

GAO

Testimony



143438

For Release
on Delivery
Expected at
9:30 a.m. EST
Wednesday,
March 20, 1991

Uncertainties Surrounding IRS'
Fiscal Year 1992 Budget Request
for Tax System Modernization

Statement of
Howard G. Rhile, Director, General
Government Information Systems
Information Management and Technology Division

Before the Subcommittee on Oversight
Committee on Ways and Means
House of Representatives



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to comment on (1) the Internal Revenue Service's (IRS) fiscal year 1992 budget request for its Tax System Modernization program, (2) the effects of the fiscal year 1991 reductions to IRS' data processing budget on its operations, and (3) the effects that selected tax processing projects are having on the current tax filing season. The projects you asked us to look at are (1) the Auto-pipeline Prototype, (2) the Federal Tax Deposit project, and (3) the On-Line Entity system. A fourth project you asked us to look at--the expert system component of the Taxpayer Services Integrated System--is addressed as part of testimony provided by our General Government Division.

SUMMARY

Mr. Chairman, we found that IRS' fiscal year 1992 budget request of \$451 million for tax system modernization may be overstated by nearly \$55 million for non-modernization projects. IRS lacks a system to help account for the projects under this modernization program. We also found that the \$49 million cut for fiscal year 1991 to IRS' data processing budget did not adversely affect IRS' computer operations; and only one of the projects you asked us to

B-243157

look at--the On-Line Entity system--will provide benefits for this year's filing season.

IRS' FISCAL YEAR 1992 BUDGET

REQUEST FOR TAX SYSTEM MODERNIZATION

IRS is requesting \$1.3 billion for its information systems for fiscal year 1992. This figure includes \$844 million to maintain existing computer systems and operations--an increase of about \$128 million over fiscal year 1991--and \$451 million for the Tax System Modernization program--an increase of \$173 million over the amount approved for fiscal year 1991.

We have two major concerns about the \$451 million budgeted for the modernization program. First, the amount may be more than is needed. Second, there is no system to track the modernization projects against cost, schedule, and performance goals. As I stated before this Subcommittee last year, the Congress must be provided with unambiguous information on the modernization.¹ Until this can be done, it will be extremely difficult to assess the progress of the modernization.

¹Progress in Meeting the Challenge of Modernizing IRS' Tax Processing System (GAO/T-IMTEC-90-5, Mar. 22, 1990).

B-243157

Modernization Budget May Be Overstated

IRS' \$451 million fiscal year 1992 budget request for the modernization may be overstated. Neither the projects included in the request nor their respective budgets are based on an approved modernization plan. IRS' Design Master Plan, the road map for guiding the agency through the development and implementation of the modernization and the driving force behind the modernization budget, is still in draft. The plan was supposed to be issued in final in September 1990. Instead, only a draft plan was issued on that date and is not expected to be finalized until this summer.

Because of the plan's delay, IRS' fiscal year 1992 budget for the modernization was not based on the draft plan. Of the 34 projects that make up the 10 modernization initiatives in the 1992 budget, we found that at least 6 are not identified in the draft plan as modernization projects or as prerequisites to modernization projects. These 6 projects account for nearly \$55 million, or 12 percent, of the \$451 million modernization budget request for fiscal year 1992. These projects should be removed from the modernization budget request and separately justified. IRS

B-243157

is currently reconciling the projects in the budget to those in the draft modernization plan.

Absence of a Project Tracking System

IRS expects taxpayers to properly account for their income and expenses. IRS should expect no less of itself. Sound project management demands that IRS be able to account for its investment in computer modernization and compare this against its plans and budgets. I believe this is imperative for the Tax System Modernization program, and I note with interest that in December 1990 the Office of Management and Budget requested IRS to develop a project tracking system. This system should provide IRS with the ability to compare actual costs, benefits, and schedules for its modernization projects against budgets and plans, and is an essential component of sound project management. To date, however, such a system does not exist. Without one, I would argue that IRS cannot effectively manage this program. While we understand that IRS plans to develop such a system, no timetable as yet has been set.

B-243157

FISCAL YEAR 1991 BUDGET

CUTS IN DATA PROCESSING

Mr. Chairman, you also asked that we address the impact of the \$49 million cut IRS was asked to take in its data processing account for fiscal year 1991. Our work indicates that none of these cuts were made to those projects identified as Tax System Modernization. Instead, these cuts were taken in the current operations accounts through which IRS funds its ongoing data processing requirements. Specifically, the majority of the cuts were made by eliminating planned increases for ongoing projects and delaying the start of others. Portions of other projects were moved for future funding into the Tax System Modernization program. According to IRS budget officials none of these cuts are expected to adversely affect ongoing operations. We did not determine the appropriateness of the moves.

However, Mr. Chairman, this is another example of the continual changes IRS makes to the number and scope of modernization projects in the budget from year to year. I mentioned these types of changes in last year's testimony and pointed out that they make it difficult to understand just what the modernization program is.

B-243157

IMPACT OF SELECTED SYSTEMS ON
THE 1991 TAX FILING SEASON

Mr. Chairman, I would like now to turn to the three projects you asked us to comment on and to mention whether or not they affect the 1991 tax filing season. Of the three projects,

-- Two, the Auto-pipeline Prototype and the Federal Tax Deposit project, are in the testing stage.

-- One, the On-Line Entity system, is operational.

Auto-pipeline Prototype -- This project is being tested in the Austin, Texas, Service Center. It is examining the merits of converting tax returns into electronic images so that returns processing can be a paperless operation. This test does not involve any processing of current filing season returns. IRS anticipates that the benefits of an image-based system include the elimination of paper retention and retrieval, and a reduction in errors arising from manually transcribing data.

B-243157

As pointed out in our December 1990 report, electronically reading imaged tax returns poses a feasibility question.² Today's technology, needed to electronically read imaged handwriting (about 50 percent of all tax returns IRS receives are handwritten), is not nearly as successful as it is for reading typewritten returns. We do not see a reduction in the quantity of handwritten returns and consequently, IRS will have to rely on the error-prone manual process of keying data from the imaged returns for subsequent electronic processing.

The Federal Tax Deposit Project -- This project is being tested in the Andover Service Center. It is intended to test the feasibility of having businesses electronically remit taxes withheld from their employees' salaries to the Treasury through the businesses' banks. This experiment is being conducted in the New England area only; IRS expects the test to show benefits such as a reduced burden for businesses, reduced errors to taxpayer accounts, and greater financial advantages for the government because of the quick deposit of the withheld funds to the interest earning Treasury account. We think, and IRS agrees, that the involved businesses need an incentive to encourage their

²Tax System Modernization: Status of IRS' Input Processing Initiative (GAO/IMTEC-91-9, Dec. 12, 1990).

B-243157

participation, since payments are deducted immediately from their bank accounts.

The On-Line Entity System -- This system is operational throughout IRS' 10 service centers. Through this system, authorized IRS personnel can electronically access the master files in the Martinsburg, West Virginia, Computing Center. The system allows employees to correct taxpayer information or to determine the true identity of a taxpayer--individual, business, exempt organization, employee plan--so that subsequent transactions to the taxpayer's account are not rejected by the computer system. The On-Line Entity system is beneficial to the 1991 tax filing season because fewer transactions are rejected (about 40 percent fewer for fiscal year 1991 according to IRS). Rejected transactions--called "unpostables"--require extensive involvement of IRS personnel or lengthy time frames for retrieving documents from IRS files or for corresponding with taxpayers to determine their identities so their accounts can be properly posted.

- - - - -

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