

GAO**Testimony**

Before the Subcommittee on Treasury, Postal Service, and
General Government, Committee on Appropriations,
House of Representatives

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**TAX SYSTEMS
MODERNIZATION****Comments On IRS' Portion
Of President's Request For
Fiscal Year 1993
Supplemental Funds**

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



Mr. Chairman and Members of the Subcommittee:

We are pleased to assist this Subcommittee as it considers the Internal Revenue Service's (IRS) portion of the President's request for supplemental funds for fiscal year 1993 to stimulate the economy. As you know, IRS is requesting \$148.4 million to buy computer and telecommunications equipment for 12 projects.

The proposed acquisitions discussed by IRS in its testimony yesterday do not appear to us as spur-of-the-moment purchases, but mostly represent accelerated acquisitions of planned computer hardware and software buys as shown in IRS' planning documents. Three of the acquisitions, totalling about \$41 million, will directly support IRS' Tax Systems Modernization (TSM) program. These requests support telecommunications modernization, an automated system to inventory and control taxpayer correspondence, and a system to support criminal investigations. The remaining \$107.4 million is primarily to support IRS' current operations.

As you are aware, we have not had a chance to fully evaluate IRS' proposal. However, on the basis of our previous and ongoing work, we have several comments on the proposal.

First, with respect to the \$41 million, about \$15.7 million of this amount is for two short-term TSM projects--the Automated Inventory Control System (\$10 million) and the Automated Criminal Investigation System (\$5.7 million). As we stated on February 3, these systems are experiencing schedule slippage to the point where they are expected to be completed about the same time as when the replacement TSM systems are expected to start becoming operational.¹ We recommended on February 3 that, while some of the short-term TSM projects may be good investments, IRS should reevaluate them in light of their schedule slippage. The remaining \$25.3 million is for telecommunications modernization that will permit IRS to make improvements in its obsolescent telecommunications network in preparation for the TSM projects. However, as we stated on February 3, IRS will need to define detailed TSM telecommunications requirements and make site-specific telecommunications plans to support and direct its planned telecommunications contracts for the TSM program.

Second, as mentioned above, the great bulk of the proposal (\$107.4 million) is primarily to support current information processing operations. This is an area in which we have not focused; TSM has been our focus. However, we do know, based on IRS' plans, that most of this is to accelerate the replacement of obsolescent equipment, which was originally planned for fiscal year 1994. I might add that, based on our work on the Taxpayer Compliance Measurement Program, we believe IRS examiners could

¹Tax Administration: Status of Tax Systems Modernization, Tax Delinquencies, and the Tax Gap (GAO/T-GGD-93-4, Feb. 3, 1993).

use additional computer capability to increase their efficiency and expand IRS' analytical capabilities. In addition, we understand that the automated call distribution equipment will be used by IRS' collection function. In this regard, we previously recommended the acquisition of such equipment for both incoming and outgoing calls to improve the productivity of the collection staff.² Also, \$48.2 million of this replacement equipment is for minicomputers that, while needed to maintain current operations, are also intended to be the mid-level platform upon which TSM applications will run and is consistent with the long-range plans for TSM.

Finally, although the procurement vehicles are in place to carry out the proposal, it appears that IRS will need to obtain expeditious approval of the acquisitions from the Department of the Treasury and, if needed, the General Services Administration. This is because the proposal calls for procurements that exceed the terms of IRS' current delegations of procurement authority. As of yesterday, IRS procurement officials told us they anticipated obtaining such approval by June 1, and were planning to have the funds obligated by the end of this fiscal year.

This concludes my prepared statement. I would be pleased to respond to any questions you may have.

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²Collecting Back Taxes: IRS Phone Operations Must Do Better
(GAO/IMTEC-91-39, June 18, 1991).