommendation. The suggested controls have been discussed with Applications Development requisition preparers, reviewers and approvers and are now in place. Formal desk procedures, including the appropriate use of release-specific and milestone-specific project funding, are under development.



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Attachment

Draft Audit Report – Modernization Program Uncertainties Are Affecting the Account Management Services Project Development (Audit #200820010) (i-trak #2009-5690)

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**IMPLEMENTATION DATE:** October 1, 2009

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Applications Development

**CORRECTIVE ACTION MONITORING PLAN:** We enter accepted Corrective Actions into the Joint Audit Management Enterprise System and monitor them on a monthly basis until completion.