



*Challenges Continue With Reporting
Complete and Accurate Information in the
Federal Financial Management Improvement
Act Remediation Plan*

May 31, 2011

Reference Number: 2011-10-041

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.

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HIGHLIGHTS

CHALLENGES CONTINUE WITH REPORTING COMPLETE AND ACCURATE INFORMATION IN THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT REMEDIATION PLAN

Highlights

Final Report issued on May 31, 2011

Highlights of Reference Number: 2011-10-041 to the Internal Revenue Service Chief Financial Officer.

IMPACT ON TAXPAYERS

The Federal Financial Management Improvement Act (FFMIA) remediation plan is a critical part of the Internal Revenue Service's (IRS) efforts to bring its financial management systems into compliance with the FFMIA and to provide reliable and timely financial data. Overall, the IRS still faces significant challenges in its efforts to comply with the FFMIA. Complete and reliable financial information is critical to the IRS's ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

WHY TIGTA DID THE AUDIT

The overall objectives of this review were to report to Congress, as required by the FFMIA, any instances of, and the reasons for, missed intermediate target dates established in the IRS's Fiscal Year 2010 FFMIA remediation plan and to determine whether the IRS has taken adequate corrective actions on prior audit findings related to the FFMIA remediation plan.

WHAT TIGTA FOUND

Our review of the IRS's September 30, 2010, FFMIA remediation plan found that the IRS did not include any remediation actions for its Customer Account Data Engine 2 (CADE 2). Because the CADE 2 is the key piece of the IRS's strategy to address its material weakness related to unpaid assessments, TIGTA believes these actions should be included in the remediation plan.

The IRS was also unable to provide supporting documentation for certain resource estimates for the CADE 2, totaling \$697.2 million. Until the IRS updates its FFMIA remediation plan with actions related to the CADE 2 strategy, TIGTA will be unable to fully assess its progress in resolving noncompliance with its financial management systems.

The IRS continues to experience difficulty reporting complete and accurate resource estimates for other actions included in its remediation plan. Specifically, TIGTA found four nonsecurity action items had no resource estimates included when the remediation plan was issued. The IRS estimated those resource costs should be \$694,000. Without appropriate estimates, the remediation actions could be delayed due to insufficient resources being available when needed.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Financial Officer: 1) ensure all necessary actions and costs associated with the implementation of the CADE 2 are included in future remediation plans; 2) ensure incomplete and/or unsupported information identified during our review of the IRS's September 30, 2010, FFMIA remediation plan is appropriately updated in future plans; and 3) reemphasize the need for IRS business units to follow standard documentation requirements.

IRS officials agreed with two recommendations. Management stated they have updated the Fiscal Year 2011 first and second quarter remediation plans with the required resource estimates. In addition, management agreed to reemphasize with all business owners the need to meet specific documentation standards when providing remediation plan estimates.

However, management disagreed that all necessary actions and costs associated with the implementation of the CADE 2 be included in the FFMIA remediation plan, but agreed to include the milestones and costs related to updating the financial systems to leverage the information from the CADE 2. TIGTA maintains the appropriateness of including the CADE 2 costs in the FFMIA remediation plan.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 31, 2011

MEMORANDUM FOR CHIEF FINANCIAL OFFICER

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

SUBJECT: Final Audit Report – Challenges Continue With Reporting Complete and Accurate Information in the Federal Financial Management Improvement Act Remediation Plan (Audit # 201010022)

This report presents the results of our review of the Internal Revenue Service's (IRS) Federal Financial Management Improvement Act¹ (FFMIA) remediation plan for Fiscal Year 2010. The overall objectives of this review were to report to Congress, as required by the FFMIA, any instances of, and the reasons for, missed intermediate target dates established in the IRS's Fiscal Year 2010 FFMIA remediation plan and to determine whether the IRS has taken adequate corrective actions on prior audit findings related to the FFMIA remediation plan. This review was included in the Treasury Inspector General for Tax Administration Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Leveraging Data to Improve Program Effectiveness and Reduce Costs.

Management's complete response to the draft report is included as Appendix V.

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 Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations) at (202) 622-8500.

¹ Pub. L. No. 104-208, 110 Stat. 3009.



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Abbreviations

CADE 2	Customer Account Data Engine 2
CFO	Chief Financial Officer
FFMIA	Federal Financial Management Improvement Act of 1996
FY	Fiscal Year
GAO	Government Accountability Office
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



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Background

The Federal Financial Management Improvement Act of 1996 (FFMIA)¹ was established to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to Government managers. Further, this disclosure should be done on a basis that is uniform across the Federal Government from year to year by consistently using professionally accepted accounting standards. Specifically, FFMIA Section 803 (a) requires each agency to implement and maintain systems that comply substantially with:

As of November 2010, the Government Accountability Office (GAO) continued to report that the IRS's financial management systems do not comply with FFMIA requirements.

- Federal Government financial management systems requirements.
- Applicable Federal Government accounting standards.
- The United States Government Standard General Ledger at the transaction level.

If an agency's financial systems do not comply, the agency is required to develop a remediation plan that describes the resources, remedies, and intermediate target dates for achieving compliance and to file the plan with the Office of Management and Budget. In addition, FFMIA Section 804 (b) requires that agency Inspectors General report to Congress instances when an agency has not met the intermediate target dates established in its remediation plan and the reasons why those dates were not met. Because the GAO has reported noncompliance with the requirements of the FFMIA in its audits of the Internal Revenue Service's (IRS) annual financial statements, the IRS has been required to prepare and maintain a remediation plan.

In November 2010, the GAO continued to report² that the IRS's financial management systems do not comply with FFMIA requirements. Specifically, the IRS does not post tax-related transactions in conformance with Federal Government requirements and its records lack adequate traceability for taxes receivable.³ In addition, the IRS has material weaknesses in its internal controls over both information security and unpaid assessments. The information security material weakness compromises the accuracy and availability of the IRS's financial information and places sensitive information regarding taxpayers and IRS operations at risk. The unpaid assessments material weakness impacts the IRS's ability to effectively manage these assessments. For example, the

¹ Pub. L. No. 104-208, 110 Stat. 3009.

² *Financial Audit: IRS's Fiscal Years 2010 and 2009 Financial Statements* (GAO-11-142, dated November, 2010).

³ Federal taxes receivable consist of tax assessments, penalties, and interest not paid or abated which were agreed to by the taxpayer and the IRS or upheld by the courts.



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GAO reported in November 2009⁴ that the IRS lacks a subsidiary ledger for unpaid assessments that would allow it to produce reliable and timely financial management information.

Chief Financial Officer (CFO) management stated that the IRS implemented a new accounting system in January 2010, the Redesign Revenue and Accounting Control System, which will allow it to post transactions in compliance with Federal Government requirements, support traceability for revenue transactions, and further assist it in becoming compliant with the FFMIA.

The IRS informed us that it does not believe it will become compliant with the FFMIA and will not be able to address the material weakness relating to unpaid assessments until approximately November 2014, pending successful implementation of the Customer Account Data Engine 2 (CADE 2) strategy. The CADE 2 strategy, as designed, will allow the IRS to modernize the processes it uses to account for the records of individual taxpayers and create a single overall system of records. In addition, the time to process and update individual taxpayer account data would be shortened from a weekly to a daily basis, which will improve the timeliness and accuracy of this information.

This review was performed in the office of the CFO at the IRS National Headquarters in Washington, D.C., during the period August 2010 through January 2011. 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. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁴ *Financial Audit: IRS's Fiscal Years 2009 and 2008 Financial Statements* (GAO-10-176, dated November 2009).



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Results of Review

The IRS continues to face challenges with becoming compliant with the FFMIA. Our review of the IRS's September 30, 2010, FFMIA remediation plan found that the IRS did not include any remediation actions for the CADE 2. Because the CADE 2 is the key piece of the IRS's strategy to address its material weakness related to unpaid assessments, we believe these actions should be included in the remediation plan. The IRS was also unable to provide supporting documentation for certain resource estimates for the CADE 2, totaling \$697.2 million. Until the IRS updates its FFMIA remediation plan with actions related to the CADE 2 strategy, we will be unable to fully assess its overall progress in resolving its noncompliance.

In addition, the IRS continues to experience difficulty in reporting complete and accurate resource estimates for several other actions included in its remediation plan. Accurate and complete resource estimates are necessary to effectively evaluate the commitments needed to fully implement all of the remediation actions presented in the IRS's FFMIA remediation plan. Without the appropriate estimates, the remediation actions could be delayed due to insufficient resources being available when needed. Complete and accurate information related to the IRS's remediation actions is critical to ensuring the IRS will achieve full compliance with the FFMIA.

Intermediate Target Dates Were Extended

During the period October 1, 2009, through September 30, 2010, the IRS reported that it:

- Added 12 remediation actions to the 30 open remediation actions in its September 30, 2009, remediation plan.
- Completed 12 remediation actions, leaving 30 open remediation actions in its September 30, 2010, remediation plan.

Each of the 30 open remedial actions had an intermediate target date that extended more than 3 years from the initial determination that IRS financial management systems were not in substantial compliance with the FFMIA. As required, the IRS obtained concurrence from the Office of Management and Budget to extend its corrective actions beyond the 3-year limitation.

Our review of the 30 open remediation actions indicated that the IRS did not miss any intermediate target dates. However, the IRS did extend one intermediate target date for an open remediation action. Although the IRS had a reasonable explanation for the extended intermediate target date, delays could further hinder the IRS's ability to timely resolve the reported issues that cause its noncompliance with the FFMIA.



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Although the IRS declined to fully implement our Fiscal Year (FY) 2008⁵ recommendation to develop a comprehensive system for tracking findings and recommendations, we found that it has improved the documentation it maintains regarding the status of findings and recommendations. In addition, all findings and recommendations made by the GAO were being addressed in the IRS's September 30, 2010, remediation plan. Because the IRS has improved its recordkeeping for the FFMIA remediation plan, we are not making an additional recommendation on this issue.

The Remediation Plan Did Not Contain All the Necessary Actions to Address the Unpaid Assessments Material Weakness

The IRS continues to have a material weakness over unpaid assessments. The IRS plans to close this material weakness by November 30, 2014, pending successful implementation of the CADE 2. However, the IRS's remediation plan does not contain any action items or costs associated with this system. IRS management informed us that, in their opinion, including actions and milestones pertaining to how financial systems (primarily the Custodial Detailed Database system) will leverage the information in the CADE 2 to improve the IRS's financial reporting is sufficient to meet the reporting requirements of the FFMIA.

However, because this system is presented as the solution to closing a significant material weakness, its progress and cost should be reflected in the remediation plan. In July 2009, the IRS estimated the projected nonrecurring cost for this project to be \$377 million and the recurring cost to be \$320.2 million for FYs 2009 through 2014.

Completion of the CADE 2 is an integral part of the IRS's plan to improve the timeliness and accuracy of its individual taxpayer account data. Until the IRS updates its FFMIA remediation plan with actions related to the CADE 2 strategy, we will be unable to fully assess its overall progress in resolving its noncompliance.

Recommendation

Recommendation 1: The CFO should ensure that all necessary actions and costs associated with the implementation of the CADE 2 are included in future remediation plans.

Management's Response: Management disagreed that all actions and costs associated with the implementation of the CADE 2 should be included in the FFMIA Remediation Plan. Management stated the FFMIA remediation plan was created to address the actions required for IRS financial systems and believes that the CADE 2 is

⁵ *The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan As of December 31, 2008* (Reference Number 2009-10-094, dated July 30, 2009).



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not a financial system, but a Business System Modernization project used to modernize the IRS tax system for individual taxpayer account data. Management also stated that the IRS currently provides the Treasury Inspector General for Tax Administration (TIGTA) with quarterly briefings and ongoing detailed information including milestones and costs on all CADE 2 activities.

Management agreed to enter into the remediation plan all milestones and costs when the financial systems have been updated to leverage the information from CADE 2, as appropriate. Due to the long-term FY 2011 Continuing Resolution, management stated that funding is not currently available for the CADE 2 activities and, as a result, there are no actions to report on at this time.

Office of Audit Comment: The IRS informed the TIGTA in a prior review that it does not believe it will become compliant with the FFMIA and address the material weakness relating to unpaid assessments until approximately November 2014, pending successful implementation of the CADE 2 strategy. The CADE 2 strategy, as designed, will allow the IRS to modernize the processes it uses to account for the financial records of individual taxpayers, create a single overall system of records, and improve the timeliness and accuracy of this information. As such, we believe including key actions and costs associated with the CADE 2 in the FFMIA remediation plan will increase the likelihood of the IRS addressing the material weakness relating to unpaid assessments and enable the IRS and external stakeholders to better monitor the IRS's progress in becoming compliant with the FFMIA. In addition, while the IRS disagreed with including all actions and costs associated with the CADE 2 in the FFMIA remediation plan, IRS management agreed to include the milestones and costs related to updating the financial systems to leverage the information from the CADE 2. We believe the IRS should report this information now and not wait until the IRS begins to update its financial systems when CADE 2 information is available.

Resource Information for Some Nonsecurity Action Items Is Still a Concern

Although the documentation maintained by the IRS regarding security action item resource estimates has improved, we believe that improvements are needed for nonsecurity actions. In three of our last five FFMIA annual reports,⁶ we found that remediation plans had security action

⁶ *The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan As of December 31, 2006* (Reference Number 2007-10-077, dated May 21, 2007); *The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan As of December 31, 2008* (Reference Number 2009-10-094, dated July 30, 2009); *The Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan As of September 30, 2009* (Reference Number 2010-10-065, dated June 4, 2010).



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item entries that were missing. In each report, we made recommendations that the CFO needed to be more vigilant when reviewing the plans before submission. In response to our FY 2009 report recommendation, the IRS agreed that it would develop standardized guidance that requires more specific documentation standards for security actions in its remediation plan. Our review indicates that supporting documentation from the Chief Technology Officer on security resource estimates has significantly improved.

However, documentation for nonsecurity items remains a concern. In our review of the September 30, 2010, FFMIA remediation plan, we found that some nonsecurity items did not contain all required information. Specifically, we found four nonsecurity action items had no resource estimates included when the remediation plan was issued. After we brought this to IRS management's attention, they informed us that: 1) the costs associated with these resource estimates should be \$694,000, and 2) they plan to include this information in future remediation plans.

Without appropriate and verifiable cost estimates for all action items, some remediation plan action items could be delayed due to insufficient resources being available when needed. Outdated and/or inaccurate cost information also affects IRS management's ability to timely and reliably estimate accurate completion dates for remediation actions. Until the IRS develops and completes the necessary remediation plan actions to address all of the GAO's open findings and recommendations, the IRS will continue to be noncompliant with the FFMIA.

Recommendations

The CFO should:

Recommendation 2: Ensure that incomplete and unsupported information identified during our review of the IRS's September 30, 2010, FFMIA remediation plan is appropriately updated in future remediation plans.

Management's Response: Management agreed and has updated the FY 2011 first and second quarter remediation plans with the required resource estimates.

Recommendation 3: Reemphasize the need for IRS business units responsible for nonsecurity estimates to follow standard FFMIA documentation requirements. The CFO should ensure the following minimum information is provided by the business units: 1) a breakdown and explanation of costs such as hardware, software, and contractor support that are included in the estimate; 2) a general description of how the estimate was developed; and 3) the date the estimate was prepared and last updated.



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Management's Response: Management agreed with this recommendation and stated they currently provide guidance to the business owners with planned actions in the IRS remediation plan to address the FFMIA Remediation Plan Review and Reporting Requirements. This standardized guidance requires that business owners meet specific documentation standards in providing the remediation plan estimates, including a breakdown and explanation of estimated costs for hardware, software, and contractor support; a description of the estimation methodology; and the dates indicating when the last estimates were calculated. Management agreed to reemphasize adherence to this guidance with all business owners during the third quarter.



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Appendix I

Detailed Objectives, Scope, and Methodology

The overall objectives of this review were to report to Congress, as required by the FFMIA, any instances of, and the reasons for, missed intermediate target dates established in the IRS's FY 2010 FFMIA remediation plan and to determine whether the IRS has taken adequate corrective actions on prior audit findings related to the FFMIA remediation plan. To accomplish our objective, we:

- I. Gained an understanding of the requirements of the FFMIA, including Office of Management and Budget and Department of the Treasury guidance for compliance with the Act.
- II. Determined whether the IRS's remediation plan was consistent with GAO recommendations from prior IRS financial audits and related financial management reports.
- III. Determined whether: 1) the IRS missed any intermediate target dates established in its remediation plan, 2) intermediate target dates were extended without sufficient documentation to support the revised dates, and 3) proper approval was obtained for remedial actions extending more than 3 years.
 - A. Verified that all remedial actions have intermediate target dates established.
 - B. Identified instances when the IRS had not met the intermediate target dates.
 - C. Determined the reason the IRS did not meet the intermediate target date if any missed dates were identified.
 - D. Compared the September 30, 2010, IRS FFMIA remediation plan to the FY 2009 plan to identify intermediate target dates that had changed since the previous TIGTA review, and obtained and analyzed documentation supporting any changes.
 - E. Identified any intermediate target dates extending more than 3 years since the recommendation was reported.
 - F. Verified that Office of Management and Budget approval was obtained for any instances where the intermediate target dates extended more than 3 years.
- IV. Determined whether: 1) the IRS remediation plan had established resource needs for remedial actions, and 2) the resources presented were consistent with supporting documentation.
 - A. Verified that resource requirements were identified for all remedial actions.



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- B. Obtained budget information from IRS management.
 - C. Traced remediation plan resources to budget information.
 - D. Interviewed the functional financial plan managers associated with all significant cost estimates.
 - E. Determined the reason the resource needs did not match budget information for any differences identified.
- V. Determined whether the IRS had taken adequate corrective actions on prior reported audit findings related to the FFMIA remediation plan.
- A. Identified prior open TIGTA audit findings and corresponding management responses concerning corrective actions that should have been completed by the time of our audit.
 - B. Confirmed through discussions/observations whether actions had been completed.
 - C. Evaluated the actions taken by the IRS to improve its tracking of open FFMIA material weaknesses.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objectives: the IRS's policies, procedures, and practices for tracking planned remediation actions due to identified material weaknesses impacting its financial management systems. We evaluated these controls by interviewing management and reviewing applicable documentation.



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Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Jeffrey M. Jones, Director
Joseph F. Cooney, Audit Manager
Mildred Rita Woody, Lead Auditor
Robert Beel, Senior Auditor
Chinita M. Coates, Auditor
Rashme Sawhney, Auditor



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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
Associate Chief Financial Officer for Corporate Planning and Internal Controls OS:CFO:CPIC
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 Liaison: Chief Financial Officer OS:CFO



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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; \$697.2 million. This measure represents the difference between the resource estimates reported in the IRS's September 30, 2010, FFMIA remediation plan and the supporting documentation provided by the IRS (see page 4).

Methodology Used to Measure the Reported Benefit:

To determine whether the IRS reliably reported estimated resources in its September 30, 2010, FFMIA remediation plan, we compared the estimated resources to the supporting documentation and interviewed selected IRS personnel. We found that there were no resource estimates reported for the CADE 2 system. In July 2009, the IRS estimated the projected nonrecurring cost for this project to be \$377 million and the recurring cost to be \$320.2 million for FYs 2009 through 2014.

The total measure was calculated by adding the nonrecurring and the recurring costs together (\$377 million + \$320.2 million = \$697.2 million).

Type and Value of Outcome Measure:

- Reliability of Information – Actual; \$694,000. This measure represents the difference between the resource estimates reported in the IRS's September 30, 2010, FFMIA remediation plan and the supporting documentation provided by the IRS (see page 5).

Methodology Used to Measure the Reported Benefit:

To determine whether the IRS reliably reported estimated resources in its September 30, 2010, FFMIA remediation plan, we compared the estimated resources to the supporting documentation and interviewed selected IRS personnel. We found that some nonsecurity items did not contain all required information. Specifically, four nonsecurity action items had no resource estimates included when the remediation plan was issued. After we brought this to IRS management's attention, they informed us that the costs associated with these resource estimates should be \$694,000.



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Appendix V

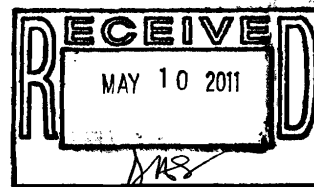
Management's Response to the Draft Report



CHIEF FINANCIAL OFFICER

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

May 4, 2011



MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *Pamela J. LaRue*
Pamela J. LaRue
Chief Financial Officer

SUBJECT: Draft Audit Report – Challenges Continue With Reporting
Complete and Accurate Information in the Federal Financial
Management Improvement Act Remediation Plan (Audit #
201010022)

We reviewed the subject draft report and agree with the recommendations to address incomplete and unsupported resource estimates in future remediation plans, and the need to reemphasize standard documentation guidelines for the remediation plan estimates. We disagree with the recommendation that all necessary actions and costs associated with the implementation of the Customer Account Data Engine 2 (CADE 2) be included in future remediation plans.

Attached are our detailed comments to your recommendations. If you have any questions, please contact Peter Rose, Acting Associate Chief Financial Officer, Corporate Planning and Internal Control, at (202) 622-4508.

Attachment



Challenges Continue With Reporting Complete and Accurate Information in the Federal Financial Management Improvement Act Remediation Plan

Attachment

RECOMMENDATION 1

The CFO should ensure that all necessary actions and costs associated with the implementation of CADE 2 are included in future remediation plans.

CORRECTIVE ACTION

The IRS disagrees that all actions and costs associated with the implementation of CADE 2 should be included in the Federal Financial Management Improvement Act (FFMIA) Remediation Plan. The FFMIA remediation plan was created to address the actions required for IRS financial systems (e.g., the Custodial Detail Database (CDDDB) and Redesign Revenue Accounting Control System (RRACS)). To more accurately report on unpaid assessments and to provide traceability from the general ledger system back to the taxpayer accounts as required by OMB Circular A-127, CDDDB and RRACS will use improved information from CADE 2 as the authoritative individual taxpayer record after implementation of Transition State 2 (TS2). It is important to note that CADE 2 is not a financial system, but a Business System Modernization (BSM) project used to modernize the IRS tax system for individual taxpayer account data.

The IRS currently provides TIGTA with quarterly briefings and ongoing detailed information including milestones and costs on all CADE 2 activities. The IRS provided TIGTA with the CADE 2 Milestone 0 Basis of Estimate during the remediation plan audit to show the detailed assumptions and resource estimates for deploying the Financial Settlement phase of CADE 2 TS2 scheduled for 2014, dependent on funding. CADE 2 TS2 will restructure the core tax processing applications to leverage and populate the new relational database with consistent penalty and interest calculations; record tax, penalty, and interest separately for each tax assessment; and allocate credits to specific debits to show the paid portion and remaining balance of each assessment so downstream systems, including the financial systems, can take advantage of this more complete, accurate, and timely data.

The IRS agrees to enter into the remediation plan all milestones and costs when the financial systems will be updated to leverage the information from CADE 2, as appropriate. Due to the long-term FY 2011 Continuing Resolution, funding is not currently available for the TS2 activities, and, as a result, there are no actions to report on at this time.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A



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RECOMMENDATION 2

The CFO should ensure that incomplete and unsupported information identified during our review of the IRS's September 30, 2010, FFMIA remediation plan is appropriately updated in future remediation plans.

CORRECTIVE ACTION

IRS agrees with this recommendation. The CFO has updated the FY 2011 first and second quarter remediation plans with the required resource estimates.

IMPLEMENTATION DATE

April 15, 2011

RESPONSIBLE OFFICIAL

Chief Financial Officer

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3

The CFO should reemphasize the need for IRS business units responsible for non-security estimates to follow standard FFMIA documentation requirements. The CFO should ensure the following minimum information is provided by the business units: 1) a breakdown and explanation of costs such as hardware, software, and contractor support that are included in the estimate; 2) a general description of how the estimate was developed; and 3) the date the estimate was prepared and last updated.

CORRECTIVE ACTION

The IRS agrees with this recommendation. The CFO currently provides guidance to the business owners with planned actions in the IRS remediation plan to address the FFMIA Remediation Plan Review and Reporting Requirements. This standardized guidance requires that business owners meet specific documentation standards in providing the remediation plan estimates including a breakdown and explanation of estimated costs for hardware, software, and contractor support costs; a description of the estimation methodology; and the dates indicating when the last estimates were calculated. The CFO will reemphasize adherence to this guidance with all business owners during the third quarter.

IMPLEMENTATION DATE

June 30, 2011

RESPONSIBLE OFFICIAL

Chief Financial Officer

CORRECTIVE ACTION MONITORING PLAN

N/A