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United States Senate

COMMITTEE ON THE BUDGET
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September 5, 2018

The Honorable David J. Kautter
Acting Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Acting Commissioner Kautter:

The effective and efficient acquisition and management of information technology (IT) investments have been a longstanding challenge for the federal government. The IRS, in particular, has faced significant challenges managing its IT acquisitions and operations. This is concerning because the IRS relies extensively on IT systems to collect more than \$3 trillion in taxes and issue more than \$400 billion in refunds each year.

In October 2017, IRS Deputy Commissioner for Operations Support Jeffrey Tribiano testified before the House Ways and Means Oversight Subcommittee that the IRS's reliance on legacy IT systems and outdated programming languages poses a significant risk to its mission. The Government Accountability Office (GAO) previously highlighted this concern in a May 2016 report, titled *Information Technology: Federal Agencies Need to Address Aging Legacy Systems* (GAO-16-468), which identified the agency's Individual Master File (IMF) – the authoritative data source for individual taxpayer accounts – as one of the federal government's oldest legacy systems, in operation for nearly 60 years. As a sign of its age, the IMF relies on assembly language code, an outdated programming language that was initially used in the 1950s and is difficult to write and maintain today.

The IMF also poses significant staffing challenges. In a June 2018 report, titled *Information Technology: IRS Needs to Take Additional Actions to Address Significant Risks to Tax Processing* (GAO-18-298), GAO found a shortage of developers available to perform IMF system updates for the 2017 tax filing season. GAO also reported that the shortage is exacerbated by the fact that developers must be knowledgeable of tax processing and require skills beyond creating or updating lines of code. According to the IRS's Chief Information Officer, it takes four to five years to train IMF developers.

As you know, in 2009, the IRS began developing the Customer Account Data Engine 2 (CADE 2) system to replace the IMF. Since then, the IRS has spent more than \$1 billion on this

effort. Although CADE 2 began providing faster refunds and daily processing of tax returns beginning in 2012, GAO has since reported that significant schedule delays and cost overruns have hindered further development of this system. In its June 2018 report, GAO stated that the IRS had delivered only 46 percent of the system functionality that the agency planned to deliver during fiscal year 2016 and the first two quarters of fiscal year 2017. In addition, the IRS recently decided to pause a number of CADE 2 projects, and the one active project, re-engineering the IMF using the Java computer language, is not expected to be completed until well after 2020. Until then, the IRS must continue using the IMF.

Given the risk associated with continued reliance on the IMF, the challenges with CADE 2, IRS annual IT investment expenditures exceeding \$2 billion, and a 2019 agency request of \$110 million for business systems modernization, I would appreciate more information about the IRS's plans for implementing CADE 2 and retiring the IMF. Specifically, please provide written responses to the following:

1. The planned completion date and key deliverables for full implementation of CADE 2 and retirement of the IMF;
2. A line-item breakdown of all CADE 2 spending to date and a line-item breakdown of the current total budget for CADE 2 development and implementation;
3. A description of paused and cancelled CADE 2 projects and the associated spending incurred to date for each project;
4. The rationale for pausing or cancelling these projects and the impact of these decisions on CADE 2's objectives and implementation timeline;
5. Any plans to restart the paused CADE 2 projects and an estimate of additional costs that will result from restarting these projects;
6. How much it costs to operate and maintain the IMF each year and how much it will cost to operate and maintain the IMF until its anticipated retirement;
7. A detailed description of the IRS's IT workforce planning efforts, including steps for assessing gaps in IT skill sets and plans for addressing such gaps, given the constraints around subject-matter expert availability; and
8. A detailed description of IRS plans and completion timeframes for mitigating or correcting material weakness in internal control over unpaid assessments, as identified by GAO.

I respectfully request your written response by October 5, 2018. In addition, I ask that your staff provide my Budget Committee staff with your quarterly IT investment reports and in-person briefings until the CADE 2 project is complete.

Thank you in advance for your prompt attention to this matter. If you have any questions about this request, please have your staff contact John Lin on my Budget Committee staff at 202-224-0642.

Sincerely,

A handwritten signature in black ink, reading "Michael B. Enzi". The signature is written in a cursive, slightly slanted style.

Michael B. Enzi
Chairman