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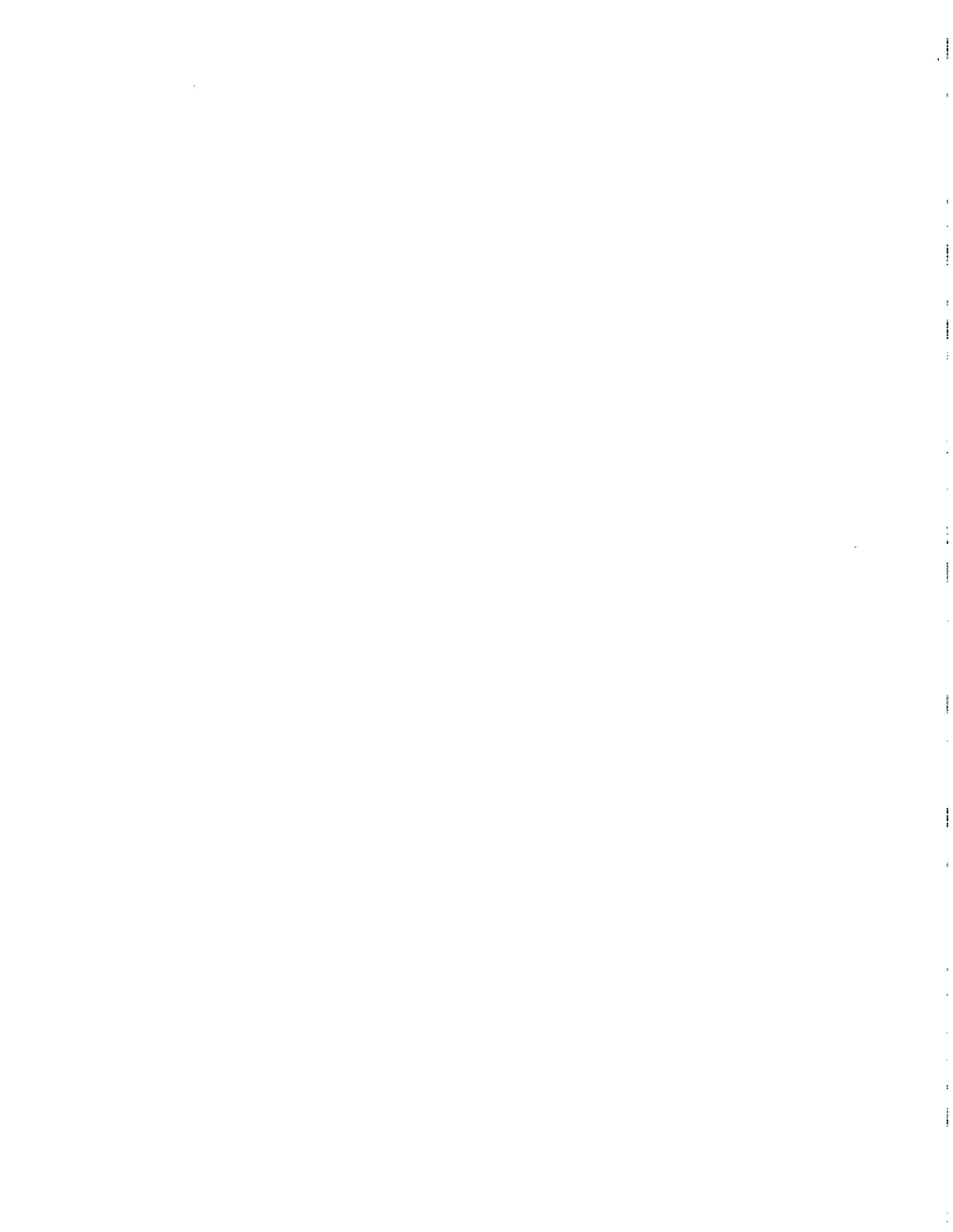
**Tax System Modernization:
Attention to Critical Issues
Can Bring Success**

Statement of
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Before the
Committee on Governmental Affairs
United States Senate



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Mr. Chairman and Members of the Committee:

We are pleased to be here today to comment on the Internal Revenue Service's (IRS) plans to modernize our nation's automated tax processing system. The project, known as Tax System Modernization, or TSM, has an enormous price tag--\$8 billion by the time it is in place around the end of this century. As shown in the chart before you (and in appendix I), expenditures for the program will soon sharply rise to over a billion dollars a year.

Our purpose today is to highlight some key prerequisites to moving forward with the modernization, and to identify issues the Committee and IRS need to focus on as TSM moves from the planning stage to implementation. Also today we will share the results of our recently completed reviews of IRS' Automated Collection System and Taxpayer Service Integrated System. In addition, you asked us to discuss two specific procurements: (1) a noncompetitive award made by IRS to the MITRE Corporation, and (2) the Departmental Microcomputer Acquisition Contract, more commonly known as the "DMAC-II" procurement, which is being conducted by the Department of the Treasury. With your permission, Mr. Chairman, I will summarize my statement, and I ask that my complete statement be placed in the record of this hearing.

SUMMARY

In the past 25 years, IRS has unsuccessfully tried on two occasions to modernize its 1950s-era tax processing system. A 1968-78 attempt was abandoned because of congressional concerns over the cost of the redesign and the security of taxpayer information. A 1982-86 effort never got beyond the planning stage because of repeated management changes and insufficient technical expertise. As a result of these failures, IRS and taxpayers are saddled with a system that is antiquated, cumbersome, and unresponsive to their needs.

Today, IRS, through hard work and leadership, is in the best position it has ever been in to modernize its antiquated systems. But it has a long way to go to make modernization a reality. A number of prerequisites to moving forward with this multibillion-dollar modernization remain unfinished.

Essential Prerequisites to Modernization

IRS' first prerequisite is to formally communicate, in a clear, comprehensive way, its vision of how it wants to do business in the future and how technology will be used to achieve this vision. Mr. Chairman, without a clear target it is impossible to hit the bull's-eye--or even know where to aim. A clearly defined, well-communicated vision of the future way of using technology to do business can serve as a rallying point, a core concept on which the Congress,

agency leaders, employees, and outside customers can focus. It is also a standard against which the Congress and IRS may measure progress. Although the Commissioner has stated in a variety of forums his vision of how the IRS of the future should use technology to do business, we think it is time to write it down, obtain a shared vision with the Congress, and put the vision in the master plan.

Second, IRS' Design Master Plan, intended as a road map or baseline for the modernization, must be put in final form, with due recognition that such plans must be fine-tuned periodically. In this regard, more than half a billion dollars has been budgeted for the modernization through fiscal year 1991, and IRS has requested \$427 million more in fiscal year 1992 for modernization initiatives without a final plan. Third, although IRS can identify the modernization's costs, it is just beginning to develop a system to track the corresponding benefits.

Only by doing these things--and doing them quickly--can the Congress and IRS itself measure progress against a firm baseline and account for the program's costs and benefits.

The Design Master Plan
Must Address Key Issues

Today, we are providing you with a report that summarizes our recently completed analysis of IRS' draft master plan for the modernization.¹ The draft plan was issued last September, and IRS expects to issue it in final form this September. In our opinion, the draft plan is a reasonable, useful, high-level guide for the modernization. But it does not address some key issues. Specifically, the plan needs to

- articulate a clear vision for the modernization,
- address more completely key planning components such as transition planning,
- establish measurable goals for assessing progress,
- fix accountability for all major modernization activities,
- address the issue of taxpayer privacy,
- address technology risks, and

¹Tax System Modernization: An Assessment of IRS' Design Master Plan (GAO/IMTEC-91-53BR, June 25, 1991).

- contain a strategy to recruit, train, and retain staff with highly technical skills.

IRS generally agreed with our assessment of the draft master plan, and intends to address these issues in its final plan and subsequent updates.

IRS Must Also Address Other Important Issues as It Begins the Modernization

IRS also faces other important issues as it implements this huge modernization program. These issues are not trivial: failure to successfully address them will result in a third failure in as many decades. Specifically, IRS needs to strengthen both its procurement and its systems development policies and practices, and ensure that it has people with the necessary technical expertise to carry out the program. Each of these is an area in which we have found past problems. For example:

- In January 1990 we reported a number of irregularities in IRS' award of a noncompetitive contract to enhance and maintain its Electronic Filing System.² As a result of our findings, IRS is reporting its procurement system as a material control weakness under the Federal Managers' Financial Integrity Act.
- We have found several instances in recent years in which projects fell behind schedule, cost more than planned, and fell short of performance expectations because IRS did not properly manage the design and development of these projects.
- Some past projects have been plagued by a lack of technical expertise, also contributing to project delays, cost overruns, and diminished technical performance.

There are signs of hope. IRS is taking steps to address all these problems and appears to be making progress. But we must not be deluded. The success or failure of the current modernization will depend on how aggressively IRS follows through on these steps. As you requested, we will be watching IRS' progress closely.

²IRS Automation: Procurement Practices Need Strengthening (GAO/IMTEC-90-24, Jan. 12, 1990).

Better Management Needed
for Collecting Back Taxes

Mr. Chairman, you asked that we share with you our views on what IRS can do to improve its collection of delinquent taxes. Another report that we are providing you with today shows that automation can help, but it is no cure-all.³ About one-third of delinquent taxpayers who return IRS' follow-up calls cannot even get through. Further, many IRS offices are not operating during the hours when taxpayers are likely to be home. In addition, IRS staff spend too much time--52 percent in fiscal year 1990--on non-collection activities. We have made several recommendations to IRS to help improve this situation; these include (1) additional automation for handling outgoing calls and for receiving and directing incoming calls, (2) adherence to IRS policy regarding hours of operation, (3) the establishment of measurements--such as target overhead rates--for evaluating call-site performance, and (4) the use of private collection companies to evaluate call-site operations and identify specific changes that would improve IRS' collection of back taxes. IRS agrees with these recommendations; if implemented, they can bring in additional millions of dollars in back taxes.

The MITRE and DMAC-II Procurements

At your request, we have reviewed IRS' noncompetitive award of a contract to MITRE Corporation and obtained some limited information on Treasury's DMAC-II procurement.

The contract to MITRE was awarded in May 1990 for engineering services in connection with the preparation of the draft Design Master Plan. We question IRS' rationale for using noncompetitive procedures in awarding this contract. IRS stated that it did not have time to compete the contract, although it had about 7 months in which to do so.

The DMAC-II contract is for microcomputers, local area networks, and related services for use throughout the Treasury Department. It has been the subject of numerous protests since it was first awarded in May 1990, and is currently under protest. We have not conducted a detailed review to determine why Treasury is having so many problems awarding this contract. We do know, however, that continued delays in making a successful award have increased the urgency of IRS' equipment needs. IRS is currently

³Collecting Back Taxes: IRS Phone Operations Must Do Better (GAO/IMTEC-91-39, June 18, 1991).

planning an interim contract using the Small Business Administration's 8(a) program to support its requirements until DMAC-II is awarded.

The following sections amplify my summary statement in greater detail.

MODERNIZATION MASTER PLAN: A PROMISING BEGINNING, BUT KEY ISSUES NEED TO BE ADDRESSED

In September 1990, IRS issued a draft Design Master Plan that is to serve as a road map for the modernization. The plan lays out a schedule for the projects that collectively form TSM and describes the overall architecture that IRS intends to use to electronically capture, process, transport, and retrieve tax returns and other information. The public version of the Design Master Plan that IRS released this month is essentially the same as the draft plan of last September.

We have reviewed the draft plan and, as stated in a report we are issuing today, we believe that overall it is a reasonable, useful, high-level guide for the development and implementation of the modernization.⁴ However, the plan does not address some key issues, including some important ones identified in our work on modernization projects in the last few years. Specifically, the plan needs to

- articulate a clear vision for the modernization,
- address more completely key planning components such as transition planning,
- establish measurable goals for assessing progress,
- fix accountability for all major modernization activities,
- address the issue of taxpayer privacy,
- address technology risks, and
- contain a strategy to recruit, train, and retain staff with highly technical skills.

⁴GAO/IMTEC-91-53BR, June 25, 1991.

IRS Needs to Describe Its Vision for the Modernization

In our February 1990 report on the modernization, we stated that the key to successfully modernizing information technology is the commitment and vision of the agency's leadership.⁵ We reported that IRS must clearly define its fundamental missions, understand the needs of the public it serves, and firmly link its information system plans to these missions and needs. After examining its missions in light of the public's future needs, IRS should prepare clear, forward-looking written statements articulating a vision for the agency. These statements then need to be communicated to the Congress for concurrence.

The draft plan made no reference to IRS' vision of how it intends to conduct its future operations. Although the Commissioner has stated his vision of the future in a variety of forums, we think it is time to write it down and clearly communicate it to the Congress. We think it reasonable that this be done before the final plan is issued in September.

Key Planning Components Were Not Complete

We looked at the way the plan described how the various projects that are part of the modernization relate to the overall modernization and to each other. We also wanted to know if there was a good definition of how IRS planned to make the transition from its current to its future operations, and if the plan established priorities for the development and implementation of the modernization projects.

Basically, we found that the plan did a good job of describing the relationships among all the projects in the modernization, but there was no detailed strategy for how these systems are to be integrated, including standards to assure they work together.

The plan also did a good job of describing how the automated systems would make the transition from the old to the new, but shortcomings existed on the business side. In other words, the plan did not describe how the business functions of IRS--collections, taxpayer services, examinations, and so on--would change from the current slow, largely manual way of doing business to the modernization's more rapid

⁵Tax System Modernization: IRS' Challenge for the 21st Century (GAO/IMTEC-90-13, Feb. 8, 1990).

electronic method. For example, the faster operations promised by the new system may result in audits being started sooner, cases being closed more quickly, and, perhaps, fewer cases because the data will be more accurate.

We found that the master plan established priorities for modernization activities, but these could change due to budgetary constraints or changes in the tax laws. One example of a priority that has already changed is telecommunications, which is now considered a high priority although it was not a high priority in the draft plan. IRS must do everything it can to assure that any changes to its priorities are well justified and the number of changes minimized.

Measurable Objectives Need To Be Established

The draft master plan was not as complete as it should have been in providing measurable program objectives. These are needed so that managers can determine if the modernization systems are achieving their goals. For example, a system intended to improve the accuracy of responses to taxpayers' questions should specify the level of accuracy sought. Such measurable objectives do not exist in the draft plan.

Accountability for the Modernization Needs To Be More Clearly Defined and a Tracking System Developed

We found that the plan contained development milestones for 10 of the 11 major modernization initiatives (appendix II contains a list and description of the 11 initiatives). However, the program management initiative, on which all systems depend, did not contain complete and consistent milestones.

The plan also did not specify the IRS organizations responsible for the 11 major initiatives that constitute the modernization program. While we were able to ultimately identify the responsible organizations in most cases, neither we nor IRS was able to identify the organizations responsible for two key projects in the Program Management initiative.

In addition, IRS lacks a system for tracking its modernization projects. Sound project management demands that the agency be able to account for its \$8-billion investment in computer modernization. In December 1990, the Office of Management and Budget requested that IRS develop such a tracking system to give IRS the ability to compare actual costs, benefits, and schedules for its modernization

projects against the modernization budget and the Design Master Plan. To date, however, such a system does not exist. Without one, we would argue that IRS cannot effectively manage this program. We understand that IRS is developing such a system, and hopes to have it implemented by 1993 or 1994.

Taxpayer Privacy Must be Addressed

IRS' systems contain highly sensitive information. This information must be kept secure and taxpayers' privacy must be assured. The draft plan provides for developing security features that should help protect taxpayers' privacy, but the plan does not recognize privacy as a discrete issue or show how it will be addressed. This is a serious omission in view of the fact that IRS intends to allow public access, under certain conditions, to some of its systems, and because concerns over the security of taxpayer information helped doom the first modernization effort in the late 1970s.

Technology Risks Need To Be Addressed

The plan also did not address the risks to the modernization program if required technology will not meet IRS' needs. As a central part of tax system modernization, IRS hopes to eliminate paper files by using new technology to optically read and electronically capture the data on tax returns and other documents when they are received at IRS. From that point on, IRS intends to work entirely with the information in electronic form. As we pointed out in a recent report, IRS needs to solve two main problems in this area.⁶

The first deals with the feasibility of optically reading data from nonstandard tax forms--for example, more than 30 types of Form 1040 are produced by different vendors. The second problem is that the technology for reading handwritten data is currently evolving, and it is uncertain whether it will reliably meet IRS' needs. In this regard, about 50 percent of the tax returns filed are handwritten. While solutions may well emerge in the future, we think that IRS needs a fallback position if these problems cannot be solved. The draft plan recognizes a significant risk in using this technology, but it does not provide a fallback position should the technology be unavailable. One alternative could be greater reliance on electronic filing of tax returns.

⁶Tax System Modernization: Status of IRS' Input Processing Initiative (GAO/IMTEC-91-9, Dec. 12, 1990).

Strategy Needed
for Hiring, Training, and Retaining
Technical and Managerial Staff

Mr. Chairman, to carry out the modernization successfully, IRS needs to have the very best people--both at the top, to provide strategic direction and leadership, and in the ranks, where individual modernization projects are planned, designed, developed, and operated. Past projects have been plagued by a lack of technical expertise. For example, last July we reported that the use of incomplete system designs and shortcutting of important development steps contributed to a 2-year delay in the development of the Automated Underreporter System, a case management system to disclose taxpayers who underreport income.⁷ These problems occurred because project management was inexperienced with large systems development, and not enough technical and procurement staff were assigned to the project. In another report we pointed out that a lack of continuity and leadership had been a problem in past modernization efforts, and noted that many project managers do not serve for the duration of a project's development.⁸

In the next 18 to 24 months IRS plans to hire an additional 325 technical staff to work on the modernization. However, the draft master plan does not lay out a strategy for the hiring, training, and retention of this specialized staff. We believe that these steps need to be followed. IRS officials have told us that because of the recent increase in pay for federal executives and the recent recession, they have not had any trouble getting qualified staff. While it may be easy to hire such staff now, we think it prudent to develop a strategy to hire them under the competitive conditions that would exist in a period of economic growth. Other essential parts of the strategy should include plans for training and retaining these critically needed staff.

The Next Version of the Plan
Will Include Some, but Not All,
Needed Additions

IRS agrees with the need to address all the issues. Some, such as the lack of a vision statement and measurable objectives, are to be addressed in the final design master

⁷Tax System Modernization: Management Mistakes Caused Delays in Automated Underreporter System (GAO/IMTEC-90-51, July 10, 1990).

⁸GAO/IMTEC-90-13, Feb. 8, 1990.

plan that IRS will issue this September, and which will serve as the baseline against which the progress of the modernization will be measured. However, other matters, such as a more complete discussion of privacy issues and plans for a transition of the business functions of IRS from the old to the new systems, will not be addressed. IRS plans to include these, and other additions, in future periodic updates to the plan.

ADDITIONAL ISSUES IRS NEEDS TO ADDRESS

I would now like to turn to additional issues that IRS needs to address as it moves toward implementing its plan to make TSM a reality. These need aggressive, committed action. We have identified these issues on the basis of our prior work. One issue, how to obtain the needed technical expertise, I have already discussed. The others are (1) improving the procurement function, and (2) better managing the design and development of systems projects.

Improving the Procurement Function

Properly directing and controlling procurement activities is essential to efficient operations; in recent years several internal and external reviews have criticized IRS' ability to achieve such direction. In January 1990 we reported, for example, a number of irregularities in IRS' noncompetitive award of a contract to Vanguard Technologies Corporation for automated data processing (ADP) services to enhance and maintain the Electronic Filing System.⁹ The basis for the noncompetitive award was unusual and compelling urgency. The irregularities we found included orally authorizing Vanguard to proceed with work before IRS (1) contacted other potential offerors, (2) had all necessary IRS approvals to contract with less than full and open competition, and (3) received procurement authorization from Treasury. As a result of these findings, IRS is reporting its procurement system as a material internal control weakness under the Federal Managers' Financial Integrity Act.

Mr. Chairman, the modernization will place huge demands on IRS' procurement organization. We have identified 18 major modernization program procurements, each over \$10 million, through fiscal year 1994. IRS estimates the total life cycle cost of these procurements to be \$8.3 billion. Some of the procurements that support the modernization have already been awarded or soon will be. For instance, in 1989 IRS awarded a \$355 million contract for ADP support services, and in December 1990 awarded a \$340 million

⁹GAO/IMTEC-90-24, Jan. 12, 1990.

contract for the Integrated Collection System, one of the modernization projects. Within the next few months, five more large contracts are to be awarded. (See appendix III for a description of the 18 procurements.)

To carry out tasks of this magnitude, IRS needs first-class acquisition and procurement organizations. IRS recognizes the importance of these organizations and knows that it will need sufficient numbers of qualified people if its procurements are to be carried out and administered efficiently, effectively, and in compliance with applicable laws and regulations--and it appears to be making headway on this problem. Last September the procurement function was elevated organizationally, and is now headed by IRS' first assistant commissioner for procurement.

IRS has ambitious plans to increase its procurement staff, but these plans are going to be difficult to carry out. The Assistant Commissioner for Procurement plans to increase the ADP procurement staff from its current 67 to 95 by August 1992. It likewise plans to increase its contract administration staff--most of whom will be devoted to ADP contracts--from 42 to 71 during the same period. Since the beginning of fiscal year 1991, 27 people have been hired for these two organizations, but attrition has also been a problem--10 people left during the same period.

The Assistant Commissioner for Procurement said that his hiring strategy is to get seasoned contract specialists who have had extensive experience in ADP and telecommunications procurements. In view of the large number of procurement actions going on now and in the near future, and the apparent difficulty in retaining staff, IRS needs to keep management attention focused on the issue of assuring that sufficient resources are available to properly handle the procurements.

Better Managing Systems Design and Development

Several of our recent reports have been critical of IRS' systems development policies and practices. By this we mean the overall management controls in place to assure that systems are developed logically and that all phases of the development process--the system development life cycle--are followed. Failure in this area leads to projects that fall behind schedule, cost more than planned, and do not do what they are supposed to do. For example, we reported that the Automated Examination System--intended to help IRS revenue agents, tax auditors, and tax examiners review income tax returns more efficiently--was 6 years behind schedule, would cost \$800 million more than planned, and

claimed unproven benefits.¹⁰ This situation was due to poor systems design. In another example, we found that haste to complete the Automated Underreporter System led to use of incomplete system designs and shortcutting of important system development steps.¹¹ These problems, compounded by the lack of adequate technical expertise and experience mentioned earlier, delayed the scheduled start of the system pilot from 1988 to October 1990.

IRS has taken some steps to improve its management of automation. This past January it issued in final form a project management guide that lays out procedures and policies that project managers are to follow. Also in the last few years, oversight groups have been established. The Information Systems Planning Board, consisting of IRS' Chief Information Officer and several other senior executives, is responsible for approval, oversight, and coordination of all information systems development projects. In addition, Information Systems Control Groups, which are led by assistant commissioners, are formed for individual projects. Their purpose is to ensure executive oversight and involvement in the development and implementation of major information systems projects, and they are to focus on the quality of project deliverables, budgets, and plans.

Despite the strengthened oversight, the systems development process continues to experience problems. Today we are releasing the report you requested on the Taxpayer Service Integrated System--a project to use automation to improve the accuracy of answers provided taxpayers who call IRS.¹² Faced with too many wrong answers being given to taxpayers who called toll-free numbers for information, IRS believed it had to act quickly and introduce an automated solution to the problem. As a result, it decided to begin nationwide installation of this system, even though test results were inconclusive and the benefits of the system had not been demonstrated. In a December 1990 meeting with IRS officials, we pointed out that IRS still needed to identify specific, measurable objectives for the system, and should explore non-automation alternatives more thoroughly. We

¹⁰ADP Modernization: IRS' Automated Examination System-- Troubled Past, Uncertain Future (GAO/IMTEC-89-54, June 22, 1989).

¹¹GAO/IMTEC-90-51, July 10, 1990.

¹²Tax System Modernization: Further Testing of IRS' Automated Taxpayer Service Systems Is Needed (GAO/IMTEC-91-42, June 20, 1991).

also expressed concern about shortcomings in the testing of the system. The Office of Management and Budget also had concerns and denied IRS' fiscal year 1992 budget request for \$41 million to expand the system because it did not appear to be cost-effective. In our report, we recommend that IRS develop a test methodology that will allow it to conclusively determine the impact of the system on toll-free telephone operations. We also recommend that IRS consider how this system can most effectively be combined with non-automation improvement initiatives to enhance the accuracy and productivity of taxpayer service call sites.

IRS NEEDS TO BETTER MANAGE ITS AUTOMATED
SYSTEM FOR COLLECTING DELINQUENT TAXES

Mr. Chairman, you asked that we share with you our views on what IRS can do to improve its collection of delinquent taxes. Today we are providing you a report on our review of IRS' Automated Collection System--a primary method IRS uses to collect taxes.¹³ The Automated Collection System is made up of computers and terminals at IRS' 10 service centers and 23 call sites. At each site, computer terminals are used to call taxpayers and display the taxpayers' files on a screen so IRS employees can determine how best to collect the taxes owed. The system is also used for handling incoming calls from taxpayers responding to delinquency and other notices.

Our work showed that automation can be used in tax collection to create new, better ways of doing business. It also showed that automation is not a cure-all and that good management is still the key to effective and efficient operations. While the system is working better than IRS' previous manual system, it has several problems:

- Too many taxpayers who call do not get through. IRS data from 10 of 23 call sites for September 1990 indicate that IRS did not respond to almost one-third of the calls received.
- Many call sites are not operating when they should be. Contrary to IRS policy, 13 sites were not staying open 64 hours a week--from 8 a.m. until 8 p.m. weekdays and 4 hours on Saturday. These sites averaged just under 49 hours per week.
- Call-site staff spend too much time on "overhead" activities. During fiscal year 1990, they spent 52 percent of their time managing, on leave, in training, or working on administrative matters, instead of actively

¹³GAO/IMTEC-91-39, June 18, 1991.

collecting delinquent taxes.

More automation can help. For example, an automated system could be used to screen incoming calls and route them to the right IRS office. This and other automated systems could free employees to collect more taxes. However, simply adding automation will not solve IRS' major problems. IRS headquarters has not exercised strong leadership and oversight, which has led to different ways of operating the call sites and inconsistent ways of measuring call-site performance.

To correct these problems and increase IRS' collection of back taxes, we have made several recommendations to IRS. These include (1) obtaining additional automation for handling outgoing calls and for receiving and directing incoming calls, (2) adherence to IRS policy regarding hours of operation, (3) the establishment of measurements--such as target overhead rates--for evaluating call-site performance, and (4) the use of private collection companies to evaluate call-site operations and identify specific changes that would improve IRS' collection of back taxes. I am pleased to say, Mr. Chairman, that IRS agreed with all of our recommendations.

OTHER ISSUES

At your request, Mr. Chairman, we recently reviewed procedures used by IRS to noncompetitively award a contract to MITRE Corporation, and events surrounding Treasury's attempts to award the Departmental Microcomputer Acquisition Contract, or "DMAC-II," as it is more commonly known.

Questions Concerning the Basis for the Noncompetitive Award to MITRE

The contract you asked us to review was to continue services that MITRE began furnishing to IRS in 1987 under an agreement with the General Services Administration (GSA). This arrangement, after a 1-year extension, expired in April 1990, after which IRS noncompetitively awarded the contract to MITRE on the basis of unusual and compelling urgency. The Competition in Contracting Act (41 U.S.C. 253 (c)(2)) provides that competition need not be full and open when an agency's need for supplies or services is so unusual and compelling that the government would be seriously injured unless the agency were permitted to limit the number of sources from which it solicits bids or proposals.

We have a number of questions concerning this procurement. Specifically:

- IRS used "unusual and compelling urgency" as a basis for avoiding full and open competition because it believed insufficient time existed to conduct a competition prior to the expiration of the MITRE contract in April 1990. Although IRS made some early attempts to obtain competition, we question why these attempts could not have been continued.
- We also question whether the failure to meet the promised delivery date would have resulted in serious injury to the government so that other than full and open competition was necessary.
- If the procurement had been delayed, in the view of IRS, the integration of systems that were presently under development would also have been delayed, resulting in a loss of \$850 million when the systems architecture was implemented in 1998. We question whether a short delay in 1990 could have resulted in such a loss 8 years later.

In addition to having some questions about the April 1990 contract, we understand that IRS awarded another noncompetitive contract to MITRE in May 1991. The contract was awarded to MITRE on the basis that it was the sole source for these services. We have written to IRS requesting an explanation of the basis for this award.

Delays in the DMAC-II Procurement
Are Forcing IRS to Look at Alternatives

The \$400-million DMAC-II contract is for microcomputer hardware, software, local area networks, and services for use throughout Treasury. However, the greatest user by far will be IRS, which will use the equipment in various modernization projects.

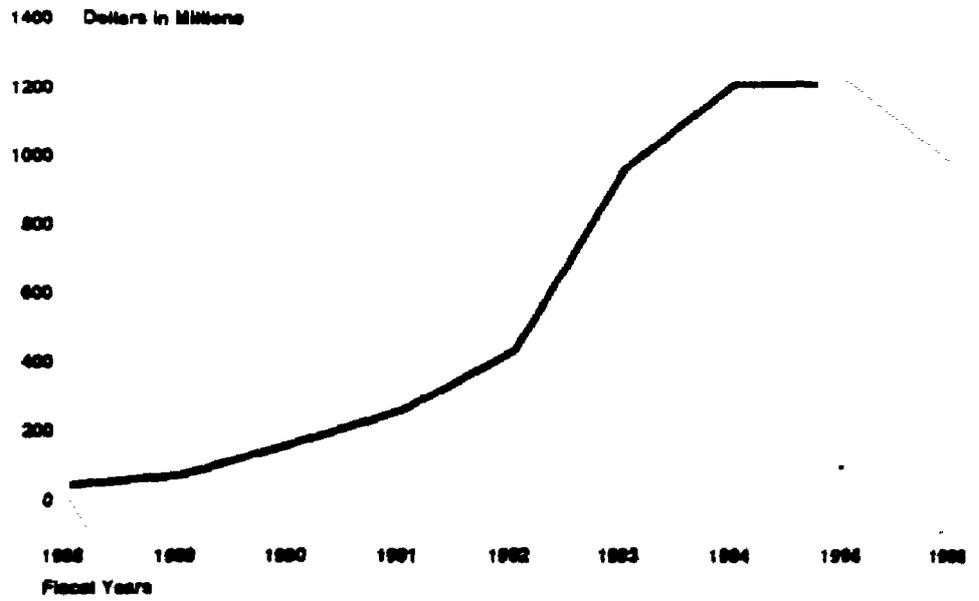
We have not conducted a detailed review of the DMAC-II procurement which, we have learned, has been the subject of a total of eight protests. In summary, Treasury released the request for proposals (RFP) in April 1988. Proposals were received in November 1988, beginning a lengthy evaluation process. Best and final offers were received from five offerors in March 1990, and in May 1990 Treasury awarded DMAC-II to Sears Business Systems Centers. In July 1990 three other offerors protested the award to the General Services Board of Contract Appeals, alleging that Sears' offer did not comply with a number of technical requirements in the RFP. The Board agreed, and ordered Treasury to cancel the award to Sears. Treasury reevaluated its needs and reopened competition for the contract in September 1990.

Best and final offers were received from two vendors in March 1991, and on May 17, Treasury awarded DMAC II to Sysorex Information Systems, Incorporated. Sears protested the award to Sysorex on May 24, alleging that Sysorex's proposal did not comply with technical requirements in the RFP. As requested, we have provided your office with a detailed chronology of these events.

We did not determine why Treasury awarded the contract in May 1990 to an offeror who was found to be noncompliant with the terms of the RFP. However, the 1-year delay in awarding the contract has increased the urgency of IRS' need for microcomputers. As a short-term solution, IRS is planning an interim contract, known as IMAC, to support IRS microcomputer requirements until award of the DMAC-II contract. The contract is to be an indefinite delivery, indefinite quantity requirements contract and is to be awarded under the Small Business Administration's 8(a) program.

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This concludes my statement, Mr. Chairman. We will be happy to respond to any questions you or other members of the Committee may have at this time.

Tax System Modernization Costs



Prior to 1988, \$30.8 million was spent on Tax System Modernization.

THE MODERNIZATION INITIATIVES

IRS' Tax System Modernization (TSM) program is composed of 11 initiatives, described as follows.

1. Program Management

This initiative is composed of ten projects, described below.

- Program Control-General Management: responsible for the overall planning, organization, direction, and control of TSM.
- Systems Engineering and Integration: responsible for supporting the TSM architecture implementation through activities such as architectural-level planning and design, systems modeling, risk assessments, and capacity planning.
- Acquisition Management: responsible for developing a strategy to (1) acquire hardware, software, application development services, and systems integration services required for TSM, including replacement of components after their life cycles; (2) review current acquisitions to determine if all components will be available according to the acquisition schedules; and (3) develop a master acquisition schedule to keep track of all TSM acquisitions so that schedule and content deviations and their impact on the modernization can be identified.
- Transition Management: responsible for implementing the strategy to make the transition from the current environment to the TSM environment. It includes transition planning, integration support, and transition tracking.
- Configuration Management: responsible for capturing and controlling initial TSM information and for keeping track of changes in the TSM architecture, project requirements and design, and project implementation.
- Data Management and Standards: responsible for establishing data management for TSM, including the planning, identification, definition, implementation, and use of IRS corporate data and data bases. This project is also responsible for developing a data dictionary and policies and procedures for data and data base administration.
- Quality Assurance: This project is responsible for ensuring that all elements of TSM are specified, designed, implemented, and maintained according to IRS quality metrics and following sound software engineering practices.

- System Development Methodology: responsible for establishing the system development methodology and associated standards for all TSM applications and data bases. Examples are strategic planning, prototyping, logical software design, conceptual data base design, and software maintenance.
- Program-wide Standards Administration: responsible for providing program-wide direction and oversight on the selection, use, and replacement of standards. The project has three general activities: (1) defining an initial set of standards for TSM; (2) assessing the value of the initial set of standards and making necessary changes; and (3) monitoring use of the standards and updating them.
- Human Resources Management: responsible for labor relations and for working with the National Treasury Employees Union. With the assistance of the union, this project will establish training programs, assess TSM program decisions to determine their organizational impact, and redesign job functions of IRS' current work force.

2. Input Processing

This initiative focuses on the processing and archiving of paper input documents through the Document Processing System (DPS) and on the processing of remittances through the Cash Management System (CMS), Check Handling Enhancements and Expert System (CHEXS), and District Office Remittance Processing System (DRPS).

3. Electronic Data Interchange (EDI)/Electronic Management System (EMS)

This initiative focuses on the electronic exchange of information between IRS and external parties.

4. Corporate Accounts Processing System (CAPS)

This initiative is responsible for all tax account data. It is composed of seven projects: (1) account access; (2) account update and analysis; (3) issue detection; (4) revenue accounting; (5) reference support; (6) index and cross-reference services; and (7) Corporate Files On-Line (CFOL). Except for CFOL, all CAPS projects are tentative; i.e., they have been identified as activities under CAPS, but need to be defined and designed. CFOL is a current project that is the end-user prototype for the accounts access project mentioned above. CFOL will be retired once CAPS is implemented.

5. Workload Management System (WMS)-Case Management

This initiative focuses on the management of all cases worked on by IRS regardless of the functional area or type of site to which the cases are assigned.

6. Case Processing

This initiative focuses on the processing of all types of cases and will share applications to perform common functions when required.

7. System Support

This initiative focuses on the technical support to application systems. It encompasses eight areas of technical support: (1) environment management; (2) program development and test environment; (3) standard end-user interface; (4) end-user support; (5) system management; (6) output processing; (7) proof of concept laboratory; and (8) file-server support.

8. Security

This initiative focuses on implementing the security architecture and ensuring that all TSM projects have incorporated appropriate security measures into their plans. Such measures could include access controls and data encryption to protect the information contained in the modernization systems.

9. Telecommunications

This initiative focuses on the modernization of IRS' telecommunications capabilities.

10. Facilities Management

This initiative focuses on ensuring that adequate facilities such as building floor space exist to support TSM projects.

11. Acquisitions

This initiative focuses on the major acquisitions that support TSM.

TAX SYSTEM MODERNIZATION
MAJOR ACQUISITIONS

1. Automated Data Processing Support Services (ADPSS)

ADPSS is a multiyear-services contract to provide support for software development, systems analysis, and design.

Current status: Contract was awarded in August 1989.

2. Air Force Contract Vehicle for Data Base Machines (DB Machines)

The Air Force Contract Vehicle will provide data base machines for the Martinsburg, W. Va. Computing Center (MCC), the Detroit Computing Center (DCC), and the service centers. The MCC data base machine will be used for the nationwide Employee Plans Master File (EPMF), entity research, and program development. DB machines at DCC will be used for Currency Transaction Report (CTR) processing and program development. Four systems (two for each center) are designated for MCC and DCC, along with subsequent upgrades. Ten additional systems are optional for the service centers. The acquisition is being conducted by the Air Force.

Current status: RFP is to be released in late June 1991.
Estimated contract award date: December 1991.

3. Check Handling Enhancements and Expert System (CHEXS)

CHEXS is designed to replace the remittance processing equipment in the service centers with a modern image-based system for processing remittances (checks, money orders, etc.) and associated vouchers.

Current status: Vendors' proposals are being evaluated.
Evaluations are to be completed in July 1991.
Estimated contract award date: September 1991.

4. Corporate Files On-Line Direct Access Storage Device (DASD) Acquisition (Triple Density DASD Purchase)

Triple Density DASD will replace existing single and double density DASD and will support the migration of existing tape files to DASD at MCC. This acquisition will also replace the existing DASD at DCC.

Current status: Performing technical evaluations.
Estimated contract award date: September 1991.

5. Corporate System Modernization/Mirror Imaging Acquisition (CSM/MIA)

This acquisition is designed to upgrade the Martinsburg and Detroit Computing Centers (MCC and DCC) to provide the processing capacity required to support (1) planned production processing, (2) mirror imaging processing between MCC and DCC, (3) projected growth in current systems processing, and (4) early implementation of the system architecture's functionality. The acquisition will include processors and peripheral hardware, data storage, nonimage terminals, communications, and automated development and testing support tools.

Current status: Preparing Requirements Analysis Package (RAP) and drafting RFP.
Estimated contract award date: January 1993.

6. Departmental Microcomputer Acquisition Contract (DMAC-II)

The DMAC-II award includes laser printers, image workstations and security equipment (encryption and authentication devices). The equipment will support case processing at the service centers, district offices, posts of duty, MCC, DCC, and the National Office. DMAC II is expected to support the workstation acquisition requirements in the early years of the modernization. This acquisition is being conducted by the Treasury Department but will be administered by IRS.

Current status: Contract awarded to Sysorex Information Systems, Inc., on May 17, 1991. Sears Business Systems filed a protest on May 24, 1991, with the General Services Board of Contract Appeals.

7. Document Processing System (DPS)

DPS will upgrade the process in which IRS receives, processes, stores, and retrieves the millions of documents it is sent each year. DPS will, to the maximum extent possible, make full use of image processing technology instead of the current dependence on paper.

Current status: RFP is to be released in late June 1991.
Estimated contract award date: October 1993.

8. Federally Funded Research and Development Center (FFRDC)

An FFRDC will be established to assist IRS with certain aspects of the modernization. It will be used to study and assess new and emerging technologies through research and experimentation, including the establishment of prototype systems; provide unbiased assessments of design and strategies; review acquisition plans; and assist in evaluations.

Current status: DPA was received from GSA in May 1991. IRS is currently seeking expressions of interest, qualifications, and capabilities statements, along with comments on the establishment of the center.

Current estimate for establishing the center: March 1992.

9. IBM-Compatible Tape Cartridge Subsystems

This procurement is for IBM-compatible magnetic tape cartridge subsystems to be used at MCC and DCC.

Current status: Best and final offers were received on May 28, 1991.

Estimated contract award date: July 1991.

10. Integrated Collection System (ICS)

ICS will replace the Automated Collection System mainframe and associated peripherals. The contract provides for the acquisition of 11 IBM 3090 mainframes and an option for 10 more. In addition, the contract provides for up to 5,000 PS/2 computers and 10,000 portable computers.

Current status: Contract was awarded in December 1990.

11. Integration Support Contract (ISC)

ISC will acquire support services needed to translate the IRS systems architecture into specific systems, subsystems, and interfaces, and will perform systems engineering analyses for those systems.

Current status: Evaluations are to be completed in June 1991, with best and final offers due in July 1991.
Estimated contract award date: August 1991.

12. Interim Engineering Services for TSM

This acquisition is for engineering support on the continued development of the systems architecture and the Design Master Plan, as well as assistance with the acquisition and technical management of technology initiatives.

Current status: Contract awarded noncompetitively to MITRE Corporation on May 23 1991.

13. Interim Microcomputer Acquisition Contract (IMAC)

IMAC is for the award of an interim contract to support IRS microcomputer requirements until the award of the DMAC-II contract. The contract is to be an indefinite delivery, indefinite quantity requirements contract and will be awarded under the Small Business Administration's 8(a) program.

Current status: Awaiting approval of DPA from GSA and outcome of current protest on DMAC-II award.

14. Service Center Recognition/Image Processing System (SCRIPS)

SCRIPS will replace the existing Optical Character Reader (OCR) systems, which process Federal Tax Deposits (FTDs), Information Return Program (IRP) documents, Forms 1040EZ, Paper Input Processed as an Electronic Return (PIPER), and Forms 941 with technologically advanced hardware and software, and will provide back-up processing OCR applications. SCRIPS is intended to provide a stepping stone to DPS in terms of imaging technology.

Current status: RFP was released to vendors in January 1991; vendors' proposals are due in September 1991.
Estimated contract award date: September 1992.

15. Security and Communication System/Secure Corporate Data Network (SEACOS/SCDN)

SEACOS/SCDN will provide communications processors, telecommunications support software, and security support software. The acquisition will support security systems at the service centers, MCC, DCC, district offices, posts of duty, call sites, and National Office.

Current status: Requirements analysis being performed.
Current estimated contract award date: September 1993.

16. Service Center Support System (SCSS)

SCSS will provide equipment for the service centers. Equipment to be acquired will include processors and peripheral hardware, data storage, production laser printers, non-image terminal communications, and encryption devices.

Current status: Request for delegation of procurement authority (DPA) pending at GSA.
Estimated contract award date: March 1994.

17. Treasury Multi-User Acquisition Contract (TMAC)

TMAC is a Treasury-wide requirements contract. The contract covers processors, data storage, laser printers, image workstations, and security equipment. Equipment will be acquired for case processing at the service centers, district offices, posts of duty, the Martinsburg Computing Center, and the Detroit Computing Center.

Current status: Scheduled for award in late June 1991.
Estimated contract award date: June 1991.

18. Universal Wiring Plan (UWP)

UWP provides for the purchase and installation of telecommunication cables for voice, data, imaging, and integrated voice and data networks at all IRS facilities. The Universal Wiring Integration Services Contract will be the vehicle with which to implement the wiring specifications.

Current status: Approval of DPA is pending.
Estimated contract award date: October 1992.

