The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act

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INSPECTOR GENERAL
for TAX
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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM: (for) Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act

This report presents the results of our review of the Internal Revenue Service's (IRS) compliance with the requirements of the Clinger-Cohen Act.[1] In summary, we found that the IRS is still developing and implementing the information technology investment processes envisioned in the Act. Because these processes are in various stages of being implemented, they do not yet constitute a working structure that fully complies with the provisions of the Clinger-Cohen Act.

We recommended that the Deputy Commissioner for Modernization & Chief Information Officer prepare an overall strategy, plan, and schedule to bring the IRS in full compliance with the Clinger-Cohen Act. Management agreed with our recommendation and developed an appropriate corrective action. Management's response has been incorporated into the report, and the full text of the response is included as Appendix VI.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Scott E. Wilson, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

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[1] Clinger-Cohen Act, Pub. L. No. 104-106, Division E (1996) (codified at 40 U.S.C. Chapter 25).

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Executive Summary

The Clinger-Cohen Act[1] requires Federal agencies to make sound investment decisions before purchasing information technology systems. In October 2000, the Senate Governmental Affairs Committee stated that the Act was the result of the Committee's reviews of failed computer system acquisitions, such as the Internal Revenue Service's (IRS) Tax Systems Modernization project. The Committee further reported that Federal agencies were not using sound business procedures before investing in information technology. If sound business procedures to align information technology acquisitions with business needs are not employed prior to investing in information technology, Federal agencies will not be able to improve operational performance, reduce costs, achieve mission goals, and enhance service responsiveness to the public.

The objective of our review was to determine whether the IRS has implemented the requirements of the Clinger-Cohen Act. Our scope included identifying the processes the IRS has in place to ensure compliance with the provisions of the Act.

Results

Because of the changes to the IRS' structure and modernization strategy that began in 1998, the IRS is still developing and implementing the information technology investment processes envisioned in the Clinger-Cohen Act. Before 1998, the agency had made some progress in meeting the requirements of the Clinger-Cohen Act. During the audit, we identified that the IRS had recently introduced a new strategic planning process and other related processes, such as the Investment Decision Management process, to better manage its information technology investments. However, the use of these processes, and the integration of the procedures for making information technology investment decisions into the IRS' overall strategic planning, budgeting, and performance management approach, is still evolving. Because the IRS' processes are in various stages of being implemented, they do not yet constitute a working structure that fully complies with the provisions of the Clinger-Cohen Act.

The Internal Revenue Service Has Not Fully Implemented the Processes to Ensure Compliance With the Requirements of the Clinger-Cohen Act

Although the Clinger-Cohen Act was enacted in 1996, the IRS is still implementing the processes that will make it compliant with all the major provisions of the Act. A few

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[1] Clinger-Cohen Act, Pub. L. No. 104-106, Division E (1996) (codified at 40 U.S.C. Chapter 25).

significant factors have contributed to the IRS' delay in fully implementing the Clinger-Cohen legislation, such as reorganization efforts begun as a result of the IRS Restructuring and Reform Act of 1998 (RRA 98)[2] and the large amount of resources devoted to Year 2000 compliance efforts.

The IRS still needs to implement repeatable processes in order to be in full compliance with five key requirements of the Clinger-Cohen Act. These requirements include:

- The selection, control, and evaluation of information technology investments.
- Performance and results-based management.
- Accountability and information technology asset management.
- The Chief Information Officer's (CIO) role in the development of the agency's information technology architecture and information resources management capability.
- Information systems security policies, procedures, and practices.

Until the IRS has institutionalized many of its recently developed processes for managing its information technology investments, it will not have fully effective methods for prioritizing information technology development projects, detecting cost overruns, achieving performance goals, and meeting its overall mission, in accordance with the requirements of the Clinger-Cohen Act. Therefore, the agency cannot yet fully assure that it is getting maximum value from its $1.6 billion annual Modernization Information Technology Services[3] budget.

Summary of Recommendation

We recommend the Deputy Commissioner for Modernization & CIO prepare an overall strategy, plan, and schedule to bring the IRS in full compliance with the Clinger-Cohen Act requirements.

[2] RRA 98, Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

[3] Effective March 30, 2001, the restructured Information Systems organization, which was renamed Information Technology Services, and the Business Systems Modernization Office came under the leadership of the Deputy Commissioner for Modernization & CIO, to form the Modernization Information Technology Services organization. Both Information Technology Services and the Business Systems Modernization Office, however, remain separate organizations.

Management's Response: The Deputy Commissioner for Modernization & CIO agreed to include the IRS' strategy and plan to bring the agency into full compliance with the Clinger-Cohen Act in its revised Fiscal Year (FY) 2002 and FY 2003 Modernization Information Technology Services Strategy and Program Plan. Management's complete response is included as Appendix VI.

Objective and Scope

The Clinger-Cohen Act increases the IRS' accountabilities to the Congress and the public regarding its acquisition and use of information technology.

This report presents the results of our review of the Internal Revenue Service's (IRS) compliance with the requirements of the Clinger-Cohen Act.[1] The Act increases the responsibility and authority of the agencies in the Federal Government and their accountability to the Congress and the public regarding their acquisition and use of information technology. The provisions of the Act were enacted to introduce a framework and set of controls that seek to improve the management of information technology in the Federal Government and to assure that investments in technology are tied to an agency's strategic plans and goals.

The overall objective of this audit was to determine whether the IRS implemented the requirements of the Clinger-Cohen Act. Our audit also included identifying the processes the IRS has in place to ensure full compliance with the requirements of the Act. Specifically, we determined whether the IRS complied with the requirements applicable to:

- Agency Heads, including performance and results-based management, accountability, investment tracking, inventory and asset management, and security.
- Chief Information Officers (CIOs), including the development, maintenance, and implementation of an information technology architecture and information technology personnel capabilities.
- Procurement, including the use of modular (i.e., incremental) contracting.

Audit work was conducted at the National Headquarters from October 2000 to May 2001. This audit was

[1] Clinger-Cohen Act, Pub. L. No. 104-106, Division E (1996) (codified at 40 U.S.C. Chapter 25).

performed in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II. Appendix IV contains a comprehensive matrix documenting the individual Clinger-Cohen Act requirements and the IRS' status in complying with the requirements. Terms used in the report are defined in Appendix V.

Background

Several management reforms enacted in the past decade, including the Clinger-Cohen Act, emphasize the need for the Federal Government to improve the processes for the selection and management of information technology resources.

Several management reforms enacted in the past decade have introduced requirements emphasizing the need for Federal agencies to significantly improve the management processes and the methods used to select and manage information technology resources. The ultimate goal of these various legislative reforms is for agencies to focus on managing information technology to make sound investment decisions that will measurably increase the performance of the Government. One of these management reforms is the Information Technology Management Reform Act of 1996, also known as the Clinger-Cohen Act.

In October 2000, the Senate Governmental Affairs Committee stated that the Clinger-Cohen Act was the result of the Committee's reviews of failed computer system acquisitions, such as the IRS' Tax Systems Modernization project. The Committee further reported that Federal agencies were not using sound business procedures before investing in information technology. If sound business procedures to align information technology acquisitions with business needs are not employed prior to investing in information technology, Federal agencies will not be able to improve operational performance, reduce costs, achieve mission goals, and enhance service responsiveness to the public.

A key goal of the Act is for agencies to have the management processes and information needed to help ensure that information technology projects are being implemented at acceptable costs, within reasonable and expected time periods, and are contributing to tangible, observable improvements in mission performance. Moreover, these management processes should be institutionalized throughout the organization and should be used for all information technology-related decisions.

The Clinger-Cohen Act requires Federal agencies to focus on the results achieved through information technology investments while streamlining the Federal information technology procurement process.

Specifically, the Clinger-Cohen Act introduces more rigor and structure into how agencies approach the selection and management of information technology projects than what had been previously called for in the Brooks Act.[2] For example, the head of each agency is required to implement a process for maximizing the value of the agency's information technology acquisitions while assessing and managing the risks of those investments. Under this Act, agencies are also required to establish a comprehensive approach to improving the acquisition and management of agency information systems through work process redesign and by linking planning and investment strategies to the budget process.

Under the Clinger-Cohen Act, agency CIOs have the authority and management responsibility to advise agency heads on all issues concerning information technology.

The Act provides clear accountability for information resources management activities by creating agency CIOs with the authority and management responsibility necessary to:

- Advise agency heads on key budget, program, and implementation issues concerning information technology.
- Oversee the design, development, and implementation of information systems.
- Monitor and evaluate system performance.

[2] Brooks Act, 40 U.S.C. § 759 (repealed 1996).

The Clinger-Cohen Act assigns primary responsibility for implementing its provisions to the Departments. The Department of the Treasury expects each bureau to establish its own investment review board and has established a capital investment monitoring process that includes a review of significant, high-dollar bureau investments. For the IRS, the Department of the Treasury oversees its information technology at a high level, through various means, but does not monitor the IRS' information technology investments through the Department's Capital Investment Review Board.

The IRS undertook a self-assessment of its compliance with the Clinger-Cohen Act in 1997. The document identified that the IRS had made progress in complying with the requirements of the Clinger-Cohen Act but that the agency also had much more to do. After we began our audit work, the IRS undertook another self-assessment, which was completed in February 2001.

The IRS' reorganization efforts have increased the agency's ability to plan for and manage its information technology resources.

The enactment of the IRS Restructuring and Reform Act of 1998 (RRA 98)[3] gave the IRS a new direction and a new challenge, namely to measure its success and failure in terms of the effect on the people served, as well as the amount of taxes collected. In order to comply with the requirements of the RRA 98, the IRS began reorganization efforts that were not fully implemented until October 2000. The IRS' efforts included redefining strategic goals, restructuring the organization, revising the strategic planning process, and remapping information technology modernization efforts to more effectively serve the new business structure. As a result, the more recent self-assessment identified many areas in which the IRS has increased its ability to plan for and manage its information technology resources.

[3] RRA 98, Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

Results

Though the IRS has introduced several new processes to better manage its information technology investments, these processes do not yet constitute a working structure that fully complies with the requirements of the Clinger-Cohen Act.

During the audit, we identified that the IRS has recently introduced a new strategic planning process and other related processes to better manage its information technology investments and that its procurement practices are in compliance with the Clinger-Cohen Act requirements, including those regarding the use of modular contracting. These processes are, however, in various stages of being implemented and do not yet constitute a working structure that fully complies with the provisions of the Clinger-Cohen Act. Specifically, we identified five key areas where the IRS still needs to implement repeatable processes in order to be in full compliance with the requirements of the Clinger-Cohen Act. These requirements include:

- The selection, control, and evaluation of information technology investments.
- Performance and results-based management.
- Accountability and information technology asset management.
- The CIO's role in the development of the agency's information technology architecture and information resources management capability.
- Information systems security policies, procedures, and practices.

The Internal Revenue Service Has Not Fully Implemented the Processes to Ensure Compliance With the Requirements of the Clinger-Cohen Act

Although the Clinger-Cohen Act was enacted in 1996, the IRS is still implementing the processes that will make it compliant with all the major provisions of the Act. The major reason for the delay is the reorganization of the agency that followed the passage of the RRA 98. That legislation caused the IRS to rethink its organizational structure, redefine its mission and strategic goals, and recast its modernization efforts to meet the needs of its new structure and mission. The stand-up of the IRS' new organizational structure occurred in October 2000.

In addition to the reorganization efforts, other factors have contributed to the delay in the IRS' efforts to establish compliance with all the aspects of the Clinger-Cohen Act, including:

- The IRS has not developed an overall strategy, plan, and schedule for becoming compliant with the provisions of the Clinger-Cohen Act.
- From 1996 through the first quarter of 2000, the IRS devoted a large amount of its resources to Year 2000 compliance efforts, leaving little time to focus resources on implementing the requirements of the Clinger-Cohen Act.

Any effective implementation of the Clinger-Cohen Act needs a robust strategic planning process as its foundation. As part of its reorganization efforts, the IRS introduced a disciplined strategic planning process in March 2000. This process, the IRS' Strategic Planning, Budgeting, and Performance Management Process, was developed "to provide a formal, structured environment for establishing strategic direction, determining resource levels to support priorities and projects stemming from that direction, and evaluating performance results."

With its strategic planning process in place, the IRS began introducing the new concepts and practices that will be part of its overall capital planning and investment decision management structure.

With its new strategic planning approach in place, the IRS was in a position to begin introducing the concepts and practices that would make the overall process work. In 2000 and early 2001, the IRS completed its initial work on a number of significant aspects of its capital planning and investment decision management structure. The concepts and processes related to this structure include the following:

- The IRS Commissioner approved the Information Technology Services[4] Balanced Measures in March 2000.
- In June 2000, the Investment Decision Management process was approved as part of the IRS' Enterprise Life Cycle.
- As part of the Strategic Planning, Budgeting, and Performance Management Process, the development of separate strategy and program plans for Fiscal Year (FY) 2001 was initiated for each of the IRS' four new business operating divisions.[5] Strategy and program plans were also developed for each of the functional areas outside of the business operating divisions;[6] the first version of the Information Technology Services organization's plan was completed in July 2000. These plans link the planning efforts within the individual program areas with the IRS' business goals.
- The first quarterly Business Performance Review (BPR) of the Information Technology Services organization took place in November 2000, with the second review taking place in February 2001. The

[4] Effective March 30, 2001, the restructured Information Systems organization, which was renamed Information Technology Services, and the Business Systems Modernization Office came under the leadership of the Deputy Commissioner for Modernization & CIO, to form the Modernization Information Technology Services organization. Both Information Technology Services and the Business Systems Modernization Office, however, remain separate organizations. For consistency reasons, we use Information Technology Services, and Modernization Information Technology Services, as appropriate, throughout the report.

[5] The IRS' four new business operating divisions are Wage and Investment Income, Small Business/Self-Employed, Tax Exempt and Government Entities, and Large and Mid-Size Business.

[6] The other functions that are separate from the IRS' new business operating divisions are Agency-Wide Shared Services, Appeals, Taxpayer Advocate Service, Criminal Investigation, and Chief Counsel.

BPRs measure the IRS' progress toward meeting its goals against the strategy and program plans.

- In December 2000, Version 1.0 of the IRS' Enterprise Architecture was released.
- The two major IRS vision and strategy efforts, the Tax Administration Vision and Strategy and the Internal Management Vision and Strategy, were completed and approved by the Core Business Systems Executive Steering Committee[7] in March 2001.

More details on the concepts and practices associated with the IRS' capital planning and investment decision management structure are contained in Appendix IV.

The IRS' business units were directly involved in the agency's budgeting effort for the first time.

In addition to the new concepts and practices introduced in 2000, the FY 2001 budgeting effort was the first ever, according to IRS officials, in which the business units were directly involved in making decisions about information technology investments. The new Business Systems Planning (BSP) offices, in each of the IRS' new business operating divisions, are charged with identifying opportunities for and managing the delivery of business improvement and information technology projects in order to fulfill the strategic missions of the individual business operating divisions, thereby fulfilling the IRS' mission.

The BSP offices work directly with the business units to identify the business area needs within the business operating divisions and ensure that those needs are adequately communicated, in order to meet the information technology needs of each organization. The BSP offices also work with the project managers in the business units to ensure the documentation to support initiatives, such as Improvement Project Plans, are prepared to support the Strategic Planning, Budgeting,

[7] The Core Business Systems Executive Steering Committee, chaired by the IRS Commissioner, approves all funding for modernization projects and makes other key information technology investment decisions.

and Performance Management Process. Additionally, under the IRS' new organizational structure, the BSP offices work with the Division Information Officers (DIO), in the Modernization Information Technology Services organization, who are responsible for assisting the offices in prioritizing, costing, managing, and coordinating non-modernization projects. The joint BSP/DIO Council will aid in the project prioritization process.

Since the IRS' strategic planning process is still new, the agency has not yet completed a full cycle through the process.

Although the IRS' reorganization efforts have done much to redirect its focus toward information technology investments, the strategic planning process implemented by the IRS is still new, and the agency has not yet completed a full cycle through the process. During our audit, we identified five key areas where the IRS still needs to implement repeatable processes in order to be in full compliance with the requirements of the Clinger-Cohen Act. These five areas are discussed in detail later in this report.

The IRS cannot ensure it is getting the maximum value from its $1.6 billion annual Modernization Information Technology Services budget until all of the elements of its information technology investment decision management process have been implemented.

Since the IRS is still implementing many of the elements needed for an effective overall information technology investment decision management process, the agency cannot yet fully assure that it is getting maximum value from its $1.6 billion annual Modernization Information Technology Services budget. Until the IRS has institutionalized many of its recently developed processes for managing its information technology investments, it will not have fully effective methods for prioritizing information technology development projects, detecting cost overruns, achieving performance goals, and meeting its overall mission, in accordance with the requirements of the Clinger-Cohen Act.

Selection, control, and evaluation of information technology investments

A capital planning and investment decision management process provides mechanisms for selecting information technology initiatives as part of the overall portfolio that supports an agency's mission.

According to Clinger-Cohen Act guidance, a capital planning and information technology investment decision management process is an integrated approach to managing information technology investments that provides for the continuous identification, selection, control, life-cycle management, and evaluation of investments. A strong and comprehensive information technology capital planning process is necessary to assure that agency information technology-related expenditures receive the executive-level oversight required for confidence that the agency head is executing this responsibility in accordance with the Clinger-Cohen Act. The capital planning and investment decision management process also provides mechanisms for selecting information technology initiatives as part of the overall portfolio that supports an agency's mission.

The IRS has made progress in implementing a capital planning and investment decision management process to manage its acquisitions of information technology as a portfolio of investments. In the past, the IRS has experienced difficulties in establishing repeatable processes to continually evaluate information technology investments in relation to its business goals and functions. A new process for making investment decisions for modernization projects was finalized in June 2000, as part of the IRS' Enterprise Life Cycle. This process, the Investment Decision Management process, will be used by the IRS to prioritize, approve, fund, monitor, and evaluate all of its Core Business Systems investment initiatives.

Aspects of the IRS' Investment Decision Management process are still evolving, especially as they affect non-modernization projects.

Since the Investment Decision Management process is new, the IRS has not yet had experience with all of its phases, including all the life cycle elements in its Business Case Procedure, one of the process' key components. In addition, aspects of the Investment Decision Management process are still evolving, especially as they affect non-modernization projects.

The IRS is reviewing the elements of the process used in the past to determine which ones will be used in subsequent budget cycles.

On February 27, 2001, the BSP Office for the Wage and Investment Business Operating Division introduced an investment prioritization methodology for selecting a portfolio of non-modernization projects for FY 2002, using elements of the Investment Decision Management process. Once this methodology is adopted by each of the BSP offices, the BSP/DIO Council will play an expanded role in the IRS' strategic planning process.

Performance and results-based management

Information technology investment strategies and spending should be aligned with expected improvements in mission performance and results.

The Clinger-Cohen Act envisions that information technology investment strategies and spending will be tightly aligned with expected improvements in mission performance and results. Performance measures and management processes that monitor actual performance compared to expected results should be instituted by agencies as part of a performance-based management system. Such a system provides timely information regarding the progress of information technology investments.

The IRS' BPR process will provide executives with the status of information technology projects on a quarterly basis. Since the first BPR for the Information Technology Services organization was completed in November 2000, just as the final stages of the reorganization were implemented, much of the information contained in the report was at a strategic level. Additionally, performance measures were still being validated and/or refined, or the data to perform an analysis of the measures were not yet available.

The second BPR, completed in February 2001, presents a more detailed description of the Information Technology Services organization's progress in achieving business results. Since the BPR process is still new, the second report documents the standard process that will be used for planning and developing performance goals and for reporting on how well the

Modernization Information Technology Services organization is meeting those goals in subsequent BPRs. The BPR also reports that 17 balanced measures were implemented across the Modernization Information Technology Services organization to provide a corporate view of the Information Technology Services organization's daily performance in fulfilling its business results. The 17 measures implemented cover 3 main customer service areas: User Support, Data Access and Communications, and Applications.

While the performance measures that will be used to measure information technology performance have been identified, the IRS is still in the process of installing software to capture much of the data that will be used in setting baselines. The data that will be captured include information about systems response time and availability from the perspective of the end-user.

The data collected from the measures will be used to baseline current operations and provide a basis for the establishment of service level agreements (SLAs) between the Information Technology Services organization and each of the IRS' four new business operating divisions. The IRS is now working on the procedures for establishing the process to define SLAs.

The SLAs will provide the foundation in the IRS' process to link information technology investments with agency-wide performance goals.

The SLAs will provide the foundation in the IRS' process to link information technology performance to information technology investments and their contribution to agency-wide performance goals. The IRS will not be able to fully determine how well information technology supports agency programs until SLAs have been established between the Information Technology Services organization and the business operating divisions. The SLAs established will define the specific levels of service, or performance measures, between the Information Technology Services organization and the business operating divisions in greater detail than the balanced measures now in place.

Accountability and information technology asset management

The GAO has reported on inadequate controls over the IRS' property and equipment and its financial reporting process since FY 1992.

Since 1983, the IRS has identified a material weakness in its controls over property and equipment during the agency's annual Federal Managers' Financial Integrity Act[8] process. Specific shortcomings have been identified in the procedures and controls over the information, use, and accountability of capitalized property. In addition, according to the General Accounting Office (GAO) report on the IRS' FY 2000 financial statements,[9] the IRS continues to face most of the pervasive systems and internal control weaknesses the GAO has reported since it began auditing the IRS' financial statements in FY 1992. Inadequate controls over the IRS' property and equipment and an inadequate financial reporting process are two of the pervasive weaknesses that the GAO has cited in its annual reviews of the IRS' financial statements.

Although the IRS achieved an unqualified opinion for FY 2000, it did so, according to the GAO, on the basis of extensive management and staff work that would not have been necessary if the IRS' systems and controls operated effectively. As a result, the IRS is unable to ensure that:

- Its accounting, financial, and asset management systems and other information systems, as currently implemented, are designed, developed, maintained, and used effectively to provide financial or program performance data for the agency's financial statements.
- Financial and related program performance data are provided on a reliable, consistent, and timely basis to agency financial management systems for decision-making on an ongoing basis.

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[8] Federal Managers' Financial Integrity Act of 1982, 31 U.S.C. § 3512 (c), (d).

[9] *Financial Audit: IRS' Fiscal Year 2000 Financial Statements* (GAO-01-394, March 2001).

Although the IRS' CIO and CFO are working together to address the asset management and the financial and program performance issues, it will take several years to overcome the agency's material weaknesses.

Under the provisions of the Clinger-Cohen Act, the head of the agency is responsible for defining the operating relationship between the CIO and Chief Financial Officer (CFO) functions and ensuring coordination in the implementation of the Act, as well as other Federal legislation. During our audit, we found that the IRS' CIO and CFO have been working to address the asset management and the financial and program performance issues. It will, however, take several years to implement the property and financial systems that will be needed to overcome the IRS' material weakness. For example, we identified the following:

- A new Asset Management Modernization (AMM) Program is being implemented in four phases; the IRS expects the new system to be fully operational by 2002. Phase 1 is to be completed by September 2001. In that phase, a Single Point Inventory Function (SPIF) will be implemented nationwide.[10]
- As described in the IRS' Enterprise Architecture, the Core Financial, Budget Formulation, and Facilities and Asset Management Systems needed by the IRS will be components of the Internal Management System in the future, modernized IRS. The Internal Management System will evolve as the IRS' Internal Management Vision and Strategy, which was approved in March 2001, is established.
- The Custodial Accounting Project, one of the IRS' modernization initiatives, will improve the IRS' compliance with Federal accounting standards, improve the efficiency of IRS operations, and provide more timely and accurate data for management decision-making. This system, however, is not scheduled for complete deployment until December 2004.

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[10] The objective of the AMM Program is to implement IRS-wide state-of-the-art information technology inventory and property management in four phases. In phase 1, the SPIF is to provide immediate improvements to the inventory process, procedures, and organization.

Role of the CIO

According to the Clinger-Cohen Act, in order for the CIO to advise the agency head on key issues concerning information technology, the CIO's primary duty must be information resources management. The role of an agency's CIO also includes developing, maintaining, and facilitating the implementation of an information technology architecture, as well as assessing the knowledge and skills needed to achieve performance goals established for information resources management.

The IRS has appointed a new Deputy Commissioner for Modernization & CIO who will be responsible for the agency's overall modernization and information resources management.

In the past, information resources management was the primary duty of the IRS' CIO. In February 2001, as part of the IRS' ongoing reorganization of its Modernization Information Technology Services organization, the Commissioner announced the appointment of a new position, Deputy Commissioner for Modernization, who would also hold the title of CIO. The new Deputy Commissioner for Modernization & CIO, who began work in March 2001, is now responsible for the IRS' overall modernization and management of the information technology that supports the nation's tax system, as well as integrating new technology and existing systems with re-designed business processes and practices.

At the time of our audit, we identified two key areas in which the IRS had not fully implemented the provisions set forth in the Clinger-Cohen Act, as they relate to the responsibilities of the CIO. They are:

1. Implementation of an Information Technology Architecture

The IRS' Enterprise Architecture has not yet been fully implemented because the IRS' major vision and strategy efforts were just approved in March 2001.

The IRS' Enterprise Architecture has not yet been fully implemented because the agency's major vision and strategy efforts, the Tax Administration Vision and Strategy and the Internal Management Vision and Strategy, were just completed and approved in March 2001. With the release of the Enterprise Architecture, Version 1.0, or *Blueprint 2000*, in December 2000, the IRS has developed a business process-based, baseline version of its architecture. Version 1.0 is being maintained under the IRS' configuration management procedures. However, because Enterprise Architecture work products that were dependent on the major vision and strategy efforts could be updated, approved, and baselined only after those efforts were completed, the Architecture has not yet been fully implemented. Additionally, although the IRS formally approved its Tax Administration Vision and Strategy and Internal Management Vision and Strategy in March 2001, the activities associated with the major vision and strategy efforts have not yet been employed.

The Tax Administration Vision and Strategy and the Internal Management Vision and Strategy will drive the identification of future modernization projects that will then be included in the Enterprise Architecture. Once the Tax Administration Vision and Strategy and the Internal Management Vision and Strategy have been deployed, the IRS will have to develop a means to ensure that the activities are jointly used to guide the modernization investment decisions that will provide input for the construction of the Enterprise Architecture.

According to IRS management, the IRS' current Enterprise Architecture builds upon important achievements and lessons learned from its *Blueprint 97*, which defined enterprise-level information and technology systems. *Blueprint 2000* broadens the IRS' perspective by addressing the organizational roles, business needs, data structure, and technology capabilities of the whole agency. The IRS' modernization projects that were already underway prior to the release of the Enterprise Architecture will serve as the foundation for the evolving future state of the IRS. Each of the projects begun before the completion of the current Enterprise Architecture will be brought into alignment with the Architecture and play a key part in the IRS' implementation of a sound information technology architecture.

2. Information Resources Management Knowledge and Skill Requirements

The IRS is in the process of identifying the information systems competencies possessed by current executives and managers. The agency still needs to address recruitment, training, and retention issues. The IRS began reviewing its information technology personnel capability in 1999, when the agency administered skill assessments to its top executives and Modernization Information Technology Services personnel. The results from these assessments were used to determine the basic knowledge and skills IRS executives, managers, and Modernization Information Technology Services personnel should possess to facilitate the performance goals established for information resources management and comply with the Clinger-Cohen Act.

The IRS Human Resources function is developing a self-assessment to ensure its executives and managers have the core competencies needed to comply with the requirements of the Clinger-Cohen Act.

The IRS Human Resources function is currently developing a new self-assessment to re-evaluate the core competencies its senior information technology personnel and other Modernization Information Technology Services professionals possess. The IRS will then develop training and/or developmental opportunities to address the competencies needed to comply with the Clinger-Cohen Act. Additionally, the IRS is working with the Department of the Treasury, through the Workforce Improvement Program, to develop a list of core information resource management competencies to help develop a better system to select managers and hire new employees.

Security

Components of security remain among the IRS' material internal control weaknesses.

Components of security have been listed, and continue to be, among the IRS' material internal control weaknesses. Various deficiencies have been identified in the areas of physical security, logical security, data communications management, risk analysis, quality assurance, internal controls, security awareness, and contingency planning.

Although progress has been made in addressing the IRS' security concerns, the GAO listed the need to improve the IRS' information systems security controls as a major management challenge in its FY 1999[11] and FY 2000 reviews of the IRS' financial statements. The GAO also reported that the IRS' security program has not been fully implemented across the agency, and that the IRS still had serious weaknesses in the controls designed to protect its computer resources.

The Treasury Inspector General for Tax Administration (TIGTA) reported similar concerns in its *Semiannual Report to the Congress*, dated September 30, 2000. The Report states that the TIGTA's Office of Audit identified security weaknesses in key IRS programs, such as security certification and accreditation of sensitive systems, virus protection, and mainframe operating system controls.

Recommendation

The major strength of the Clinger-Cohen Act is the role it plays in prompting an agency to integrate the planning for information technology investments into its strategic planning process. Although the IRS has made strides in implementing many activities that support compliance with the Clinger-Cohen Act, it has done so without a plan for monitoring its progress toward compliance with the Act.

1. The Deputy Commissioner for Modernization & CIO should prepare an overall strategy, plan, and schedule to bring the IRS in full compliance with the Clinger-Cohen Act.

Management's Response: The Deputy Commissioner for Modernization & CIO will include the IRS' strategy and plan to bring the agency into full compliance with the Clinger-Cohen Act in its revised FY 2002 and FY 2003 Modernization Information Technology Services Strategy and Program Plan.

[11] *Financial Audit: IRS' Fiscal Year 1999 Financial Statements* (GAO/AIMD-00-76, February 2000).

Conclusion

In summary, the IRS has identified, designed, and begun to implement the processes that will bring it in compliance with the Clinger-Cohen Act. Due to the size of the agency, the implementation efforts will not be simple; a significant planning effort and a great deal of coordination among the many functions in the agency is needed. Also, these efforts will necessarily be very complex because the IRS is undergoing an extensive modernization of both its business processes and its systems.

The use of the IRS' Investment Decision Management process, as well as its Enterprise Life Cycle, is still evolving. In addition, the activities to incorporate both modernization and non-modernization initiatives into the IRS' Enterprise Architecture have not yet been deployed. Further, the IRS faces challenges in overcoming its material internal control weaknesses involving asset management and components of security. Above all, the IRS is still in the process of fully integrating the procedures for making information technology investment decisions into its overall strategic planning, budgeting, and performance management approach.

Without a plan for monitoring its progress toward compliance with the Clinger-Cohen Act, the IRS may not be able to integrate its activities into a viable, repeatable, agency-wide capital planning and investment decision management process. In the absence of an effective capital planning and investment decision management structure, the IRS will not be able to implement fully effective methods for prioritizing information technology development projects, detecting cost overruns, achieving performance goals, and meeting its overall mission.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) implemented the requirements of the Clinger-Cohen Act.[1] The review included identifying the processes the IRS has in place to ensure full compliance with the requirements of the Act. The audit was conducted as part of our annual audit plan. To complete this objective, we:

I. Determined whether the IRS Commissioner has planned or implemented processes to comply with the head of the agency's responsibilities, as outlined in the Clinger-Cohen Act.

   A. Determined whether the IRS has designed and applied a process for maximizing the value, as well as assessing and managing the risks, of its information technology acquisitions and whether the process meets the criteria listed in the Clinger-Cohen Act.

   B. Determined whether goals for improving the efficiency and effectiveness of IRS operations and the delivery of services to the public through the use of information technology have been established.

   C. Identified whether the IRS is providing information to the Department of the Treasury to be included in its annual report on its progress in achieving its goals in the agency's budget submission to the Congress.

   D. Determined whether performance measurements for information technology used or to be acquired by the IRS have been prescribed and designed to measure how well information technology supports the IRS' programs.

   E. Determined whether the IRS has identified where comparable processes and organizations in the public and private sectors exist and whether the IRS quantitatively benchmarks its process performance against such processes in terms of cost, speed, productivity, and quality of outcomes.

   F. Determined whether the IRS has a process in place to analyze the agency's missions and revise mission-related and administrative processes, as appropriate, before making significant information technology investments to be used in support of the performance of those missions.

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[1] Clinger-Cohen Act, Pub. L. No. 104-106, Division E (1996) (codified at 40 U.S.C. Chapter 25).

G. Determined whether the IRS has adequate information security policies, procedures, and practices in place.

H. Identified whether the IRS Commissioner is consulting with the Chief Information Officer (CIO) and the Chief Financial Officer to establish policies and procedures that ensure accounting, financial, asset management, and other information systems are designed, developed, maintained, and used effectively to provide financial or program performance data for the agency's financial statements.

I. Determined whether financial and related program performance data are provided on a reliable, consistent, and timely basis to the IRS' financial management systems.

J. Determined whether the IRS' financial statements support assessments and revisions to the IRS' mission-related and administrative processes, as well as the performance measurement of information technology investments.

K. For any major information technology acquisition program, or any phase or increment of such a program, determined whether significant deviations from the program's cost, performance, or schedule are being identified in the IRS' strategic information resources management plan.

L. Determined whether the IRS has an inventory of all computer equipment under the agency's control, as well as an inventory of equipment that is excess or surplus property.

M. Determined whether the IRS is including information technology systems designed to provide information to the public in an index of information disseminated by such a system in the directory created pursuant to section 4101 of title 44, United States Code (U.S.C.).[2]

II. Determined whether the IRS' CIO has implemented actions and processes to comply with the CIO's responsibilities, as outlined in the Clinger-Cohen Act.

A. Determined whether the IRS' CIO has information resources management duties as his or her primary duty.

B. Identified the methods the CIO uses to provide advice and assistance to the IRS Commissioner to ensure information technology is acquired and information resources are managed properly.

[2] Section 4101 of title 44 U.S.C., requires an electronic directory, on-line access to publications, and an electronic storage facility.

C. Determined whether the Modernization Information Technology Services[3] organization has developed, maintained, and implemented a sound and integrated information technology architecture for the agency.

D. Determined whether the Modernization Information Technology Services organization promotes the effective and efficient design and operation of all major information resources management processes for the agency, including improvements to the agency's work processes.

E. Determined whether a process to monitor and evaluate the performance of information technology programs on the basis of applicable performance measures is in place.

F. Determined whether there is a process for providing the IRS Commissioner with advice regarding whether to continue, modify, or terminate programs based upon an evaluation of the performance of information technology programs.

G. Determined whether annually, as part of the strategic planning and performance evaluation process, the CIO is reviewing the IRS' information technology personnel capability by:

1. Assessing the requirements established for IRS personnel regarding knowledge and skill in information resources management and the adequacy of such requirements for facilitating the achievement of performance goals established for information resources management.
2. Assessing the extent to which the positions and personnel at the executive level of the agency, and the positions and personnel at the management level of the agency below the executive level, meet the knowledge and skill requirements.
3. Developing strategies and specific plans for hiring, training, and professional development in order to rectify any deficiencies in meeting the knowledge and skill requirements.
4. Reporting to the Commissioner on the progress made in improving the agency's information resources management capability.

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[3] Effective March 30, 2001, the restructured Information Systems organization, which was renamed Information Technology Services, and the Business Systems Modernization Office came under the leadership of the Deputy Commissioner for Modernization & CIO, to form the Modernization Information Technology Services organization. Both Information Technology Services and the Business Systems Modernization Office, however, remain separate organizations. We use Modernization Information Technology Services throughout Appendix I for consistency reasons.

III. Identified whether the IRS Procurement function is complying with its responsibilities under the Clinger-Cohen Act.

A. Determined whether the IRS has established policies and procedures for acquiring information technology to replace the legal requirements previously established under the Brooks Act,[4] which was repealed by the Clinger-Cohen Act.

B. Determined whether there is a process to enter into contracts that provide for multi-agency acquisitions of information technology.

C. Determined whether there are practices in place to use modular (i.e., incremental) contracting, to the maximum extent possible, for the acquisition of a major system of information technology. This modular contracting should include:

1. Dividing an acquisition of a major system of information technology into several smaller acquisition increments.
2. To the maximum extent possible, awarding a contract for an increment of an information technology acquisition within 180 days after the date on which the solicitation was issued or considering cancellation if that increment cannot be awarded within such period.
3. Delivering the information technology provided for in the contract for the acquisition of information technology within 18 months after the date on which the solicitation resulting in the award of the contract was issued.

IV. Identified whether the IRS is participating in any discretionary activities related to the implementation of the Clinger-Cohen Act.

[4] Brooks Act, 40 U.S.C. § 759 (repealed 1996).

Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Deputy Commissioner N:C
Deputy Commissioner for Modernization & Chief Information Officer M
Chief Financial Officer N:CFO
Associate Commissioner, Business Systems Modernization M:B
Chief Information Technology Services M:I
Deputy Associate Commissioner, Program Management M:B
Deputy Associate Commissioner, Program Planning and Control M:B
Deputy Associate Commissioner, Systems Integration M:B
Deputy Chief Information Technology Services M:I
Deputy Chief Financial Officer, Strategic Planning and Budgeting N:CFO:SPB
Director, Architectural Management M:B:AE
Director, Business Systems Planning LM:BSP
Director, Business Systems Planning S:BSP
Director, Business Systems Planning T:BSP
Director, Business Systems Planning W:B
Director, Business Vision and Strategy M:B:BVS
Director, Corporate Computing M:I:E
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Director, Security Evaluation and Oversight M:S:S
Director, Strategic Planning and Budget M:SP:S
Director, Strategic Planning and Client Services M:SP
Director, Systems Development M:I:SD
Chief Counsel CC
National Taxpayer Advocate TA
Office of Management Controls N:CFO:F:M
Office of Program Oversight and Coordination M:SP:P:O
Audit Liaison: Business Systems Modernization M:B:C

Appendix IV

Clinger-Cohen Act Requirements Matrix

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
Agency Head Responsibilities		
CAPITAL PLANNING AND INVESTMENT CONTROL		
• Design and apply a process for maximizing the value, while assessing and managing the risks, of the agency's Information Technology (IT) acquisitions. The process should:	5122 (a) and (b)	The Internal Revenue Service (IRS) has made progress in implementing a capital planning and investment decision process to manage its acquisitions of IT as a portfolio of investments. In order to comply with the requirements of the IRS Reform and Restructuring Act (RRA 98),[1] the IRS began reorganization efforts in 1998 that were not fully implemented until October 2000. The IRS' efforts included (1) redefining strategic goals, (2) restructuring the organization, (3) revising the strategic planning process, and (4) remapping IT modernization efforts to more effectively serve the new business structure. The process for making investment decisions for modernization projects was finalized in June 2000. As a result, the IRS has not yet completed a full cycle using the Investment Decision Management (IDM) process defined in the Enterprise Life Cycle (ELC). A repeatable process for making investment decisions regarding improvement projects has yet to be implemented. In summary, the IRS is still developing and implementing a capital planning and IT investment decision management process as envisioned in the Clinger-Cohen Act.[2]

[1] RRA 98, Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

[2] Clinger-Cohen Act, Pub. L. No. 104-106, Division E (1996) (codified at 40 U.S.C. Chapter 25).

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
1. Provide for the following regarding IT investments: ⇒ Selection. ⇒ Management. ⇒ Evaluation of the results.	5122 (b) (1)	For Fiscal Years (FYs) 2000 and 2001, the IRS pursued two different approaches to making selection decisions regarding IT investments. Efforts identified as part of the IRS' IT modernization, known as Tier A projects in the IRS, were evaluated separately from those IT initiatives that were being undertaken to support or improve the IRS' current systems. These latter initiatives are referred to as Tier B and Tier C efforts, or improvement projects. The Information Technology Investment Account (ITIA), used to fund the IRS' modernization activities, was established by the Congress to provide significant oversight and require the achievement of specific milestones before additional IT funds would be released to the IRS. Through the Core Business Systems Executive Steering Committee,[3] the IRS has provided extensive executive involvement over its Tier A initiatives but has not fully established a process to manage its IT investments or evaluate the results. The use of the investment decision model (IDM process) and the ELC, for selection, management, and evaluation, is still evolving. The IRS used the EQUITY Model, developed by a contractor (MITRE Corporation), to prioritize and make budget decisions for the Tier B projects to be funded for FYs 2000 and 2001. Requests for information services were submitted for Tier C projects. The IRS is reviewing the elements of the prioritization process used in the past to determine what elements will be used to make future decisions regarding Tier B and C initiatives. Business Systems Planning (BSP) offices, created under the IRS' reorganization, work directly with the IRS' four new business operating divisions (BODs).[4] Each of the BSP offices identifies the business needs within each of the corresponding BODs. These offices work with Division Information Officers (DIOs), in the Modernization Information Technology Services[5] organization, to ensure the IT requests within each organization are

[3] The Core Business Systems Executive Steering Committee, chaired by the IRS Commissioner, approves all funding for modernization projects and makes other key IT investment decisions.

[4] The IRS' four new BODs were created during its reorganization. The BODs are Wage and Investment, Small Business/Self-Employed, Tax Exempt and Government Entities, and Large and Mid-Size Business.

[5] Effective March 30, 2001, the restructured Information Systems organization, which was renamed Information Technology Services, and the Business Systems Modernization Office came under the leadership of the Deputy Commissioner for Modernization & Chief Information Officer (CIO), to form the Modernization Information Technology Services organization. Both Information Technology Services and the Business Systems Modernization Office, however, remain separate organizations. For consistency reasons, we use Information Technology Services and Modernization Information Technology Services, as appropriate, throughout the report.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
		adequately communicated. Additionally, the BSP offices work with the project managers in each of the BODs' business units to ensure the documentation to support initiatives, such as Improvement Project Plans (IPPs), are prepared to support the IRS' new Strategic Planning, Budgeting, and Performance Management Process (explained further under #2). In February 2001, the BSP Office for the Wage and Investment (W&I) BOD introduced a methodology for making IT investment decisions and selecting a portfolio of Tier B projects for FY 2002. The BOD also devised a process for monitoring improvement projects in the W&I strategic plan. This process is modeled after the ELC. IRS management indicated that, in the future, the process developed by the W&I BOD is expected to be used by the BSP offices in the other BODs. Once that occurs, the BSP/DIO Council will play an expanded role in the IRS' new strategic planning strategy. The BSP/DIO Council meets bi-weekly to coordinate the business needs within each BOD in order to conserve IT Services' resources and prioritize improvement projects so that each division's IT needs receive appropriate attention. As part of the new Strategic Planning, Budgeting, and Performance Management Process, introduced in March 2000, the IRS Commissioner also provides guidance regarding what should be funded. This guidance can affect the final prioritization of the improvement projects.
2. Be integrated with the processes for making ⇒ Budget, ⇒ Financial, and ⇒ Program management decisions within the executive agency.	5122 (b) (2)	The Strategic Planning, Budgeting, and Performance Management Process is designed to provide the IRS with "a formal, structured environment for establishing strategic direction, determining resource levels to support priorities and projects stemming from that direction, and evaluating performance results." The process is to also "incorporate senior management guidance and oversight, in conjunction with the Treasury and IRS Oversight Board involvement," while ensuring that the four new BODs "maintain ownership of operational plans and business practices." Additionally, the process provides "greater integration between the IRS' strategic planning, budgeting, research, and performance accountability mechanisms." There are six phases in the new Strategic Planning, Budgeting, and Performance Management Process: • Strategic Assessment Phase – Conduct strategic assessment. • Commissioner's Guidance Phase – Issue Commissioner's planning guidance. • Program Planning Phase – Develop Strategy and Program Plan. • Performance Plan & Budget Justification Phase – Prepare/update Annual

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
		Performance Plan, the Office of Management and Budget (OMB) budget submission, and the Congressional justification. • Business Planning Phase – Develop Business and Resource Allocation Plans. • Performance Management Phase – Execute and review strategy, program, and budget. Since the Strategic Planning, Budgeting, and Performance Management Process was first introduced in March 2000, the IRS has not yet fully defined and implemented a capital planning and investment decision management process for its Tier A, B, and C efforts that fully integrates the new strategic planning, budgeting, and performance management approach to its overall IT investment decisions. According to IRS officials, the FY 2001 effort was the first ever in which the business units were directly involved in making decisions about IT investments. The IRS also continues the integration of its investment management data with its budget, financial, and program management data and processes through the use of the Information Technology Investment Portfolio System (I-TIPS). IRS officials believe the use of the I-TIPS, mandated by the Department of the Treasury, satisfies the agency's requirement to provide input for the Department's IT Strategic Plan and streamlines the elements of the budget formulation process.
3. Include minimum criteria to be applied in considering whether to undertake a particular investment in information systems, including quantitative and qualitative criteria related to the: ⇒ Expressed projected net benefit. ⇒ Risk-adjusted return on investment. ⇒ Comparison and prioritization of alternative information systems investment projects.	5122 (b) (3)	The procedures established as part of the ELC specifically address the preparation of business cases for IT projects. Preliminary business cases have been prepared for Tier A modernization projects, while IPPs have been prepared for some of the more significant Tier B projects. The BODs are still working on the process that each will use to prioritize its IT needs. This process covers the decision-making that occurs before projects are refined and requests for information services are documented.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
4. Provide for identifying information systems investments that would result in shared benefits or costs for other Federal agencies or state or local governments.	5122 (b) (4)	According to IRS executives, its functions are unique, and system software used by the IRS is often specialized. For this reason, the IRS does not foresee that it will be developing systems that can be shared with other Federal and state or local entities.
5. Provide for identifying quantifiable measurements for determining the net benefits and risks for a proposed investment.	5122 (b) (5)	The IRS has used some broad, preliminary measures of net benefits and risks in making decisions affecting requests for both ITIA funding and its FY 2001 operating budget. These measures are, in the IRS' own terms, rough order-of-magnitude estimates that will need to be refined as further work is done on scoping and costing IT initiatives. The business case procedures, and several of the preliminary business cases and IPPs that have been developed for certain initiatives, require and include sections for identifying the net benefits and risks for proposed investments.
6. Provide the means for senior, executive agency management personnel to obtain timely information regarding the progress of an investment in an information system, including a system of milestones for measuring progress, on an independently verifiable basis, in terms of: ⇒ Cost. ⇒ Capability of the system to meet specified requirements. ⇒ Timeliness. ⇒ Quality.	5122 (b) (6)	The Business Performance Review (BPR) process, as part of the Strategic Planning, Budgeting, and Performance Management Process, will provide executives with the status of IT projects on a quarterly basis. The IRS' first BPR of IT Services was done in November 2000, just as the final stages of the IRS' reorganization were being implemented. As a result, much of the information contained in the report was at a high level. Additionally, performance measures were still being validated and/or refined, or the data to perform an analysis of the measures are not yet being captured. The second BPR, completed in February 2001, presents a more detailed description of the IT Services organization's progress in achieving business results. The report documents the schedule and status of the operational priorities for each of the strategies within the IT Services organization.
PERFORMANCE AND RESULTS-BASED MANAGEMENT		
• Establish goals for improving the efficiency and effectiveness of	5123 (1)	Since the strategic planning process implemented is still a new process, the IRS has not yet completed a full cycle of the process. This process was first

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
agency operations, and, as appropriate, the delivery of services to the public through the effective use of IT.		used to prepare the strategy and program plans for FY 2001. These plans link the planning efforts within the individual program areas,[6] such as IT Services, with the IRS' goals. The first two BPR reports, which evaluate the results against the strategy and program plans, were produced in November 2000 and February 2001. Work has begun on defining a set of corporate measures that will be used in assessing the performance of each BOD and the IRS as a whole.
• Prepare an annual report on the progress in achieving the above mentioned goals for inclusion in the executive agency's budget submission to the Congress.	5123 (2)	The preparation of the Annual Performance Plan is incorporated in the Performance Plan & Budget Justification Phase of the IRS' new Strategic Planning, Budgeting, and Performance Management Process, introduced in March 2000. During that phase of the process, the strategy and program plans, prepared for each of the IRS' new BODs and functional areas, are to be consolidated and synopsized for use in preparing both the Annual Performance Plan and the budget submissions to the Department of the Treasury, the OMB, and the Congress. The IRS' Chief Financial Officer (CFO) is responsible for providing guidance on the Annual Performance Plan requirements and finalizing the Plan, using materials provided by the BODs and the Chief Information Officer (CIO). The IRS' first Annual Performance Plan was approved on April 9, 2001, and submitted to the Congress with the IRS' FY 2002 budget request. The Plan reflects the major strategies, operational priorities, and improvement projects developed by every IRS organizational unit in their strategy and program plans. A brief description of the IRS' strategic framework is also included to set the context for the IRS' services and programs. In addition, the Annual Performance Plan contains sections on each of the IRS' major programs and describes the annual performance goals for each of the programs. These sections also list the specific activities that will be accomplished, the resources that will be needed, and the performance measures that will be used to achieve each program's goals in FYs 2000 and 2001.
• Ensure that performance measurements are prescribed for IT used by or to be acquired for the agency.	5123 (3)	The IRS Commissioner approved the IT Services Balanced Measures in March 2000. Therefore, the performance measures that will be used to measure IT performance have been identified. The process of identifying additional measures and statistical indicators, such as the number of transactions processed by transaction type to obtain a measure for system response time by transaction type, is ongoing.

[6] The functions that are separate from the IRS' new BODs are Agency-Wide Shared Services, Appeals, Taxpayer Advocate Service, Criminal Investigation, and Chief Counsel, as well as IT Services.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
		As of February 8, 2001, the IRS was still in the process of installing the software (Attachmate) that will be used to capture the data needed about performance measures, such as systems response times and availability, for the analysis that will go into setting up system baselines. The February 2001 BPR reports that an initial Quarterly Customer Satisfaction Survey was given to a random group of approximately 3,000 end-users, at 24 sites IRS-wide, who use the core business systems (the Integrated Data Retrieval System, Corporate Files On-Line, Automated Collection System) to perform their work. The survey collected data for several IT Services support measures, including help desk, data integrity, and systems response time and availability. The February 2001 BPR also reports that 17 balanced measures in the business results area were implemented across the Modernization Information Technology Services organization to provide a corporate view of the IT Services organization's daily performance in fulfilling its responsibility of providing quality customer service. The data collected from these measures will be used to baseline current operations and provide a basis for the establishment of individual service level agreements (SLAs) between the IT Services organization and the BODs. The measures encompass three main areas: User Support, Data Access and Communications, and Applications.
• Ensure performance measurements measure how well the IT supports agency programs.	5123 (3)	Once the installation of the Attachmate software is complete and the SLA process has been defined, the IRS' plans call for the IT Services DIOs to work with the BSP offices to establish SLAs with each of the IRS' four new BODs. These SLAs will include the performance measures needed to determine how well IT supports agency programs.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
• Where comparable processes and organizations in the public or private sectors exist, quantitatively benchmark agency process performance against such processes in terms of: 1. Cost. 2. Speed. 3. Productivity. 4. Quality of outcomes.	5123 (4)	The IRS will be unable to benchmark agency performance until SLAs have been established. Even after SLAs are established, however, the IRS believes that its processes are so unique that the ability to benchmark agency performance against performance in the public and private sectors may be limited.
• Analyze the agency's missions and, based upon that analysis, revise the agency's mission-related and administrative processes, as appropriate, before making significant IT investments to be used in support of the performance of those missions.	5123 (5)	Before the IRS began revising its processes, it wanted to ensure the new business vision was documented. The first step in the IRS' organizational modernization effort was the development of the Enterprise Management Vision & Strategy (EMVS). The EMVS was developed by a contractor (Booz-Allen) and delivered in April 2000. The Strategy documents the IRS' plan to let business needs drive the IT initiatives that are necessary to meet its long-term goals. There are two components to the overall strategy: the Tax Administration Vision and Strategy (TAVS) and the Internal Management Vision and Strategy (IMVS). In the IRS' view, these strategies focus on the processes that are at the heart of the EMVS. The strategies provide the vision needed to ensure that the systems that will be delivered would enable the IRS to accomplish its mission. The TAVS focuses on the IRS' new and future business processes that will be used by the IRS' new business divisions, such as the Collection process. The IMVS focuses on the IRS' internal and administrative processes, including the financial and human resources processes needed to support the tax processes. Both the TAVS and the IMVS were completed and formally approved by the IRS' Core Business Systems Executive Steering Committee on March 13, 2001. Though the strategies have been approved, the IRS still needs to identify a way to ensure that investment decisions are based solely on the business-driven processes in the IRS' new BODs. Then, the IRS will be able to develop the capabilities that will be needed to make the processes work within the IRS' new structure.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
• Ensure that agency information security policies, procedures, and practices of the agency are adequate.	5123 (6)	While progress is being made in addressing the IRS' security issues, components of security have been listed among the agency's material internal control weakness in the General Accounting Office's (GAO) reviews of the IRS' financial statements since 1992 and continue to be a concern. Various weaknesses were identified by oversight groups in the areas of physical security, logical security, data communications management, risk analysis, quality assurance, security awareness, and contingency planning. In March 2001, the GAO listed the need to improve the IRS' security controls over information systems as one of the agency's major management challenges. The Treasury Inspector General for Tax Administration (TIGTA) *Semiannual Report to the Congress*, dated September 30, 2000, states that the TIGTA's Office of Audit identified security weaknesses in key IRS programs, such as security certification and accreditation of sensitive systems, virus protection, and mainframe operating system controls.
ACCOUNTABILITY		
• In consultation with the CIO and CFO (or comparable official), establish policies and procedures that:	5126	The CIO and CFO have been in consultation on the future IRS financial systems. The Core Financial, Budget Formulation, Facilities and Asset Management, and Business Performance and Executive Management Systems are part of the Internal Management System, as outlined in the IRS' Enterprise Architecture. In addition, the IMVS, which was approved on March 13, 2001, will deal in part with these same systems.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
1. Ensure the following systems: ⇒ Accounting, ⇒ Financial, ⇒ Asset management, and other information systems are: ⇒ Designed, ⇒ Developed, ⇒ Maintained, and ⇒ Used effectively to provide financial or program performance data for the agency's financial statements.	5126 (1)	The GAO's report of the IRS' FY 2000 financial statements states that, as of September 30, 2000, the IRS was unable to ensure that its accounting, financial, and asset management systems were adequate. As a result, the IRS does not have current and reliable ongoing information to support management decision-making and prepare cost-based performance measures. In FY 2000, as in prior years, the IRS did not have adequate internal controls over its financial reporting process. The IRS was unable to routinely, reliably, and timely generate the information needed to prepare its financial statements and manage operations on an ongoing basis. To compensate for these weaknesses, the IRS depended on extensive, labor-intensive, ad-hoc procedures to enable the agency to report reliable balances in its financial statements.
2. Ensure that financial and related program performance data are provided on a: ⇒ Reliable, ⇒ Consistent, and ⇒ Timely basis to agency financial management systems.	5126 (2)	Despite significant efforts by the IRS and the resulting unqualified opinion the agency received on its FY 2000 financial statements, on March 1, 2001, the GAO reported that the IRS does not have timely, accurate, and useful financial information and sound controls with which to make informed decisions and ensure accountability on an ongoing basis. The Custodial Accounting Project, which is being developed as part of the IRS' modernization efforts, will improve the IRS' compliance with Federal accounting standards, improve the efficiency of IRS operations, and provide more timely and accurate data for management decision-making.
3. Ensure that the financial statements support: ⇒ Assessments and revisions of the agency's mission-related and administrative processes. ⇒ Performance measurement of the performance in the case of agency investments in information systems.	5126 (3) 5126 (3) (A) 5126 (3) (B)	Addressed under #1.
INVESTMENT TRACKING		
• In the strategic information resources plan, identify any phase, or increment of such a	5127	The ELC is being used to manage all of the IRS' modernization projects. Under the ELC methodology, defined deliverables must be produced at certain key milestones and accepted in order to proceed to the next

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
program, that has significantly deviated from the: ⇒ Cost, ⇒ Performance, or ⇒ Schedule goals established for the program.		milestone. The status of project deliverables is reported to management so executives are aware of any departures or delays in going from one milestone to the next. Milestone deliveries are documented and tracked during executive meetings covering the IRS' "Top 10" operational issues and included in the IRS' quarterly BPR reports. The "Top 10" meetings are held bi-weekly. During these meetings, IT Services executives and project owners focus on the IRS' most significant strategies, the progress in meeting those strategies, and any cross-functional issues. Potential and/or actual effects that milestone departures and delays may have on a project's cost or schedule can be discussed at these meetings and addressed as quickly as possible. The BPR process was designed to report on any deviations from cost, performance, or schedule on a quarterly basis. Since the I-TIPS is currently being used to submit budget exhibits for both Tier A and B investments, IRS officials believe that system can also be used to satisfy Clinger-Cohen Act requirements for cost, schedule, performance and variance reporting.
INVENTORY		
• Not later than 6 months after the date of the enactment of this Act, inventory all computer equipment under the agency's control.	5402	The Integrated Network and Operations Management System (INOMS) was being used at the time this Act was enacted. The IRS has plans to upgrade the current INOMS and is in the process of implementing a new asset management system, which should have operational capability by September 2002.
• After completion of the inventory, maintain an inventory of any such equipment that is excess or surplus property, in accordance with title II of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 481 et seq.).	5402	The IRS has identified a material weakness in its systems and controls over property and equipment every year since 1983, during its annual Federal Managers' Financial Integrity Act[7] process. The GAO's report on the IRS' FY 2000 financial statements[8] also identifies inadequate controls over the IRS' property and equipment as a material weakness. In addition, the GAO notes that while there has been progress in the IRS' efforts to improve the timeliness and accuracy of recording property and equipment activity, they continued to find a significant number of errors in the IRS' property records. Further, the GAO reports that the IRS does not have an integrated property

[7] Federal Managers' Financial Integrity Act of 1982, 31 U.S.C. § 3512 (c), (d).

[8] *Financial Audit: IRS' Fiscal Year 2000 Financial Statements* (GAO-01-394, March 2001).

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
		management system that appropriately records property and equipment additions and disposals as they occur or that links costs recorded in the accounting records to property records. A new Asset Management Modernization (AMM) Program is being implemented in four phases,[9] and the IRS expects the new system to be fully operational by 2002. Phase 1 is expected to be completed by September 2001. In that phase, immediate improvements to the inventory process, procedures, and organization, using a Single Point Inventory Function (SPIF) are to be implemented nationwide.
INFORMATION DIRECTORY		
• If an information system gives information to the public, it must be included in the directory required by section 4101 of title 44, United States Code (U.S.C.).[10]	5403	The IRS uses the United States Federal Government Information Locator Service (GILS), a virtual card catalog of Government information, to meet this requirement. At least once a year, the IRS GILS Coordinator updates IRS information in GILS.
CIO Responsibilities		
• Have information resources management duties as that official's primary duty.	5125 (c) (1)	The IRS' CIO position description, dated August 1998, shows that the CIO is to have information resources management as his or her primary duty. When the IRS' CIO resigned in January 2001, the IRS announced several management changes, including the establishment of a Deputy Commissioner for Modernization & CIO position. The new Deputy Commissioner, who assumed the duties associated with the position in March 2001, is responsible for the overall modernization and management of the technology that supports the nation's tax system, as well as integrating new technology and existing systems with re-designed business processes and practices.
• Provide advice and other assistance to the agency head and other senior management personnel of the agency to ensure IT is acquired and information resources are managed for the	5125 (b) (1)	The Core Business Systems Executive Steering Committee, which is responsible for governing IT investment decisions, meets on a monthly basis. The IRS' Commissioner chairs these meetings. All IT Services executives and project owners meet bi-weekly to address the IRS' "Top 10" cross-functional issues. The matrix outlining the status of these issues is updated in the meeting minutes each month and documented

[9] The objective of the AMM Program is to implement, in four phases, IRS-wide state-of-the-art information technology for inventory and property management.

[10] Section 4101 of title 44, U.S.C. requires an electronic directory, on-line access to publications, and an electronic storage facility.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
agency, in accordance with Chapter 35 of title 44, U.S.C.[11] and the priorities established by the agency head.		in the quarterly BPR reports. Systems development ideas are presented to the BSP/DIO Council, which meets every other week. In preparing the Annual Performance Plan, the CFO's senior management team also plays a role in overseeing the implementation of the IRS' strategic planning, budgeting, and performance management process. The budget status is documented in the quarterly BPRs.
• Develop, maintain, and facilitate the implementation of a sound and integrated IT architecture for the agency.	5125 (b) (2)	The IRS has developed a business process-based architecture with the release of *Blueprint 2000*, and the baselined version of the architecture, the Enterprise Architecture, Version 1.0, is being maintained under the IRS' configuration management procedures. However, as of March 30, 2001, the architecture had not yet been fully implemented. Both the TAVS and the IMVS, which are to provide a foundation for the development of the Enterprise Architecture, were just completed and approved on March 13, 2001. The Enterprise Architecture work products that were affected by the TAVS and IMVS were updated, approved, and baselined on March 30, 2001. Additionally, although *Blueprint 2000* was released at the end of 2000, approximately 60 conditions needed to be addressed by the contractor. Several more releases of the architecture can be expected as the IRS reorganization efforts progress. Currently, the Tier A modernization projects that were already underway prior to the release of the Enterprise Architecture are at the heart of the IRS' new organization and information technology structure. Although the IRS recognizes that there generally will be an impact on the cost and schedule for these projects, it plans to eventually bring each of these projects into full alignment with the Enterprise Architecture. In the IRS' view, these projects will be a key part of the IRS' implementation of a sound IT architecture. Future IT projects will be defined and scoped by the Enterprise Architecture, which will embody the IRS' vision and strategy and define the business systems that will achieve the vision. Once the TAVS and the IMVS have been deployed, the IRS will have to develop a means to ensure that the strategies are jointly used by the IT Services organization and the BODs. These strategies are to guide the modernization investment decisions that

[11] Chapter 35 of title 44, U.S.C. requires agency CIOs to ensure agency compliance with and prompt, efficient, and effective implementation of information policies and information resources management, including the reduction of information collection burdens on the public; a full and accurate accounting of information technology expenditures, related expenses, and results; and promoting the use of information technology by the agency to improve the productivity, efficiency, and effectiveness of agency programs.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
		will provide input for the future vision of the IRS, as documented in the Enterprise Architecture.
• Promote the effective and efficient design and operation of all major information resources management processes for the agency, including improvements to the agency's work processes.	5125 (b) (3)	Addressed under Agency Head Responsibilities.
• Monitor and evaluate the performance of IT programs on the basis of applicable performance measures.	5125 (c) (2)	Addressed under Agency Head Responsibilities.
• Advise the agency head regarding whether to continue, modify, or terminate programs based upon the evaluation of the performance of IT programs.	5125 (c) (2)	Addressed under Agency Head Responsibilities.
• Annually, as part of the strategic planning and performance evaluation process: 1. Assess the requirements established for agency personnel regarding knowledge and skill in information resources management and the adequacy of such requirements for facilitating the achievement of the performance goals established for information resources management. 2. Assess the extent to which the positions and personnel at the executive level of the agency and the positions and personnel at the management level of the agency, below the executive level, meet those requirements.	5125 (c) (3) 5125 (c) (3)(A) 5125 (c) (3)(B)	In the fall of 1998, the Department of the Treasury, with the assistance of a contractor, administered Treasury-wide skill assessments specific to the Clinger-Cohen Act requirements to identify competency requirements for its CIOs and immediate report level personnel. A second assessment was then designed for determining to what degree the Department of the Treasury's senior IT personnel possessed the identified Clinger-Cohen Act-related competencies. In June 1999, the IRS administered the second assessment developed by the Department of the Treasury to its top 40 IT Services executives. This assessment was designed to identify the knowledge and skills agency personnel needed to achieve performance goals related to the Clinger-Cohen Act requirements for information resources management. A final report for this assessment was issued in August 1999; it identified a need for 10 core Clinger-Cohen Act competencies, in 4 major groupings: (1) policy and organizational, (2) capital planning, (3) managerial, and (4) technical. Briefings on the IRS' results were held in November 1999. The IRS also administered an IT Services-wide skill assessment, which was voluntary, in 1999. This assessment was conducted based upon an IT Services organization concern that it would face a potential staff and/or skills shortfall within the next 5 years. The purpose of the assessment was to obtain a skills baseline and assess any gap between the current and future IT skill requirements. Three broad categories of skills were assessed: technical

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
3. In order to rectify any deficiency in meeting those requirements, develop strategies and specific plans for: ⇒ Hiring. ⇒ Training. ⇒ Professional development. 4. Report on the progress made in improving information resources management capability to the agency head.	5125 (c) (3)(C) 5125 (c) (3)(D)	skill, business/functional skill, and leadership/management skill. The assessment confirmed that the IRS was likely to lose at least one-fifth of its current IT Services workforce due to retirement and attrition over the next 5 years. The most critical future gaps in technical skills were identified in the areas of programming, systems engineering, and testing/product assurance. Significant gaps were also found in management skills and were predicted to get worse in the future. Based upon the results of the assessment, the IRS put together a strategy to address the issues through training, recruiting, retention, and outsourcing. Tasks to implement the strategy extend beyond January 2001. Currently, the IRS Human Resources function is working to come up with a plan to ensure IT Services personnel know the Clinger-Cohen Act requirements prior to becoming executives and managers. The competencies needed to comply with the Clinger-Cohen Act are being incorporated into the IRS' Executive Readiness Program, the IT Services training program, and a management careers class that is being developed. In addition, the IRS plans to administer another skill assessment, in either FY 2001 or FY 2002, to reassess the status of the IT Services staff's competencies. The IRS is also a major partner in the Department of the Treasury's Workforce Improvement Program (WIP), formed to develop a list of competencies all managers should have. This list is being compiled to help develop a better system to select managers and hire new employees. According to IRS officials, the WIP, in conjunction with its partners, including the IRS, submitted annual progress reports on improving information resources management capability to the Secretary of the Treasury in 1999 and 2000. In February 2001, a memo entitled "Information Systems (IS) Hiring Guidelines for 2001," outlining the IRS' current plans for hiring IT staff, was distributed to the IT Services organization executives. A Competency Management System is scheduled for implementation in FY 2005.
Procurement Activities		
• Acquire IT as authorized by law.	5124 (a) (1)	According to IRS officials, they have not seen any real changes in acquiring IT, although the Brooks Act[12] was repealed. However, they have seen a change in the role at the Department level. In their view, the Department of

[12] Brooks Act, 40 U.S.C. § 759 (repealed 1996).

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
		the Treasury is still defining how it will conduct oversight of the bureaus' procurement activities. The Director, Treasury Office of Procurement, concurred with the IRS' comments and stated that the Department of the Treasury looks at each bureau's procurements on an individual basis. The Department does not automatically oversee procurements over a certain dollar amount. Instead, oversight is provided based upon a procurement's significance, sensitivity, and/or the impact it may have at the Department level. The Department of the Treasury also provides general guidance and comments for certain procurements and requests for contract proposals when requested. The IRS has taken steps to ensure that all IT procurements are reviewed and authorized by the Modernization Information Technology Services organization. On November 12, 1999, the IRS Commissioner issued Policy Statement P-1-229, designating the CIO as the responsible official for ownership, management, and control over all IT assets in the IRS. Only organizations within the IT Services organization are authorized to purchase or acquire IT assets or resources. IT Services Delegation Order #28, effective January 25, 2001, provides newly established re-delegation authority and dollar thresholds for IT requisitions to offices, which report directly to the CIO. The Delegation Order covers hardware, software, telecommunications, maintenance, and support services.
• Enter into a contract that provides for multi-agency acquisitions of IT.	5124 (a) (2)	According to IRS officials, the IRS will not be entering into many multi-agency acquisitions in the future. Multi-agency and inter-agency contracts have become less prevalent than they once were because most agencies have little discretionary money. IRS officials also explained that it is not usually in the IRS' best interests to focus on multi-agency type contracts when the IRS already receives volume discounts using the General Services Administration Schedule. The Procurement function's Policy and Procedures Memorandum 17.5, dated January 1, 2001, addresses the use of inter-agency acquisitions.
• If advantageous to the Federal Government, enter into a multi-agency contract for the procurement of commercial items of IT that require each agency covered by the contract, when procuring such items, either to procure the items under that contract or to justify an	5124 (a) (3)	Addressed in the previous entry.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
alternative procurement of the items.		
• To the maximum extent practicable, use modular (i.e., incremental) contracting for the acquisition of major IT systems, including: 1. That the system be acquired in successive acquisitions of interoperable increments, complying with common or commercially accepted IT standards. 2. That contracts should be awarded within 180 days after the date on which the solicitation is issued. 3. That IT be delivered within 18 months after the date on which the solicitation resulting in award of the contract was issued.	5202 (a) 5202 (b) 5202 (c) (2) 5202 (c) (3)	According to IRS officials, the Procurement function is using modular contracting to acquire the Tier A modernization systems, in accordance with the Federal Acquisition Regulation (FAR), Part 39.[13] The IRS' modernization systems are large-scale investments spread out over many years, and each individual milestone (or module) must be approved before moving to the next milestone. For example, projects, such as the Customer Account Data Engine (CADE), have been separated into releases; each approved release could be considered one module of the overall acquisition. Since the task order for the CADE calls for five releases to be delivered, the contractor is responsible for providing five modules that must each be approved prior to working on the next release. Because the IRS' ELC process is still evolving, the agency is working with the contractor on better defining the process. The Procurement function formed a Contracting Strategy Group to work on integrating contract issues into the process. IRS officials believe the agency meets the 180-day requirement. In addition, IRS officials indicated that the requirement for delivering IT products and/or services, within 18 months after the date a solicitation is issued, is being met by the agency. In their view, most of the milestones/modules for the IRS' modernization systems (Tier A initiatives) are to be delivered within an 18-month time frame period. Furthermore, these officials believe that the 18-month time period does not apply to the IRS' non-modernization systems (Tier B and C initiatives) because they are generally not the types of systems that are subject to modular contracting concepts.
Discretionary Activities		
• Member of the Federal Information Council. • Member of the Federal Software Review Council.		IRS personnel are participants in the following: • Department of the Treasury's CIO Council. • Department of the Treasury's WIP Team. • Department of the Treasury's Architecture Working Group.

[13] The FAR, 48 C.F.R. part 39 (2001), provides guidance on the acquisition of IT and implements § 5202 of the Clinger-Cohen Act, which deals with modular contracting.

Clinger-Cohen Act Requirements	Act Cite	Status and Comments
• Member of any Interagency Functional Groups.		• The Enterprisewide Modernization Board, chaired by the Deputy Secretary of the Treasury Department. The Department of the Treasury is involved in the Federal CIO Council; bureaus do not normally participate in any Federal council.

Appendix V

Glossary of Terms

Annual Performance Plan	A plan that defines an organization's goals against specific measures for a given year.
Automated Collection System	An Internal Revenue Service (IRS) computer system that handles balance due and non-filer cases requiring telephone contact for resolution.
Business Case	A structured proposal for a business need that serves as an investment decision package to improve IRS business operations. It provides the rationale/justification for a particular initiative. The content and complexity of a business case will change as the IRS' business requirements are refined throughout the Enterprise Life Cycle.
Business Performance Review	A process that documents the IRS' progress toward meeting its goals, assessed against key performance measures.
Configuration Management	A system that provides for the analysis, implementation, and follow-up of all changes requested and made to the existing information technology infrastructure. This system minimizes the likelihood of disruption, unauthorized alterations, and errors.
Corporate Files On-Line	An IRS computer system that provides on-line transactional access to a taxpayer's account records, return data, and various other related data collections.
Custodial Accounting Project	An IRS modernization initiative being designed to provide the IRS with an automated revenue accounting and collections allocation system.
Division Information Officer (DIO)	An executive level Modernization Information Technology Services position. There is one DIO for

	each of the IRS' four new business operating divisions and six other functional areas. Each DIO is personally responsible for meeting the IT needs of the business organization with which he or she works.
Enterprise Architecture	The foundation for the evolving future state of the IRS. Its purpose is to systematically guide, inform, and focus business systems modernization by providing a consistent, efficient, standardized, and structured framework for development efforts.
Enterprise Life Cycle	The method used to define the processes, products, techniques, roles, responsibilities, policies, procedures, and standards associated with planning, executing, and managing business change. It includes redesign of business processes, transformation of the organization, and the development, integration, deployment, and maintenance of the related information technology applications and infrastructure.
EQUITY Model	A type of software that can be used to help an organization make the best possible IT investments based on the benefits and costs of the investment options.
Federal Acquisition Regulation	Uniform policies for the acquisition of supplies and services by executive agencies.
Government Information Locator Service (GILS)	A system that can be used to identify, locate, and describe publicly available Federal information resources. The GILS records identify public information resources within the United States Federal Government, describe the information available in these resources, and assist in obtaining the actual information.
Improvement Project Plan (IPP)	A plan written for a specific effort that addresses how to improve or change programs to make them work better. Improvement projects usually respond to identified trends, issues, and problems; they are

	limited in duration and usually involve significant investments of management time, money, or information systems resources. An IPP includes four parts: Project Information, Problem Statement, Project Objectives and Scope, and Project Benefits and Costs.
Information Resources Management	The process of managing information resources to accomplish agency missions. Information resources management encompasses both the information itself and the related resources, such as personnel, equipment, funds, and information technology.
Information Technology (IT)	This includes computers, ancillary equipment, software, firmware and similar procedures, services (including support services), and related resources.
Information Technology Investment Account	An account that the Congress set up to fund the IRS' modernization projects. The Congress has to approve disbursements from this account. As a result, the IRS prepares periodic requests for funding and outlines what it plans to use the funding for.
Information Technology Investment Portfolio System	A Department of the Treasury mandatory, for-use tool required for the 2002 budget cycle. The tool is a web-based system that collects and disseminates necessary and major information technology and non-information technology investment data and decisions as part of a defined portfolio management process. The system also tracks financial and schedule data and initiative status, provides on-line initiative quantitative analysis, assessments, and prioritization, and includes a project library.
Integrated Data Retrieval System	An IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.
Internal Management Vision and Strategy	A concept focused on providing definition and guidance to the IRS' internal management modernization.

Investment Decision Management Process	A disciplined, repeatable process that enables management to balance business needs against available investment resources.
Material Weakness	A condition that precludes the entity's internal controls from providing reasonable assurance that material misstatements in the financial statements would be prevented or detected on a timely basis.
Service Level Agreement	A common understanding between the IRS' IT Services organization and the business units that formalizes the performance criteria against which the quantity and quality of IT services will be measured.
Strategy and Program Plan	A plan that sets the strategies for each organizational unit of the IRS. The plan describes the operational priorities and improvement projects for programs, as well as the scope and resource allocations proposed for the programs commonly defined across the IRS to support the major strategies.
Tax Administration Vision and Strategy	A concept focused on defining business processes, key philosophies, technology enablers, and business priorities for the tax administration functions of the IRS' four business operating divisions.

Appendix VI

Management's Response to the Draft Report

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

JTY COMMISSIONER

RECEIVED
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August 21, 2001

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: John C. Reece
Deputy Commissioner for Modernization and Chief Information Officer

SUBJECT: Management Response to Draft Audit Report – "The Internal Revenue Service (IRS) Is Making Progress But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act" (Audit No. 200120002)

Thank you for the opportunity to comment on your draft report, dated July 26, 2001, concerning the IRS' compliance with the Clinger-Cohen Act. I agree with your assessment of our status. Commissioner Rossotti asked us to address all strategy and program plans through the IRS Strategic Planning and Budget Process. As a result, we will include our strategy and plan to bring IRS into full compliance with the Clinger-Cohen Act into our revised FY 2002 and FY 2003 Modernization Information Technology Services (MITS) Strategy and Program Plan (SPP) by January 1, 2002.

I appreciate your acknowledgement of the massive impact the Restructuring and Reform Act of 1998 had on the IRS and our ability to fully comply with the Clinger-Cohen Act. The shift from a Regional structure to a customer-based Business Unit structure affects every aspect of the IRS. The Modernization Information Technology Services (MITS) ability to logically map technology assets to employees and organizations, and to define Improvement Projects, depended on the Operational Business Units' structures, programs, and strategies, and their "standing up" before they could identify their specific Information Technology needs with the MITS' Division Information Officers.

Our management response is attached. If you have any questions, please call me at (202) 622-6800. Members of your staff can call Diane R. Robinson, Acting Office Manager, Program Oversight and Coordination, at (202) 283-4128.

Attachment

cc: Associate Inspector General for Audit (Information Systems Programs)
Director, Legislative Affairs

Attachment

Management Response to Draft Audit Report – "The Internal Revenue Service Is Making Progress But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act" (Audit No. 200120002)

Recommendation #1

The Deputy Commissioner for Modernization & CIO should prepare an overall strategy, plan, and schedule to bring the IRS in full compliance with the Clinger-Cohen Act.

Assessment of Cause

The primary reason for the delay in implementing the Clinger-Cohen Act is the agency-wide reorganization, needed to comply with the RRA'98, which caused the IRS to redefine its mission and strategic goals, restructure our organization, and recast our modernization efforts. In addition, from 1996 through March 2000, we devoted a large portion of MITS resources to Century Date Change (Year 2000) compliance efforts. As a result, while MITS put a new strategic planning process in place, we need a great deal of coordination to develop repeatable, agency-wide processes to bring the IRS into full compliance with the Clinger-Cohen Act.

Corrective Action for Recommendation #1

Management agrees with the need to implement a strategy, plan and schedule to bring the IRS into full compliance with the Clinger-Cohen Act. We will include our strategy and plan to bring IRS into full compliance with the Clinger-Cohen Act in our revised FY 2002 and FY 2003 Modernization Information Technology Service (MITS) Strategy and Program Plan (SPP).

Implementation Date of Corrective Action #1

Proposed: January 1, 2002
Include our Clinger-Cohen Act compliance strategy and plan in the revised FY 2002 and FY 2003 MITS SPP

Responsible Official(s) for Corrective Action #1

Deputy Commissioner for Modernization/Chief Information Officer M
Director, Financial Policy, Planning and Programs M

Corrective Action Monitoring Plan

The Director, Financial Policy, Planning and Programs will assess the development, implementation, and effectiveness of IRS' strategy and plan to bring the IRS into full compliance with Clinger-Cohen Act through the quarterly Business Performance Reviews (BPR) process.