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

COMMISSIONER

September 27, 2000

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MEMORANDUM FOR TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

FROM: Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: Response to Draft Audit Report -- The Information Systems Organization Needs to Incorporate Transition Funding in its Financial Plan

Thank you for the opportunity to review and comment on the subject draft audit report, dated August 24, 2000, on Information Systems' (IS) need to incorporate resources into its financial plan to support the transition plan for moving IS to a shared services organization.

The transition plan includes the centralization of transition staffs, i.e., business unit information technology staffs, into Information Systems. During FY2000, IS worked with its business partners to identify resources needed to support transition staffs and initiated a base transfer of the resources. The Chief Information Officer coordinated with the Chief Financial Officer to complete all financial plan changes and interappropriation transfers relating to the transition staffs. While the IRS budget submissions for FY2000 and FY2001 did not fully account for the cost of the transition, these actions ensured there would not be a FY2000 or FY2001 shortfall related to the transition staffs.

The Information Systems strategic plan includes the increased funding required to support the transition plan, the Office of Strategic Planning & Client Services and the Division Information Officers. The Chief Financial Officer has included funding for these organizations in target numbers of the FY2001 plan.

IS established a process to track interappropriation and intra-appropriation transfers, commitments, obligations, and expenditures associated with the transition via the Service's Automated Financial System. This information will assist in the development of future year budgets.

The actions identified above lessen the risk of Antideficiency Act violations. To ensure expenditures do not exceed the Information Systems appropriation in total, IS will monitor the priorities in the IS Strategic Plan and will curtail or cease implementation of transition initiatives, if necessary.

Since the audit team developed the estimates for fiscal years 2000 and 2001, IS has taken actions to ensure transition funding is in the IS financial plan. In addition, as discussed with the audit team, many of the assumptions and bases for their calculations have changed since their review, thereby affecting the value of benefits cited in your Draft Report. However, IS agrees with the potential benefits derived from proper transition planning and budgeting. The corrective actions IS developed in response to your recommendations should have a measurable impact on accounting for the actual cost of the transition to shared services and improve the reliability of transition cost information coming out of IS.

If you have questions, please call Paul Cosgrave, Chief Information Officer, at (202) 622-6800. A member of your staff may call Ed Curvey, Acting Director, Strategic Planning & Client Services, at (202) 874-0269 or Pam LaRue, Acting Director, IS Office of Strategic Planning & Budget on (202) 283-7591.

Attachment

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

ATTACHMENT

Response to Draft Audit Report -- The Information Systems Organization Needs to Incorporate Transition Funding in its Financial Plan (Audit Number 2000-20-009)

Recommendation 1

To manage the potential FY2000 budget shortfall, Information Systems needs to ensure financial plan changes and inter-appropriation transfers are completed. Information Systems needs to complete these budget adjustments before October 1, 2000, to avoid Antideficiency Act violations and sanctions.

Assessment of Cause

Information Systems negotiated a memorandum of understanding (MOU) with each business partner impacted by the decision to incorporate information technology staffs into Information Systems. The MOUs identified the resources to be transferred to Information Systems. Negotiating and approving the MOUs delayed the transfer of resources.

Corrective Action 1

Using approved MOUs with business partners, we will identify all FY2000 resources to be transferred to Information Systems to support centralized information technology staffs and work with business partners to ensure all resources are transferred.

Implementation of Corrective Action 1

Completed:	**Proposed:**
	November 1, 2000

Responsible Official for Corrective Action 1

Chief Information Officer
Acting Director, Strategic Planning & Client Services

Corrective Action 1 Monitoring Plan

No monitoring plan is necessary. The processing of the financial plan changes effects the transfer of the resources to IS.

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Recommendation 2

For future transition planning, the Director, Strategic Planning & Client Services, should coordinate with transition team executives to attempt to align planning efforts with budget cycle requirements. In planning the transition initiatives, they need to consider and estimate funding requirements at the earliest point possible. To develop complete and comprehensive funding requirements, planning efforts should incorporate the Chief Financial Officer's business case development criteria.

Assessment of Cause

We did not properly align the IRS transition planning process with the budget cycle; the IRS submitted its FY2000 and FY2001 budgets prior to the transition planning teams releasing their reports. We did not develop business cases and consider costs for preliminary approval for 23 of 24 transition initiatives and changes.

Corrective Action 2

During FY2000 budget execution FY2001 budget plan development, Information Systems took corrective actions to remedy the exclusion of transition costs from the FY2000 and FY2001 budgets. These corrective actions resulted in the alignment of the financial plan to ensure funding support transition funding in subsequent fiscal years. Corrective actions include:

- Information Systems worked with business partners to identify resources, labor and non-labor, required to support transition staffs and initiated a base transfer of these resources to Information Systems.
- The Chief Information Officer coordinated with the Chief Financial Officer to complete all financial plan changes and interappropriation transfers supporting the transition staffs.
- Information Systems incorporated the increased funding required to support the Office of Strategic Planning & Client Services and the Division Information Officers into the FY2001 financial plan.

Implementation of Corrective Action 2
Completed: **Proposed: 9/30/00**

IS transition planning is scheduled for completion in FY2001. There is no new initiative for transition planning at this time. For future transition planning, we will coordinate and align plan requirements with the budget cycle, and consider transition costs, as well as business case information, at the earliest possible time to ensure incorporation into formulated budgets.

Responsible Official for Corrective Action 2

Chief Information Officer
Acting Director, Strategic Planning & Client Services

Corrective Action 2 Monitoring Plan

For future transition planning, a monitoring plan would be considered based on the scope of the initiative.