

August 1996

TAX SYSTEMS MODERNIZATION

Cyberfile Project Was Poorly Planned and Managed





United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-271015

August 26, 1996

The Honorable Ted Stevens
Chairman, Committee on
Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your February 1996 request that we assess whether applicable procurement laws and regulations were adhered to in the acquisition of Cyberfile, an electronic filing system being developed for the Internal Revenue Service (IRS) by the Department of Commerce's National Technical Information Service (NTIS). Specifically, as agreed with your staff, we determined whether (1) IRS' decision to use NTIS to develop Cyberfile was based on sound analysis, (2) applicable procurement laws and regulations were followed in acquiring Cyberfile equipment and services, (3) Cyberfile obligations and costs¹ were accounted for properly, and (4) equipment and services were acquired cost-effectively.

This report contains recommendations to the Commissioner of the IRS and the Secretary of the Department of Commerce. Details of our scope and methodology are in appendix I. The Department of the Treasury, IRS, and Commerce commented on a draft of this report. Their comments are discussed in the "Agency Comments" section and are reprinted in appendixes II, III, and IV.

Results in Brief

IRS' selection of NTIS to develop Cyberfile was not based on sound analysis. IRS did not adequately analyze requirements, consider alternatives, or assess NTIS' capabilities to develop and operate an electronic filing system, even though the need for these critical prerequisites was brought to management's attention as early as July 1995. Instead, IRS selected NTIS because it was expedient and because NTIS promised IRS, without any objective support, that it could develop Cyberfile in less than 6 months and have it operating by February 1996.

In order to meet these self-imposed time constraints, the project was hastily initiated. Development and acquisition were undisciplined, and Cyberfile was poorly managed and overseen. As a result, it was not

¹The financial measure of resources consumed in accomplishing a specified purpose, such as performing a service, carrying out an activity, or completing a unit of work or a specified project.

delivered on time, and after advancing \$17.1 million to NTIS, IRS has suspended Cyberfile's development and is reevaluating the project.

IRS and NTIS did not follow all applicable procurement laws and regulations in developing Cyberfile. IRS cited the Brooks ADP Act (40 U.S.C. 759) for its authority to procure Cyberfile. However, IRS did not perform requirements and alternatives analyses as required by the Federal Information Resources Management Regulation which implemented the Brooks ADP Act.

NTIS also violated applicable procurement laws and regulations in implementing Cyberfile. To obtain contractor services quickly, NTIS modified an existing sole source contract awarded through the Small Business Administration's (SBA) small and disadvantaged businesses program (referred to as the "Section 8(a)" program), providing \$3.3 million for Cyberfile and increasing the total contract value to \$4.3 million. NTIS did not submit this modification to SBA for review as required under the Section 8(a) program. Further, this modification circumvented SBA rules requiring that contracts over \$3.0 million be competed among eligible Section 8(a) firms rather than being issued on a sole source basis. In addition, at the time of modification, the contractor was not an eligible 8(a) firm under SBA regulations, and had NTIS submitted the modification to SBA as required, responsible officials at SBA said they would have rejected it.

Cyberfile obligations and costs were not accounted for properly. IRS (1) significantly understated the obligations related to the project and (2) improperly accounted for the \$17.1 million advanced to NTIS. In addition, NTIS did not promptly and accurately account for Cyberfile obligations and costs. Specifically, significant financial transactions were not properly documented and obligations and costs were not recorded promptly and accurately.

Finally, adequate financial and program management controls were not implemented to ensure that Cyberfile was acquired cost-effectively. As a result, excess costs were incurred. For example, the interagency agreement between IRS and NTIS was not structured to minimize costs, and Cyberfile costs continued to be incurred after the project was suspended. Specifically, the agreement allowed NTIS to assess a 10 percent management fee for (1) costs associated with NTIS' failure to follow preferred management practices, such as late payment penalties and (2) items which IRS could have readily obtained directly and provided to

NTIS, such as computer equipment acquired under existing government contracts.

Background

In August 1995, IRS signed a \$22 million interagency agreement with NTIS. To date, \$17.1 million has been advanced to NTIS (\$10 million in August 1995 and \$7.1 million in December 1995). The agreement stipulated that NTIS would develop and operate Cyberfile, a tax systems modernization (TSM) project that would allow taxpayers to prepare and electronically submit their tax returns using their personal computers. Electronic returns would be submitted via the public switch telephone network or the Internet, accepted at a new NTIS data center, and then forwarded to designated IRS Service Centers. Taxpayers would not be charged a fee to file their returns using Cyberfile.

To obtain contractor support to develop Cyberfile, NTIS modified an existing technical services contract awarded on a sole source basis through SBA's Section 8(a) program for small and disadvantaged businesses. This program permits the award of a contract to the SBA, which then subcontracts with a firm owned by economically and socially disadvantaged individuals. After award, SBA requires the agency to manage the contract and ensure goods and services are received for dollars expended. Further, SBA officials told us that the procuring agency is supposed to obtain SBA approval before modifying the contract.

NTIS also acquired systems hardware and services via existing Department of the Navy, Treasury, and General Services Administration (GSA) contracts and other sources. Because NTIS did not have a contracting activity with the authority to make purchases over \$50,000, the agency used contracting officers from two other Commerce Department activities to support the Cyberfile procurement. Initially, the Office of Acquisition Management provided a contracting officer. In late November 1995, the Cyberfile procurement was transferred to a contracting officer at the National Institute of Standards and Technology.

In December 1995, we briefed the IRS Commissioner on the risks associated with proceeding with Cyberfile as planned. We explained that Cyberfile was not being developed using disciplined systems development processes and that adequate steps were not being taken to protect taxpayer data on the Internet. At that time, Cyberfile development was scheduled for limited operational use by a selected population of taxpayers in February 1996.

In March 1996 testimony,² we noted that Cyberfile development reflected many of the same management and technical weaknesses we found in TSM systems and delineated in our July 1995 report.³ We also reported that Cyberfile contractual issues warranted further review. IRS' Chief Inspector reviewed the Cyberfile acquisition and in an April 1996 briefing to management concluded that IRS did not follow internal procurement procedures, failed to sufficiently oversee the project, and was vulnerable to outside criticism. The Chief Inspector is also performing a physical inventory of equipment purchased by NTIS, which is scheduled to be completed in late August 1996. The Commerce Department's Inspector General is reviewing NTIS' operations, including its contracting efforts. Inspector General officials told us they have serious concerns about how NTIS and the department contracted for Cyberfile as well as other projects. These officials said they expect to issue a report in late August 1996.

In March 1996, IRS decided to delay Cyberfile operations until after April 15, 1996. Because milestones for delivering Cyberfile kept slipping, IRS contracted with its Federally Funded Research and Development Center on April 16, 1996, to provide options available to IRS for delivering the system for the 1997 or 1998 tax filing seasons. NTIS continued to work on Cyberfile until the \$17.1 million advanced from IRS had been obligated. NTIS then requested an additional advance from IRS to fund the \$22 million obligation incurred by IRS. IRS did not provide the advance. Instead, it directed NTIS on May 10, 1996, to stop work on Cyberfile. The contractor reported to IRS in July 1996 with options for proceeding with Cyberfile. However, IRS is awaiting the completion of its Electronic Commerce Strategic Plan before deciding on the future course of Cyberfile. IRS has not yet established a completion date for the plan.

IRS Selected NTIS Without Adequate Analysis

IRS did not use disciplined processes to manage and control the Cyberfile acquisition. IRS did not perform the necessary requirements analysis for Cyberfile or identify alternative ways to satisfy these requirements. Neither did it prepare an acquisition strategy documenting how it would acquire the most cost-effective alternative. Further, IRS selected NTIS without evaluating its (1) capabilities to build such a system, (2) experience in building similar systems, or (3) ability to deliver

²Tax Systems Modernization: Management and Technical Weaknesses Must Be Overcome To Achieve Success (GAO/T-AIMD-95-75, March 26, 1996).

³Tax Systems Modernization: Management and Technical Weaknesses Must Be Corrected If Modernization Is To Succeed (GAO/AIMD-95-156, July 26, 1995).

cost-effectively as compared with private-sector and other government sources.

Federal information management and acquisition regulations and IRS' own policies and procedures require the use of disciplined, decision-making processes for planning, managing, and controlling the acquisition of information systems and services. These regulations and policies direct that prior to initiating system procurements, such as Cyberfile, IRS (1) identify its information needs, (2) perform a requirements analysis to determine how to support agency needs, (3) identify alternative ways to meet requirements, including the costs and benefits of each alternative, and (4) prepare an acquisition strategy that demonstrates how the agency plans to acquire the most cost-beneficial alternative. These processes would have mitigated the risks of acquiring a system that has yet to be delivered, is over budget, and failed to meet IRS' objectives.

IRS dispensed with disciplined analyses because IRS officials believed that NTIS had the capabilities to deliver Cyberfile by February 1996. They said this belief was based on (1) the fact that NTIS had provided taxpayers access to tax forms via NTIS' FedWorld Network and (2) briefings by NTIS officials in which they claimed that NTIS could complete Cyberfile by February 1996, in time for the 1996 tax filing season. However, the technical challenge of providing tax forms is not comparable to the much more complex Cyberfile system. Further, NTIS offered no convincing analytical support for its claim that it could deliver Cyberfile by February 1996. For example, it provided no detailed task definitions, work breakdown structures, or interim schedules.

IRS top management did not heed warnings, dating back to July 1995, from its acquisitions support staff that IRS' Cyberfile procurement approach would lead to failure and jeopardize TSM. Our December 1995 briefing to the IRS Commissioner and Deputy Secretary of Commerce, on the risks of continuing with Cyberfile as planned, also did not dissuade IRS from its goal to field Cyberfile for the 1996 tax filing season. Only after NTIS informed IRS in April 1996 that the \$17.1 million had been obligated and that the system still was not finished, did IRS stop to reconsider the project.

IRS Did Not Fully Comply With Procurement Regulations for Its Cyberfile Acquisition

In procuring Cyberfile, IRS did not fully comply with federal acquisition regulations which are designed to help agencies develop and acquire automated systems that meet agency needs and are delivered on time and within budget. IRS cited the Brooks ADP Act, rather than the Economy Act,⁴ for its authority to enter into its interagency agreement with NTIS. In this regard, IRS concluded that the Economy Act was not applicable to its agreement with NTIS and, therefore, IRS did not attempt to comply with the requirements of that act. IRS' position is supported by a recent amendment to the Federal Information Resources Management Regulation, which formalizes GSA's position that the Economy Act is not applicable to information technology procurements subject to the Brooks ADP Act. Congress may not have contemplated the exemption of such a large portion of federal procurements from the requirements of the Economy Act.⁵ Nonetheless, the amendment was not unreasonable and was issued pursuant to GSA's authority to implement the Brooks ADP Act. Accordingly, we have no basis to object to it. Because section 5101 of the National Defense Authorization Act for Fiscal Year 1996, Public Law No. 104-106, (1996), repealed the Brooks ADP Act, effective August 8, 1996, any authority to initiate interagency agreements under the Brooks ADP Act has expired. However, the Brooks ADP Act was in effect when IRS initiated the interagency agreement with NTIS.

Although it cited the Brooks ADP Act as its authority in acquiring Cyberfile, IRS did not follow the Federal Information Resources Management Regulation that implements this law. Specifically, the regulations require agencies to conduct requirements and alternatives analyses prior to procuring information technology. IRS did not conduct either analysis. Without these analyses, IRS could neither define the software capabilities and features needed for Cyberfile nor determine which acquisition and technical options were most advantageous to the government.

Further, the Federal Information Resources Management Regulation also requires agencies acquiring information systems and services to obtain a delegation of procurement authority from GSA. Treasury had a delegation from GSA, and in turn required IRS to obtain a delegation of procurement authority from the department for information system initiatives over \$15 million. When IRS signed the \$22 million interagency agreement with NTIS, it did not obtain the required approval from Treasury.

⁴31 U.S.C. 1535.

⁵See Off-Loading: The Abuse of Inter-Agency Contracting to Avoid Competition and Oversight Requirements, Senate Print No. 61, 103d Cong., 2d Sess. (1994).

NTIS Did Not Fully Comply With Procurement Laws and Regulations for the Cyberfile Acquisition

In procuring Cyberfile, NTIS did not fully comply with federal acquisition laws and regulations, which are intended to encourage full and open competition and help agencies develop and acquire information systems that meet their needs and are delivered on time and within budget. Specifically, NTIS (1) awarded a Section 8(a) contract on a sole source basis without making a reasonable determination that the value of the contract was below SBA competition thresholds, (2) improperly modified the contract to add a requirement to develop Cyberfile, and (3) did not effectively hold the contractor accountable for specific deliverable dates, attributes, and quality.

NTIS Awarded Sole Source Contract Without Reasonable Estimate of Its Value

According to SBA regulations, Section 8(a) procurements with an estimated award value over certain dollar thresholds must be competed among eligible 8(a) firms, while procurements under the threshold can be awarded on a sole source basis. For procurements such as NTIS' technical services support contract, the threshold is \$3 million. In determining whether this threshold is met, the agency is required to make a reasonable estimate of the contract value.

In September 1995, NTIS awarded a sole source contract for \$2.3 million to an 8(a) firm to provide technical support services for its FedWorld and other related tasks. We found, however, that NTIS did not have a reasonable basis for its cost estimate prior to awarding this sole source contract. NTIS officials said that at the time of contract award, they estimated that the FedWorld work would cost \$1.0 million, but had no idea what Cyberfile tasks would ultimately cost. Rather than developing a cost estimate analytically, NTIS officials said they "plugged in a cost" of \$1.3 million for Cyberfile, for a total contract value of \$2.3 million. After contract award, the contractor estimated the cost to develop Cyberfile at \$3.3 million, which resulted in a \$2.0 million contract modification on November 7, 1995, a month and a half after contract award. As of July 11, 1996, the contractor had spent a total of about \$3.6 million. Accordingly, NTIS did not have an adequate basis for determining that a sole source award was proper in these circumstances.

NTIS Improperly Modified 8(a) Contract

SBA officials told us that under the Section 8(a) program, SBA requires federal agencies to submit 8(a) contract modifications to SBA for review and approval prior to making the change. Responsible SBA officials told us SBA reviews the modifications to ensure that they do not constitute a circumvention of competition requirements, to determine whether the

work is within the scope of the original contract, and to validate that the firm is still eligible for work under the 8(a) program. SBA will not approve modifications that are beyond the scope of the contract if the firm is no longer eligible for the work under the 8(a) program.

We found NTIS' modification of the 8(a) contract improper for three reasons. First, NTIS did not submit the modification to SBA for review and approval. Instead, NTIS executed the modification on its own. Second, SBA officials told us that had they received the modification, they would have disapproved it because such a substantial increase, so soon after contract award, would have been a circumvention of the \$3 million threshold for competition. Third, the contractor was not eligible under the 8(a) program for this type of work. In this regard, SBA considered the Cyberfile work envisioned in the modification to be beyond the scope of the work in the original contract and determined that the contractor was no longer eligible to perform this work because its income exceeded 8(a) eligibility requirements. Accordingly, SBA's Associate Administrator for Minority Enterprise Development has taken the position that had NTIS submitted the modification for its approval, SBA would have rejected it.

NTIS Did Not Hold Contractor Accountable

Federal acquisition regulations require that under cost reimbursement contracts, like the one awarded to NTIS' contractor, only costs that are properly allocable to the contract can be paid. In order to make these determinations, the contract's statement of work must be clear enough to determine whether costs claimed by the contractor are incurred for specified work. The work statements should describe the government's requirements, including definitions of all deliverables and the condition of their acceptability.

We found that the contract work statement for Cyberfile was too vague to properly allocate costs. Specifically, the contracting officer from Commerce's National Institute of Standards and Technology told us that the statement of work did not include all the deliverables and milestones needed to verify payments due and was too vague to determine whether to pay the contractor. In this regard, when the contractor requested an additional \$4 million on April 30, 1996, to finish the project, the contracting officer could not determine if the request was for work that should have been completed under the existing contract or for additional work not authorized by the contract. To make this determination, the contracting officer directed NTIS to rewrite the statement of work with sufficient detail and sent it to the contractor on May 14, 1996, requesting supporting

documentation for all costs incurred. The contractor provided documentation on July 11, 1996, and it is being reviewed by the contracting officer.

IRS Did Not Adequately Oversee NTIS' Systems Development and Acquisition Efforts

IRS abdicated its responsibility to ensure that NTIS was managing the Cyberfile effort efficiently and effectively. Program oversight was generally limited to (1) weekly progress meetings with NTIS officials, who repeatedly assured IRS officials that Cyberfile would be ready for the 1996 tax filing season without providing any convincing basis for these assurances, (2) reviewing monthly budget and schedule reports, which IRS project managers said were useless because the information provided was inaccurate and not current, and (3) participating in acceptance testing of portions of the system as they were delivered.

Under the interagency agreement and IRS' policy for implementing it, IRS was required to review and approve invoices submitted by NTIS to ensure that NTIS' performance was consistent with terms and conditions of the interagency agreement. However, IRS officials said that they were unaware of this requirement and did not request the invoices from NTIS.

Neither NTIS Nor IRS Properly Accounted for Cyberfile Obligations and Costs

Agencies are required to maintain adequate systems of internal controls to ensure effective stewardship of public funds. However, our review of Cyberfile transactions recorded in NTIS' financial management system disclosed significant internal control weaknesses which resulted from not following generally accepted practices. Specifically, for the Cyberfile transactions reviewed, NTIS often failed to record obligations and costs promptly and accurately and properly document financial transactions.

Because of these weaknesses, neither IRS nor NTIS management had the reliable financial management information needed to effectively oversee and monitor the progress of the Cyberfile project. In this regard, the total obligations and costs reported to IRS by NTIS on June 28, 1996, were inaccurate.

We also found that IRS did not properly account for Cyberfile obligations and costs because it did not effectively discharge its financial management responsibilities for the project.

Agencies Are Required to Maintain Adequate Systems of Internal Controls

The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512) requires that agency systems of internal and accounting and administrative control must comply with internal control standards prescribed by the Comptroller General and must provide reasonable assurances that:

- obligations and costs comply with applicable law;
- assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and
- revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

Agency heads are required to prepare an annual report which is to be transmitted to the President and the Congress on whether their agency's internal control systems fully comply with the act's requirements. The act requires that the report identify any material systems weaknesses together with plans for corrective actions.

The internal control standards that agencies are to follow are contained in the Standards for Internal Controls in the Federal Government. These were issued in 1983 by GAO as required by the Federal Managers' Financial Integrity Act and provide 12 internal control standards that agencies should follow.

Further, the Chief Financial Officers Act of 1990 requires agencies to develop and maintain financial management systems that comply with internal control standards and provide complete, reliable, consistent, and timely information. In addition, the financial data are to be prepared uniformly and be responsive to the financial information needs of agency management.

As envisioned by the Federal Managers' Financial Integrity Act and the Chief Financial Officers Act, the ultimate responsibility for good internal controls rests with management. An internal control system is not a specialized or separate system. Rather, internal controls are to be an integral part of each system that management uses to regulate and guide its operations. In this sense, they are management's controls. Good internal controls are essential to achieving the proper conduct of government business with full accountability for the resources made available. They also facilitate the achievement of management objectives

by serving as checks and balances against undesired actions and the resulting negative consequences.

Many Cyberfile Transactions Were Not Recorded Promptly or Accurately

One of the 12 internal control standards requires that transactions be promptly and properly classified. This is essential to maintaining good financial management information and effectively tracking project obligations and costs. Therefore, management needs to ensure that adequate controls are implemented to ensure that transactions are promptly and accurately recorded.

Transactions Often Not Recorded Promptly

Our review of Cyberfile transactions disclosed that it sometimes took months before an obligation was recorded. Specifically, we reviewed about \$16 million of obligations and found that about \$10.8 million (67 percent) of them were recorded more than 30 days after the obligation date. Such delays create an unnecessary risk of financial commitments exceeding spending authority. Some examples follow:

- An \$886,100 obligation for a computer system was made on November 28, 1995, but was not recorded in the accounting records until February 20, 1996.
- A major Cyberfile contract was signed in September 1995 with an initial value of about \$2.3 million. However, this obligation was not recorded promptly. Specifically, obligations totaling about \$2 million were recorded in the accounting system between December 1995 and April 1996, as the invoices were received. Similarly, the contract was modified in November 1995, and the total contract value was raised to about \$4.3 million, but an obligation for about \$2.1 million was not recorded until June 17, 1996. As of June 27, 1996, the remaining \$200,000 had not been recorded.⁶

In addition, we identified cases where NTIS did not record costs when goods and services were received and accepted. For example, invoices totaling \$3.4 million for goods and services provided for the project were dated March 26, 1996, (\$1.2 million) and June 13, 1996, (\$2.2 million). NTIS officials agreed that the goods and services associated with the \$1.2 million invoice had been received and accepted by April 2, 1996, while the goods and services for the \$2.2 million invoice had been received and accepted by NTIS by June 14, 1996. However, as of June 27, 1996, only about \$46,000 of these costs were recorded.

⁶In a letter dated July 11, 1996, the vendor provided NTIS with additional information about the costs incurred. Based on this information, NTIS officials believe that the obligation necessary for this contract will be about \$3.6 million.

**Obligation and Cost Amounts
Recorded Inaccurately**

Transactions must be recorded accurately to ensure that the financial management system can be used to effectively oversee and monitor a project's progress. However, we identified the following examples where obligations and/or costs were recorded inaccurately.

- We identified two cases where items coded as belonging to other projects were improperly obligated for the Cyberfile project. These obligations, which totalled about \$256,000, were charged to the Cyberfile project until they were credited in late July 1996.
- NTIS personnel and IRS internal auditors reviewed the items charged to the project and have identified several items, totaling over \$300,000, that should not have been charged to the project. Although all but about \$11,000 has now been credited to the project for these items, other related costs have not. For example, the Cyberfile project was initially charged about \$138,000 for computers that were used by NTIS' FedWorld project. Cyberfile was subsequently credited for this amount. However, this purchase also required the payment of about \$5,500 in administrative fees to the agency administering the contract. These fees were also charged to Cyberfile but the project was not credited for these fees until July 10, 1996. According to NTIS officials, these fees were paid separately from the equipment and were overlooked when the credit for the equipment was recorded.
- NTIS personnel also identified about \$7,000 in equipment costs which should have been charged to the Cyberfile project, but were erroneously charged to NTIS' FedWorld project.

**NTIS Did Not Maintain
Proper Documentation to
Support Cyberfile
Transactions**

Another of the 12 internal control standards requires that agencies clearly document all transactions and other significant financial events and that the documentation be readily available for examination. Our review found that NTIS did not maintain adequate supporting documentation for many Cyberfile transactions. For example, between March 22, 1996, and April 17, 1996, NTIS recorded obligations totaling \$850,000 to another federal agency for renovation costs of the space to be used for the Cyberfile project. However, at that time, NTIS did not have a signed interagency agreement with this agency and thus did not have a valid basis for obligating funds. In cases such as this, 31 U.S.C. 1501 requires that obligations only be recorded "when supported by documentary evidence." NTIS eventually signed an interagency agreement with this federal agency on May 22, 1996. This agreement also covered rental costs for the Cyberfile space.

Agencies are also required to only make disbursements against valid obligations. However, we identified problems with some payments made for the renovation. NTIS disbursed \$70,609⁷ in September 1995 and \$28,860 in November 1995 for space renovations, 8 months and 6 months respectively, before the interagency agreement was signed.

We also noted documentation problems with other transactions. For example, NTIS made payments totaling \$44,548 to a vendor. However, when the funds were disbursed, only \$24,560 was supported by a valid obligating document (a purchase order). The remaining \$19,988 was obligated based on a purchase order dated 2 weeks after the last payment was made.

Financial Information Reported to IRS by NTIS Was Inaccurate

Because of the internal control weaknesses relating to Cyberfile transactions, neither IRS nor NTIS management had the financial management information needed to effectively oversee and monitor the project. In particular, although the interagency agreement required NTIS to submit monthly billings to IRS for costs incurred, these billings were not requested or provided. Moreover, because of the financial weaknesses identified above, NTIS did not have the reliable financial management information needed to properly prepare such billings. In addition, the total obligations and costs reported to IRS in a June 28, 1996, letter were incorrect.

On June 28, 1996, NTIS sent a letter to IRS which summarized the obligations and costs of the Cyberfile project. An attachment to the letter showed that NTIS had incurred Cyberfile obligations of \$20.5 million, and about \$13.6 million of costs had been incurred against these obligations through June 27, 1996. These amounts excluded June 1996 labor, benefits, and other related costs such as overhead. However, as discussed above, the reliability of the reported amounts is questionable because of NTIS' failure to consistently record Cyberfile obligations and costs promptly and accurately.

We also noted that the June 28, 1996, letter did not identify the amount of obligations that may be deobligated in the future. Specifically, because of changing IRS requirements, data storage devices costing over \$650,000 that were originally purchased for Cyberfile were no longer needed for the Cyberfile project. NTIS officials stated that they are in the process of

⁷Documentation provided later by NTIS supported all but about \$700 of this disbursement. NTIS officials stated that this disbursement amount was based on a telephone call with the performing agency. When NTIS received the supporting documentation, the difference was noted and the agency agreed to give NTIS a credit for this overpayment.

returning these items. However, they are unable to determine the amount of funds that will be credited to the project since they have not yet obtained the necessary information to determine the costs, such as restocking fees, associated with returning the items. They expect this information to be provided shortly. While it was correct to show the \$650,000 as a Cyberfile related obligation and cost until the credit is received, the letter should have noted that a significant deobligation will be recorded once the credit is received from the vendor.

IRS Did Not Properly Account for Cyberfile

Compounding the problems we noted at NTIS, IRS also did not effectively discharge its financial management responsibilities for the Cyberfile project. Our review identified two problems related to IRS' treatment of Cyberfile related transactions. First, it improperly treated the \$17.1 million in advances as an expense. Therefore, the information contained in IRS' financial management system did not accurately reflect the expenses incurred based on the goods and services provided by NTIS and accepted by IRS. Second, it did not properly record the amount of obligations associated with Cyberfile in its financial management records. As a result, IRS' financial management system significantly understates the obligations available to pay for Cyberfile.

IRS Improperly Accounted for Cyberfile Advances

NTIS received two advances totaling about \$17.1 million from IRS. IRS erroneously recorded these payments as expenses instead of advances. IRS' procedures require it to obtain evidence that goods and services called for under the terms of an interagency agreement and related detailed statements of work are received and accepted before recording an expense. Accordingly, IRS should have recorded the \$17.1 million as an advance and then transferred amounts to expense as the goods and services were received and accepted. However, as previously noted, NTIS did not submit and IRS did not request the required monthly billings for costs incurred. As a result, IRS could not determine the amount of goods and services NTIS provided.

The problems we found in IRS' accounting for the Cyberfile project with NTIS are consistent with the results of our financial audits. We reported in our audits of IRS' financial statements for fiscal years 1992 through 1995,⁸ that IRS often does not have adequate support for amounts it reported as

⁸Financial Audit: Examination of IRS' Fiscal Year 1995 Financial Statements (GAO/AIMD-96-101, July 11, 1996), Financial Audit: Examination of IRS' Fiscal Year 1994 Financial Statements (GAO/AIMD-95-141, August 4, 1995), Financial Audit: Examination of IRS' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-120, June 15, 1994), and Financial Audit: Examination of IRS' Fiscal Year 1992 Financial Statements (GAO/AIMD-93-2, June 30, 1993).

operating expenses. Our reports noted that IRS did not have documentation to support that the goods or services had been received for expenses recorded and that this problem was most evident in transactions for goods and services provided by other government agencies.

IRS Did Not Properly Record Cyberfile Obligations

The August 21, 1995, interagency agreement between IRS and NTIS had an expiration date of December 31, 1996, and provided for a maximum cost of \$22 million, which the parties estimated to be necessary for the work. The agreement required NTIS to notify IRS when costs incurred and outstanding allowable commitments equalled 75 percent of the estimated total cost, and provided that no further costs would be incurred or further work performed when the maximum was reached. In accordance with 31 U.S.C. 1501, IRS should have recorded a \$22 million obligation in its financial management system on August 21, 1996.⁹ As of August 3, 1996, however, IRS has only recorded about \$17.1 million. IRS was unable to provide information which would support it recording an obligation of less than \$22 million for Cyberfile.

Excess Costs Were Incurred for Cyberfile

Adequate financial and program management controls were not implemented to ensure that Cyberfile was acquired cost-effectively. As a result, excess costs were incurred. Specifically,

- the Cyberfile project was schedule driven rather than event driven which led to goods and services not always being acquired cost-effectively,
- neither NTIS nor IRS acted promptly to avoid incurring unnecessary costs once the project was suspended, and
- the agreement between IRS and NTIS was inadequately structured to minimize Cyberfile project costs.

Schedule Driven System Development Approach Contributed to Excessive Costs

We have previously reported that Cyberfile was schedule rather than event driven and delineated the system development problems caused by this approach.¹⁰ This exaggerated focus on schedule, which was self-imposed and lacked convincing justification, also led to goods and services not always being acquired cost-effectively. We found:

- Premiums were paid to expedite equipment delivery. We identified 19 cases of expedited, overnight, or Saturday delivery, totaling over \$10,000. In one case, almost \$725 was paid for overnight delivery of a rack costing

⁹Office of Management and Budget Circular A-34, Section 23.5, November, 1994.

¹⁰GAO/T-AIMD-96-75, March 26, 1996.

\$1,670. In two other cases, about \$7,700 was paid in shipping charges to expedite delivery of computers.

- Requirements were not accurately determined before goods and services were procured. As a result, data storage devices costing about \$600,000 were purchased, later determined to be unneeded, and are in the process of being returned. NTIS told us that restocking fees are about \$90,000, or 15 percent, of the equipment's cost.

Prompt Action Not Taken to Avoid Incurring Unnecessary Costs

The necessary actions have not been undertaken to reduce the costs associated with Cyberfile. Specifically, since the suspension period began, costs have continued to be incurred for goods and services through ongoing rental agreements (e.g., equipment leases) that could have been avoided if the underlying agreements were canceled.

In a letter dated May 13, 1996, the Deputy Director of NTIS confirmed a conversation held between NTIS and IRS concerning the "orderly shutdown" of Cyberfile.¹¹ This letter stated that

"NTIS understands that it is to stop all work on CyberFile, and furthermore, NTIS will suspend all contracts and/or agreements that would constitute a further obligation of IRS funds. . . . As a result of this action NTIS will shut down all equipment, suspend telecommunications services, and remove NTIS and contractor personnel from the project."

According to the IRS contracting officer, the NTIS letter accurately portrayed the verbal order to NTIS. The IRS contracting officer also stated that she told NTIS in their May 10, 1996, conversation that IRS had no more funding and all contracts were to stop. The IRS contracting officer further stated that she believed the letter meant that NTIS would terminate any existing contracts where possible. However, IRS did not follow up with a letter ensuring that the parties clearly understood the specific actions NTIS would take to control obligations and costs. NTIS officials stated that the May 13, 1996, letter to IRS did not require them to terminate existing contracts where possible.

Our review disclosed since the suspension period began, costs have continued to be incurred for goods and services through ongoing rental agreements (e.g., equipment leases). Although these avoidable costs were not detailed in NTIS' June 28, 1996, letter to IRS, on July 17, 1996, NTIS provided IRS a list of these recurring costs that could have been avoided if the underlying agreements were terminated. A review of this list shows

¹¹According to the June 28, 1996, letter to IRS, this discussion was held on May 10, 1996.

that the monthly costs for these items are about \$30,000 and the underlying contracts can be terminated with 30 days notice. Only one of these contracts required a cancellation fee. Examples of these recurring costs follow.

- \$10,404¹² per month for Internet service,
- \$7,954 per month for a mail sorting machine, and
- \$5,172 per month for rental and maintenance of a high speed printing machine.

NTIS officials stated that they prepared this list to notify IRS that costs were still being incurred and were awaiting direction from IRS on whether the agreements should be terminated. According to the IRS contracting officer, when this letter was received, IRS called the NTIS program manager and instructed him to cancel the contracts. The IRS contracting officer said that she did not believe IRS had to formally document this decision. However, in another case, IRS did document its decision to cancel a contract relating to Cyberfile. Specifically, in a May 21, 1996, letter to NTIS from the Acting Executive for Electronic Filing, IRS formally notified NTIS to cancel a contract relating to support services. This contract was canceled.

As of August 2, 1996, NTIS officials stated they still had not received formal notification to terminate the contracts identified in the July 17, 1996, letter. Since these contracts were not canceled shortly after the May 13, 1996, letter from NTIS to IRS, unnecessary rental costs for July and August of about \$60,000 have been incurred. If it is determined that these costs are appropriate charges for the Cyberfile project, then these costs would also appear subject to NTIS' 10 percent management fee.

Either IRS or NTIS could have prevented these costs. For example, IRS could have clearly documented its understanding of the actions that NTIS would take to avoid additional costs. As discussed above, IRS clearly instructed NTIS to cancel a support services contract and the contract was promptly terminated. On the other hand, NTIS could have clearly documented its understanding of IRS' desire to retain these contracts much earlier than the July 17, 1996, letter.

Interagency Agreement Did Not Minimize IRS' Costs

IRS did not structure its agreement with NTIS to minimize its costs. Our review of the agreement disclosed that it allowed NTIS to assess a management fee for

¹²According to NTIS, this item requires a \$10,404 cancellation fee.

NTIS Management Fee Assessed for Items Purchased on Existing Government Contracts

- items which IRS could have readily obtained directly and provided to NTIS, and
- costs associated with NTIS' mismanagement, such as interest costs associated with paying vendors late.

NTIS procured over \$5.5 million in equipment and services using existing contracts held by other government agencies, which are then subject to NTIS' 10 percent management fee. IRS could have reduced its costs by either (1) stating in the agreement that certain costs, such as the costs of items procured under existing contracts, were not subject to the NTIS management fee or (2) procuring the items itself, based on NTIS requirements, and providing them to NTIS. If IRS had exercised either of these options, it could have significantly reduced the costs subject to the management fee. For example,

- NTIS purchased computers costing almost \$300,000 under a contract administered by another federal agency. In this case, NTIS simply placed an order. IRS could have avoided about \$30,000 for NTIS management fees if it had placed the order itself.
- NTIS purchased items costing over \$886,000 under an existing Treasury contract which is administered by IRS. If IRS had purchased these items directly and provided them to NTIS, it could have avoided NTIS management fees totaling about \$89,000.

Cyberfile Project Assessed for Costs Associated With NTIS Mismanagement

The Prompt Payment Act of 1982¹³ requires agencies to pay interest penalties to compensate vendors when agencies do not pay their bills on time. NTIS records show that it incurred about \$2,100 in penalties through June 27, 1996, because it did not pay Cyberfile bills on time. Even though the late payments were NTIS' fault, they were included in Cyberfile's costs and subject to the 10 percent management fee.

Recommendations

In light of the severity of acquisition and financial problems identified, we recommend that, before resuming the Cyberfile project, the Commissioner of the Internal Revenue Service:

- Provide to the Senate Committee on Governmental Affairs, the House Committee on Government Reform and Oversight, the Senate and House Appropriations Committees, the Senate Committee on Finance, and the House Committee on Ways and Means, a report detailing

¹³31 U.S.C. Chapter 39.

- the weaknesses in IRS' acquisition and financial management processes and controls that permitted Cyberfile mismanagement (e.g., permitted IRS to disregard system acquisition policies and procedures, disregard federal acquisition regulations, and provide inadequate oversight of NTIS system development and acquisition efforts);
- actions that have been taken to ensure that these weaknesses in IRS' processes and controls have been corrected and that resulting mismanagement does not recur; and
- IRS' plans for Cyberfile, including a business case analysis addressing costs, mission-related benefits and technological risks, schedule and milestones, and acquisition strategy.
- Ensure that (a) IRS' Chief Financial Officer adjusts the obligations and costs recorded for Cyberfile to reflect the actual obligations and costs associated with the interagency agreement with NTIS and (b) NTIS identifies all obligations and costs that can be avoided while Cyberfile is suspended and takes needed contractual action to do so.
- Report the acquisition weaknesses as material weaknesses in the agency's system of internal controls under the Federal Managers' Financial Integrity Act to the extent they remain uncorrected at the close of fiscal year 1996 and reassess these controls periodically to ensure they are adequate and are being adhered to as required by the act.

We recommend that, before permitting NTIS to resume work on the Cyberfile project or accept new systems development projects from other federal agencies (e.g., work NTIS solicits, such as providing information management solutions, performing program management and software development, and building state-of-the-art customized programs), the Secretary of Commerce:

- Provide to the Senate Committee on Governmental Affairs, the House Committee on Government Reform and Oversight, the Senate and House Appropriations Committees, the Senate Committee on Commerce, Science, and Transportation, and the House Committee on Science, a report detailing
 - the weaknesses in NTIS' acquisition and financial management processes and controls that permitted Cyberfile mismanagement (e.g., permitted NTIS to disregard procurement laws and regulations and dispense with acceptable financial accounting practices); and
 - actions that have been taken to ensure that these weaknesses in NTIS' processes and controls have been corrected and that resulting mismanagement does not recur.

-
- Ensure that NTIS' Director immediately identifies all costs that can be avoided while Cyberfile is suspended and takes needed contractual action to do so.
 - Rescind all charges made to IRS associated with NTIS mismanagement, such as costs and fees for prompt payment penalties.
 - Rescind management fees for all items purchased from existing government contracts.
 - Report the acquisition and financial management weaknesses as weaknesses in the agency's system of internal controls under the Federal Managers' Financial Integrity Act to the extent they remain uncorrected at the close of fiscal year 1996 and reassess these controls periodically to ensure they are adequate and are being adhered to as required by the act.

Agency Comments and Our Evaluation

In commenting on our report, Treasury agreed with our findings and recommendations. It stated that it shared our concerns regarding IRS' management of the Cyberfile project and that the experience with the project underscores the importance of IRS implementing our recommendations. In its comments, IRS agreed that Cyberfile was not successful and had encountered problems, even though IRS expected to expand its technical capability by using NTIS. IRS explained that it is conducting an internal review of Cyberfile to identify a full range of corrective actions.

Commerce also supported many of our recommendations.¹⁴ However, it disagreed that NTIS should (1) rescind management fees associated with ordering equipment from existing government contracts and (2) refrain from accepting new projects from other agencies until the reported weaknesses are corrected.

First, in refusing to rescind the management fees, Commerce stated that IRS agreed to pay these fees on equipment ordered from existing government contracts "for its own convenience," and that NTIS was entitled by the interagency agreement to collect them. This position misses the point of the recommendation. The issue is not whether Commerce is entitled to assess these charges under the interagency agreement (the report explicitly states that it is), but rather whether these charges represent judicious management of federal funds. In executing an interagency agreement, all parties are required to ensure that the best interests of the government are served, and that federal funds are prudently expended. Charging IRS an \$89,000 management fee for

¹⁴NTIS' comments were incorporated into Commerce's response.

purchasing equipment from an existing contract administered by the IRS itself, and, in addition, hundreds of thousands of dollars in unnecessary fees for placing orders with other federal agencies that IRS could have placed itself, is not judicious management of federal funds and is not in the best interest of the federal government.

Second, Commerce said that it would not refrain from accepting new projects from other agencies before the causes of Cyberfile mismanagement had been identified, corrected, and reported to the Congress, because most NTIS projects involve routine information dissemination. This recommendation was not intended to address NTIS projects involving only routine information dissemination. Our intent was to ensure that NTIS accepted no new systems analysis, development, or management projects, such as those solicited on NTIS' Internet site (i.e., providing other agencies with information management solutions, performing program management and software development, and building state-of-the-art customized programs) while weaknesses in NTIS acquisition and financial management processes persist. We have modified the recommendation to state our intention more precisely.

In its response, Commerce also took the position that (1) the project took longer than the scheduled 6 months because IRS increased systems requirements after major milestones were met and (2) when IRS suspended the Cyberfile project in May 1996, the system was near completion. However, as we testified in March 1996,¹⁵ there was no formal process in place to define, manage, and control Cyberfile systems requirements. For example, there were no established security requirements or requirements baseline. Further, since Cyberfile was developed using undisciplined and ad hoc software development processes, NTIS has no analytical basis to determine whether the system was "near completion," when it would be complete, or how much it would cost.

Finally, Commerce claimed that it did not have enough time to review the facts in the draft report. However, NTIS was well aware of all the facts and had commented on them orally and in writing before the draft report was sent. Specifically, before sending the draft report, we provided NTIS with written statements detailing the facts, held meetings with NTIS to discuss the facts on July 26, August 2, and August 6, 1996, and received and responded to NTIS' written comments on the facts. We then sent Commerce the draft report on August 8, 1996, and allowed 8 days for the response.

¹⁵GAO/T-AIMD-96-75, March 26, 1996.

Given that the facts already had been thoroughly discussed, this should have been adequate time for a complete review.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies to the Ranking Minority Member of the Senate Committee on Governmental Affairs as well as the Chairmen and the Ranking Minority Members of the House Committee on Government Reform and Oversight; the Senate Committee on Finance; the House Committee on Ways and Means; the Senate and House Committees on Appropriations; the Subcommittees on Treasury, Postal Service and General Government of the Senate and House Appropriations Committees; the Senate Committee on Commerce, Science, and Transportation; and the House Committee on Science. We are also sending copies to the Secretary of the Treasury, the Secretary of Commerce, Commissioner of the Internal Revenue Service, the Director of the National Technical Information Service, the Director of the National Institute of Standards and Technology, and the Director of the Office of Management and Budget.

Copies will also be made available to others upon request. If you have questions about this letter, please contact me at (202) 512-6412. Major contributors are listed in appendix V.

Sincerely yours,



Dr. Rona B. Stillman
Chief Scientist for Computers
and Telecommunications

Contents

Letter	1
Appendix I Scope and Methodology	26
Appendix II Comments From the Department of the Treasury	28
Appendix III Comments From the Internal Revenue Service	29
Appendix IV Comments From the Department of Commerce	31
Appendix V Major Contributors to This Report	33

Abbreviations

ADP	automated data processing
GSA	General Services Administration
IRS	Internal Revenue Service
NTIS	National Technical Information Service
SBA	Small Business Administration
TSM	Tax Systems Modernization

Scope and Methodology

To determine IRS' rationale for selecting NTIS to develop and acquire Cyberfile, we reviewed IRS policies and procedures for initiating and justifying new information system projects and the documentation that IRS prepared for the Cyberfile project in accordance with the guidance. We also reviewed NTIS' Cyberfile study and proposal as well as the August 1995 interagency agreement between IRS and NTIS and supporting documentation. Finally, we reviewed IRS' and NTIS' December 1994 interagency agreement to develop an electronic bulletin board for tax forms. We interviewed IRS and NTIS program and information system officials to understand (1) why NTIS was considered to develop Cyberfile, (2) how IRS evaluated NTIS, and (3) how NTIS performed on other projects done for IRS. We also coordinated with IRS' internal auditors, reviewing their audit memoranda and write-ups to ensure no duplication of effort.

To determine whether IRS and NTIS followed applicable procurement laws and regulations in acquiring Cyberfile equipment and services, we reviewed the Competition in Contracting Act, the Economy Act, the Brooks ADP Act, the Federal Acquisition Regulation, the Federal Information Resources Management Regulation, and SBA's Section 8(a) regulations. We also examined procurement policies and procedures for IRS and NTIS, including the IRS policy on interagency agreements. We reviewed pertinent Cyberfile contract files to document the chronology of events and verified them through interviews with IRS, NTIS, National Institute of Standards and Technology, and SBA procurement officials. We then compared the contracting actions with the laws and regulations to assess their appropriateness. We also interviewed Department of Commerce Inspector General staff, who were reviewing procurement and other management practices at NTIS, to confirm our understanding of Commerce's procurement processes and verify our findings.

To determine if Cyberfile purchases were properly accounted for and were cost-effective, we worked in conjunction with IRS' internal auditors who were performing a full inventory of all purchases related to Cyberfile. For selected transactions, we compared obligation and disbursement dates to dates recorded in the accounting records and reviewed supporting documentation. We also reviewed procurement files to verify the validity of obligations and disbursements and reviewed related interagency agreements and contracts. In addition, we contacted the federal agency personnel working with NTIS to renovate space for the Cyberfile computer center.

Appendix I
Scope and Methodology

Our work was performed at IRS headquarters in Washington, D.C.; the IRS facilities in Bethesda and Oxon Hill, Maryland; the Department of Commerce headquarters in Washington, D.C.; NTIS in Springfield, Virginia; the National Institute of Standards and Technology in Gaithersburg, Maryland, SBA headquarters and Washington District Office in Washington, D.C.; and the technical services contractor's location in Bethesda, Maryland. Our work was conducted from April 1996 through early August 1996. We performed our work in accordance with generally accepted government auditing standards.

Comments From the Department of the Treasury



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

August 19, 1996

Mr. Gene L. Dodaro
Assistant Comptroller General
General Accounting Office
441 G Street, N.W., Room 6101
Washington, D.C. 20548

Dear Mr. Dodaro:

We appreciate the opportunity to provide a response on your draft report, TAX SYSTEMS MODERNIZATION: Cyberfile Project Was Poorly Planned and Managed.

We agree with you and share your concerns regarding the IRS's management of the Cyberfile project. The Department raised serious questions about testing, security and marketing in light of the short time frame IRS had set for Cyberfile development and roll-out. These questions ultimately led to the decision to discontinue the effort for the 1996 filing season.

We very much appreciate GAO's efforts in pointing out problems with the Cyberfile project. In our view, the experience with the Cyberfile project underscores the importance of adopting the changes GAO has recommended to IRS. As you are aware, the Department has substantially increased its oversight of Tax Systems Modernization over the past 6 months. We will ensure that the IRS prepares a report to Congress documenting the Cyberfile project from its inception and outlining the steps being taken to strengthen its project management capabilities.

Thank you for the opportunity to comment on the report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lawrence H. Summers".

Lawrence H. Summers

Comments From the Internal Revenue Service



COMMISSIONER

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

August 19, 1996

Mr. Gene L. Dodaro
Assistant Comptroller General
United States General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Dodaro:

We have received your draft Report, Tax Systems Modernization: Cyberfile Project was Poorly Planned and Managed, and appreciate the opportunity to comment on it.

The Internal Revenue Service initiated the Cyberfile project in 1995 to explore additional ways of encouraging the electronic filing of tax returns. In particular, Cyberfile was conceived as a way of receiving returns that would be prepared on personal computers by individual taxpayers. As a part of the GAO's ongoing Tax System Modernization (TSM) Program reviews, the importance of the IRS' devising a strategy that would attract this important segment of the taxpaying public was underscored. The IRS agreed then as it does now that it is important to effectively bring this group of taxpayers into an environment which allows them to file electronically.

We expected that a partnership with the Commerce Department's NTIS organization would present the opportunity for us to expand our technical capacity to deliver Cyberfile. However, as you point out in your draft report, the effort was not successful, and there were problems. The results of a comprehensive internal review of Cyberfile are currently being evaluated for the purpose of identifying the full range of appropriate corrective action. As a result of the review, we will be able to prepare the report to Congress that the draft Report recommends.

In the interim, however, I know you are aware of many of the steps we have taken to strengthen our ability to modernize the tax system. At its core, the Investment Review Process that is already in place, as well as the work underway on completing the TSM architecture, institutionalizing the Systems Life Cycle for all new information technology development efforts, implementing contractor Capability Maturity Model reviews, establishing software development metrics and establishing the Integration Testing and Control Center are important ways by which we will ensure future systems

**Appendix III
Comments From the Internal Revenue
Service**

- 2 -

Mr. Gene L. Dodaro

development is done well. Similarly, the addition of a CIO who has previous experience with a significant modernization effort and the installation of a Government Program Management Office has enhanced our ability to design and build effective systems and mitigate many of the risks that were experienced by the Cyberfile effort.

If you have any further questions, please do not hesitate to contact us.

Sincerely,



Margaret Milner Richardson

Comments From the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Technology
Washington, D.C. 20230

AUG 16 1996

Mr. Gene L. Dodaro
Assistant Comptroller General
General Accounting Office
441 G Street, N.W., Room 6101
Washington, D.C. 20548

Dear Mr. Dodaro:

The General Accounting Office draft report on tax systems modernization presents some troubling findings as to the management of the Cyberfile Project, and I intend to see they are quickly resolved. It is unclear if the problems you raised are as serious as presented, but we were unable to verify or refute them in the short time allowed for reviewing the draft report. The Department's Inspector General is now completing its own review which will shed more light on the subject.

The draft report suggests that the Project was terminated because an acceptable product had not been delivered within the promised time frame. In May, 1996, the National Technical Information Service (NTIS) reported that obligations had reached 75 percent of the budget, as it was required to do by the terms of its agreement with Internal Revenue Service (IRS). It appears that by that time Cyberfile had in place all proposed hardware systems, subsystems, and components, and the software necessary to permit extensive initial performance tests and simulations. This included IRS systems acceptance testing and independent testing, such as that performed for the IRS by the National Cash Register Corporation. At the time of the Project's suspension, NTIS and its contractors believed that the system was near completion.

The Cyberfile accomplishments did take more than the scheduled six months to achieve. NTIS and the IRS conceived the project as a pilot program, aimed at demonstrating whether the concept of a home filer system could work and be expanded at some future time to a full-scale operation. However, as major milestones were met in the fall of 1995, IRS began to increase its requirements. NTIS always kept it informed as to what the impact would be on the schedule.

Although we have not been able to complete our research of the report's findings, we do support many of the recommendations. Secretary Kantor has directed the Department's Acting Chief Financial Officer and Assistant Secretary for Administration, Raymond Kammer, Jr., to begin work on a report covering NTIS' acquisition and financial management processes and controls and our steps to resolve whatever problems are

Mr. Gene L. Dodaro
Page 2

uncovered. That effort, in conjunction with the Inspector General's findings, will also enable us to determine if the situation warrants identification as a material weakness under the Federal Managers' Financial Integrity Act.

As for your other three recommendations concerning cost issues related to the Cyberfile Project, our report will describe our decisions and their rationale in detail. We agree that late payment penalties and the associated surcharge should not have been charged to the Project, and NTIS is rescinding the \$2,276 in charges. NTIS is also working to identify all costs that can be avoided while Cyberfile is suspended. However, the decision to use NTIS for Cyberfile-related purchases was made by IRS for its own convenience, with full understanding that the NTIS fee would be assessed.

In the meantime, before we complete our report, however, I cannot agree to preventing NTIS from accepting new projects from other Federal agencies. The work NTIS performs for other agencies generally involves routine information dissemination activities and produces a significant amount of its total revenues.

The Cyberfile Project is an important initiative for the taxpayer and represents a responsibility I take very seriously. My staff and I will follow-up aggressively on your findings.

Sincerely,



Mary L. Good

Under Secretary for Technology

Major Contributors to This Report

**Accounting and
Information
Management Division,
Washington, D.C.**

Leonard Baptiste, Jr., Senior Assistant Director
Gary N. Mountjoy, Project Director
Gary T. Engel, Assistant Director
Joan B. Hawkins, Assistant Director
John C. Martin, Technical Assistant Director
Robert L. Crocker, Jr., Senior Information Systems Analyst
Tamara J. Lilly, Senior ADP/Telecommunications Analyst
Peter C. Wade, Senior Business Process Analyst
David R. Fisher, Senior Auditor
Mickie E. Gray, Senior Auditor
Laura C. Filipescu Turner, Senior Auditor

**Office of General
Counsel**

Frank Maguire, Senior Attorney

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

