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

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MEMORANDUM FOR THE TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Bert M. McGlocklin
Director, Business Systems Modernization Office

SUBJECT: Draft Audit Report -- The Business Systems Modernization Office Has Made Important Progress and Can Take Additional Actions To Enhance the Chances of Long Term Success

Thank you for the opportunity to respond to the above referenced draft audit report. The Business Systems Modernization (BSM) program is the next step in modernizing America's Tax Agency to bring the benefits of process reengineering and the power of technology to better deliver the IRS Mission. It is a massive effort and is not one without risks. However, with the discipline of IRS management, a proven systems development methodology, strong internal oversight and the expertise of our consultants the program will be successful.

Since your audit, to improve our ability to manage this program, we:

- Updated the Program Management Plan and integrated it into our daily management of the program. The Management Information Center has collected life cycle costs and will include them in the IRS budget as required by OMB.

- Planned a prioritization process on the entire BSM portfolio, which we will conduct prior to completing the next ITIA spending plan.

- Submitted a draft of the milestone readiness review process as an ELC Work Request to the Prime for inclusion in the ELC.

- Established an independent Quality Assurance Organization within the BSMO to conduct reviews of program and project activities.

- BSMO is using definitized task orders to define performance expectations and define costs. We have made significant progress in managing the program due to the high priority placed on definitzation by IRS management, Prime executives and oversight stakeholders. In addition, IRS and contractor executives meet twice a week to monitor the status of task order definitizations. We continue to work with Jefferson Solutions to strengthen the incentives in its performance based task orders. Finally, Mitre, working with the Prime and IRS, has delivered a revised definitization process, which BSMO has submitted, to the Prime to be included in the ELC.

We have made significant progress in developing our processes and procedures to establish a sound foundation for systems acquisitions. We will continue to adjust and improve our management of the program. Each of your recommendations is individually addressed in the attachment.

If you have any questions regarding this matter, you may contact Tommy DeWeese, Deputy Director, Business Systems Modernization at (202) 283-7863.

cc: National Director, Legislative Affairs Division
National Director, Communications Division

Attachment

The Business Systems Modernization Office Has Made Important Progress and Can Take Additional Actions To Enhance the Chances of Long Term Success (Audit #200020038)

I. A Comprehensive Short Range Plan Should Be Created

Recommendation 1: To ensure the systems modernization effort has a single document describing goals and direction for the short-range planning period, the BSMO should:

1. Incorporate into the PMP short-range plan elements that:
   a. Define the time frame for the short-range planning period.
   b. Include descriptive statements of where the IRS and the systems modernization effort is, and where the IRS and systems modernization effort will be at the end of the short-range planning period.
   c. Refer to any major effort that could have an effect on modernization, including all project and program-level efforts. This might include finalizing charters, standing up fledgling units, funding programs, selecting projects, transitioning legacy systems, and training personnel.
   d. Ensure a link exists between projects in progress and the long-range plan (Modernization Blueprint).
   e. Cite the supporting plans in place or under development, when applicable, for each project or program-level effort addressed.
   f. Include a time schedule for all efforts to show major checkpoints and delivery times that fall within the short-range planning period.

Corrective Action:

The IRS submitted an updated Program Management Plan in November 2000. In the next version of the Program Management Plan, IRS will incorporate into a single document the short-range plan elements and will describe the goals and direction for the short-range planning period.

Implementation Date: May 1, 2001

Responsible Official: Director, Program Management, BSMO

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II. The Funding Process Should Be Documented and a More Flexible Funding Strategy Considered

Recommendation 2: To ensure the systems modernization effort receives consistent funding and evolves to a more flexible funding strategy, the BSMO should:

> Document the process of obtaining ITIA funds based on best practices and lessons learned. When developing this documentation, the BSMO should consider short and long-term alternatives to the current funding strategy.

Corrective Action:

The IRS prepared a draft of the documented process for obtaining ITIA funds using best practices and lessons learned. It will submit the change request to complete the development of the process and will consider short-term and long-term alternatives to the current funding strategy.

Implementation Date: May 1, 2001

Responsible Official: Director, Program Management, BSMO

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III. Procedures for Conducting Post-Implementation Reviews Should be Documented

Recommendation 3: To ensure that post-implementation reviews are conducted to identify program management strengths and weaknesses, the BSMO should:

> Create and document policies and procedures for conducting post-implementation reviews and assign responsibility for conducting the reviews.

Corrective Action:

The IRS agrees that post-implementation reviews need to be conducted on modernization projects. The Quality Assurance (QA) Organization already is responsible for ensuring that all reviews required by the life cycle are performed and performed according to specified processes and procedures. BSMO QA does this continuously throughout the life cycle and issues reports on the status of compliance in terms of Corrective Action Reports (CARs) and non-compliance issues of acquisition and development according to best practices and the Software Engineering Institute Software Acquisition Capability Maturity Model (SA CMM) Key Process Areas (KPA) criteria.

Implementation Date: Completed.

Responsible Official: Director, Business Systems Modernization Executive

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IV. Processes to Ensure Independent Views are Considered Should be Defined

Recommendation 4: To ensure that independent and objective reviews of the systems modernization process continue in areas where an independent viewpoint is needed, the BSMO should:

> Create and document policies and procedures defining an independent organization, the program and project activities for evaluation, and the timing of these evaluations. The BSMO also should formalize agreements with the reviewing organizations to ensure that these independent viewpoints continue as necessary.

Corrective Action: The IRS will ensure that independent and objective reviews of the systems modernization process will continue in areas where an independent viewpoint is needed. It has prepared a revised milestone readiness process to document policies and procedures defining an independent organization, the program and project activities for evaluation, and the timing of these evaluations. Once the IRS submits the change request to the ELC, the Prime will complete the process improvement activities to build the new process into the ELC. IRS will create and document policies and procedures defining an independent organization, the program and project activities for evaluation, and the timing of these evaluations. The IRS will also formalize agreements with the reviewing organizations to ensure these independent viewpoints continue as necessary.

Implementation Date: May 1, 2001

Responsible Official: Director, Quality Assurance, BSMO

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V. Performance Based Contracting Incentives should be Strengthened

Recommendation 5: To ensure that performance based task order incentives are strengthened, the BSMO should:

> Task Jefferson Solutions to review performance based incentives and provide recommendations for improving incentives in future task orders. Accepted recommendations and suggestions received from Jefferson Solutions should be used to establish policies and procedures for creating performance based task orders.

Corrective Action: The IRS contracted Jefferson Solutions to review many of the IRS task orders to ensure proper incentives are in place. In addition, Jefferson Solutions also helped the IRS develop performance-based matrices. Jefferson Solutions is creating performance based contracting matrix templates. The Program Management Office (PMO) tasked the Prime FY 01 Task Order to incorporate and formalize these templates into the ELC. Additionally, Jefferson Solutions will review performance based incentives and provide recommendations for improving incentives in future task orders.

Implementation Date: May 1, 2001

Responsible Official: Director, Program Management, BSMO