

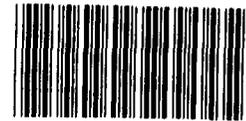
GAO

Fact Sheet for the Chairman,
Subcommittee on Oversight, Committee
on Ways and Means, House of
Representatives

August 1991

TAX SYSTEM MODERNIZATION

Status of On-Line Files Initiative and Telecommunications Planning



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**Information Management and
Technology Division**

B-243637

August 14, 1991

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This report responds to your request for information on the status of the Internal Revenue Service's (IRS) (1) Corporate Files On-Line (CFOL), a series of projects intended to give IRS immediate access to tax information; and (2) telecommunications plans. Appendix I details our objectives, scope, and methodology.

Results in Brief

CFOL is a short-term initiative that will be replaced in phases, by fiscal year 1996, as part of IRS' Tax System Modernization (TSM) program. It consists of 14 systems and 1 prototype project, which will enable IRS employees to search for and retrieve taxpayer information—such as names and social security numbers—faster than before. This information helps locate taxpayers' accounts and reduce errors. Currently four of the CFOL systems have been fully implemented, and most of the others are scheduled to be completed by April 1993.

IRS originally planned for a second version of CFOL to add advanced data management and retrieval capabilities. We told IRS that this version would be expensive and would provide few additional benefits. As a result, in January 1991, IRS canceled it, saving an estimated \$125 million.

TSM will require telecommunications that permit the new computer systems to work together. In October 1990, IRS reorganized its Telecommunications Division within the agency so it would be easier to coordinate telecommunications planning and implementation. IRS has also assigned telecommunications a high priority in planning for TSM.

Background

IRS breaks its tax processing system into two components. The first is main pipeline processing, which consists of receiving and transcribing all tax returns and posting this information to individual accounts. The second component is support system processing, in which the different

types of taxpayer information are managed and taxpayer questions are answered.

Within pipeline processing there are also two main parts. The first is the master files located in Martinsburg, West Virginia. These files contain an account—a tax record covering the last three tax years—for every individual and business taxpayer in the country. These accounts contain both entity information, such as names and social security numbers, and accounting information. The second part of the pipeline is the tax return processing systems located in each of IRS' 10 service centers. These service centers receive tax returns from taxpayers, process them, and then send the information, using magnetic tapes, to the master files for posting.

The second component of IRS' tax processing system—support system processing—contains information duplicated from the pipeline. Information can be called up to, for example, answer taxpayers' questions or update taxpayers' files. While the systems used for pipeline processing contain complete taxpayer information, the numerous systems used for support processing often contain only selected account information. Information within both pipeline and support processing systems comes from different sources, including tax returns and information given by employers or other outside entities, such as W-2 and 1099 forms.

CFOL

CFOL, which began in December 1987, is a short-term initiative that will be replaced as part of TSM's implementation. CFOL operates between the pipeline and support components of IRS' current tax processing system, and will eventually allow all IRS employees access to both. It consists of 14 systems, under the heading of four major development projects, and one prototype project (the End-user Terminal Project). (For a listing and description of each development project see app. II.) Each of the 14 CFOL systems will contain different types of taxpayer information and corresponds with an existing IRS computer system. The total cost will be \$190.7 million—\$36.2 million for development and \$154.5 million for operations. IRS intends to operate CFOL until fiscal year 1996, when a component developed under TSM will take over.

CFOL has two goals. The first is to cut down on unpostables. Unpostables occur when a tax account transaction from a service center cannot be recorded or posted to the Martinsburg master files because of an error in the account. According to IRS, these unpostables increase tax return processing time by several weeks. Currently, if there is a discrepancy

between information to be posted and information contained in the master file, the discrepancy is not detected until the transaction is sent to Martinsburg. At Martinsburg, the processing system for the master files will not allow the erroneous information to be posted, thereby making it an unpostable. If an unpostable occurs, the transaction must be returned to the originating service center for correction and then resubmitted to Martinsburg for posting.

CFOL is intended to reduce unpostables by validating information with the master file while the information is being entered at the service center. If there is a discrepancy, CFOL will detect the error so that updated information can be supplied. Thus, CFOL prevents erroneous information from being sent to Martinsburg for posting. No employee interaction is needed, as this validation process occurs between the two computer systems.

CFOL's second goal is to allow employees to research the master file to identify taxpayers or obtain information related to their tax returns. When taxpayer information is needed, either by IRS or the taxpayer, an IRS employee can use CFOL to quickly access information that might be needed.

IRS' initial emphasis was the On-line Entity Index File Project, because it is the key to all other developments. The first system under this project, the Integrated Data Retrieval system, was tested at the Memphis Service Center in November 1989 and was implemented nationwide between April and July 1990. Three other systems within this project have been implemented since then. Most of the remaining CFOL projects and the systems supporting them are still being developed and are expected to be up and running by spring of 1993.

IRS Eliminates Project With Questionable Benefits

Originally, IRS planned to implement two essentially separate versions of CFOL, one that uses system software¹ routinely provided by equipment vendors for accessing data files followed by a version that uses a separately purchased data base management system.² In discussions with IRS officials, we questioned the usefulness of the data base version because

¹System software provided by the equipment manufacturer provides basic computer capabilities, such as access to peripheral devices and data files.

²A data base management system controls the organization, storage, and retrieval of information in a data base. Such software typically does not come with the equipment. It is acquired from a separate vendor.

it offered few additional benefits to users. As a result of our discussions, on January 16, 1991, the Chairman of the Information Systems Control Group for Corporate Systems³ decided not to implement the data base version of the system. According to the Control Group's decision paper, this action will save about \$125 million.

Telecommunications Issues Being Addressed

Currently, IRS' processing of taxpayer information is slowed in part because it cannot electronically transmit large volumes of information between offices. Instead, IRS mails or sends magnetic tapes by courier. For example, when tax return transactions are entered at service centers, tapes of the data are sent from the service centers to the Martinsburg computing center, which takes a day. In contrast, computer data could be sent electronically in minutes. IRS' modernization will depend on telecommunications that allows all computer systems to quickly share information electronically.

In October 1990, IRS moved the Telecommunications Division to the Office of the Assistant Commissioner for Information Systems Development to place the Division closer to other organizations that plan and manage the modernization. This change recognized the central role of telecommunications in TSM and in November 1990, the Division began assessing TSM systems development procedures to determine how best to involve the Division in systems planning and development. Also IRS recently assigned telecommunications a high priority in planning for TSM.

We discussed the contents of this report with IRS officials and have included their comments as appropriate. We conducted our review in accordance with generally accepted government auditing standards.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. We will then send copies to the appropriate House and Senate committees, major federal agencies including the Commissioner of Internal Revenue, and other interested parties. Copies will be made available to others upon request.

³Information systems control groups provide executive oversight and direction to major information systems projects or groups of projects.

Please contact me at (202) 275-3455 if you have any questions concerning this report. The major contributors to this report are listed in appendix III.

Sincerely,



Howard G. Rhile
Director, General Government
Information Systems

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Abbreviations

CFOL	Corporate Files On-Line
GAO	General Accounting Office
IMTEC	Information Management And Technology Division
IRS	Internal Revenue Service
TSM	Tax System Modernization

Objectives, Scope, and Methodology

Our objectives were to determine the status of (1) the various projects that make up IRS' Corporate Files On-Line initiative; and (2) telecommunications planning for TSM. We conducted audit work between May 1990 and June 1991 at IRS' National Office in Washington, D.C., and the IRS computing center in Martinsburg, West Virginia. We interviewed officials at these locations and reviewed available documentation, including project plans, project work agreements, requirements analysis packages, procurement planning documents, and concept documents. We also reviewed IRS' draft Information Systems Modernization Program: Design Master Plan, dated September 28, 1990, as it related to CFOL and telecommunications.

We gathered information on CFOL primarily from officials responsible for CFOL at IRS' National Office. We discussed this information with IRS headquarters officials responsible for tax return processing in the service centers, but we did not independently verify the information. Our work was done in accordance with generally accepted government auditing standards.

Corporate Files On-Line Projects

Project description and purpose	Status	Implementation	Nationwide expected benefits
On-Line Entity Index File Project			
Integrated Data Retrieval System: taxpayer account research, transaction validation	Implemented	July 1990	Reduced unpostables, faster case resolution, fewer taxpayer contacts
Federal Tax Deposit System: validates information from electronic tax payments	Implemented	August 1990	Reduced unpostables, fewer taxpayer contacts
Information Returns Index File: contains entity information received with information returns, such as W-2 forms	Implemented	September 1990	Reduced undelivered mail
Distributed Input System: validates transcription of tax return information onto magnetic tape	In development	June 1992 ^a	Reduced unpostables, fewer taxpayer contacts
Electronic Filing System: validates information from electronically filed tax returns	In development	January 1992	Reduced unpostables, fewer taxpayer contacts
Optical Character Recognition Systems: validates information from optically scanned paper documents	In development	January 1992	Reduced unpostables, fewer taxpayer contacts
Remittance Processing Systems: validates information from receipt of tax payments	Implemented	March 1991	Reduced unpostables, fewer taxpayer contacts
Life-cycle costs through fiscal year 1996		Development \$18.0 million	Total \$58.8 million
Individual Master File Project			
Individual Return Transaction File: stores information transcribed from individual tax returns	In development	February 1993 ^b	Reduced transcript requests, fewer taxpayer contacts, faster responses to taxpayer inquiries
Individual Master File: stores information on account status and summary information about returns filed	In development	August 1991	Reduced unpostables, reduced transcript requests, faster and more accurate case processing, fewer taxpayer contacts
Life-cycle costs through fiscal year 1996		Development \$7.2 million	Total \$57.5 million
Information Returns Master File Project			
Payer Master File: stores summary information submitted by filers of third-party returns, such as W-2 forms	In development ^c	September 1991 ^c	Reduced transcript requests, enhanced case research, fewer suspended cases
Information Return Master File On-Line: stores information received on third-party returns, such as W-2 forms	In development	October 1991	Increased collections, expanded audit coverage, reduced reliance on locator services
Information Return Master File Near-Line Storage: supplements the storage capability of the Information Return Master File On-Line system with automated mass storage devices	In development	April 1993 ^d	Faster transcript request servicing, faster case processing
Life-cycle costs through fiscal year 1996		Development \$4.4 million	Total \$37.3 million

(continued)

**Appendix II
Corporate Files On-Line Projects**

Project description and purpose	Status	Implementation	Nationwide expected benefits
Business Master File Project			
Business Return Transaction File: stores information transcribed from business returns	In development	November 1991	Reduced paper return requests, fewer taxpayer contacts, improved taxpayer service
Business Master File: stores information on account status and summary information about returns filed	In development	November 1991	Reduced unpostables, reduced transcript requests, faster case processing, fewer taxpayer contacts, improved file accuracy
Life-cycle costs through fiscal year 1996		Development \$3.8 million	Total \$34.3 million
CFOL Prototype Project			
End-user Terminal Project: tests the use of personal computers as intelligent terminals in CFOL systems ^e	In development	September 1991	Faster, less-costly software changes; freed computer capacity; experience with new technology
Life-cycle costs through fiscal year 1996		Development \$2.8 million	Total \$2.8 million

^aA final decision on whether to proceed with implementation will be made by IRS in December 1991.

^bNationwide implementation for current year's information occurred June 1991; nationwide implementation for 3 years' worth of return information scheduled for February 1993.

^cNationwide implementation for selected information occurred August 1990; nationwide implementation of full information scheduled for September 1991. A subproject to print Payer Master File transcripts is being planned.

^dInitial implementation will make 5 years' worth of information return data available within a week, compared to several months using current systems. Subsequent enhancements are expected to reduce response time to 24 hours.

^eIntelligent terminals would permit some processing of data after they are transmitted to the user. Currently, all processing is done in a mainframe computer before being sent to the user's terminal.

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