The Information Systems Organization Can Improve Processes to Manage Its Budget Appropriation

March 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

March 27, 2001

MEMORANDUM FOR CHIEF INFORMATION OFFICER

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Information Systems Organization Can Improve Processes to Manage Its Budget Appropriation

This report presents the results of our review of the Information Systems (IS) organization's processes to manage its budget appropriation. In summary, IS is in the process of transferring its Office of Financial Planning and Budget (FP&B) to its Office of Strategic Planning and Client Services. This change is intended to increase the FP&B office's independence within IS and incorporate financial management disciplines into IS' strategic planning process. The FP&B office's current processes and controls need improvement to ensure proper management of the IS budget appropriation. The processes are not providing adequate analysis of incoming budget appropriation estimates, control of the approval and processing of financial plan changes, and review and reporting of IS' spending throughout the fiscal year.

Without adequate controls over budget appropriation formulation, execution, and review, the Internal Revenue Service (IRS) does not have assurance that IS program initiatives are properly prioritized for approval and funding. Also, IS cannot rely upon prior year budget records to formulate subsequent year budgets.

We recommended that the Chief Information Officer (CIO) develop and implement formal processes in the FP&B office to: 1) review and report problems with IS budget estimate submissions to IS and IRS operations budget analysts; 2) only process financial plan changes that are clearly documented, appropriately reviewed, and approved; and 3) conduct the FP&B office spending reviews, timely correct imbalances, and report financial plan status to IS and IRS operations budget analysts.

The Acting CIO agreed to the recommendations presented. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

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

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Executive Summary

The budget cycle at the Internal Revenue Service (IRS) begins with estimates of funds needed to operate its programs in a designated fiscal year. The IRS presents these estimates to the Department of the Treasury, the Office of Management and Budget (OMB), and the Congress. The budget cycle continues with processes to allocate funds to functions, organizations, and programs and to track and report actual expenditures.

The Information Systems (IS) organization has an Office of Financial Planning and Budget (FP&B) that works with the Chief Financial Officer (CFO) and the Financial Plan Managers from IS' divisions to manage its budget appropriation. The FP&B office's duties include assisting the CFO in formulating the IS budget, developing the IS financial plan, and monitoring the execution of the IS budget. The IS budget appropriations for Fiscal Years (FY) 2000 and 2001 are $1.45 billion and $1.58 billion, respectively.

The objective of this audit was to determine whether the IS organization's FP&B office has sufficient controls to provide for adequate budget development, program funding, and accurate accounting of IS operations and resources. We analyzed the processes, controls, and related record reviews used in the formulation, execution, and monitoring activities for the FY 2000 and 2001 IS budgets.

Results

The FP&B office is currently part of the IS Office of Information Resources Management and is scheduled to complete its transfer to the IS Office of Strategic Planning and Client Services early in Calendar Year 2001. This change is intended to increase the FP&B office's independence within IS and mirrors the structure of the CFO's organization. The transfer will also facilitate coordination of strategic planning and support of IS operations with its financial planning and budgeting activities.

The FP&B office's current processes and controls are not providing adequate analyses of incoming budget appropriation estimates, approval and processing of financial plan changes, and review and reporting of IS' spending throughout the fiscal year.

IS needed to shift significant amounts of funds within its appropriation ($360 million in FY 2000, almost 1 dollar of every 4 dollars budgeted) and request an additional $40 million from another appropriation to meet its budget needs. While much of the fund shifting and transfer was due to the transition to a new IS organizational structure that began during the year, adjustments were also needed because of changes in program direction or divisional priorities, and revised or inaccurate plans. Improved controls for

budget monitoring and review will help IS assess its future budget requirements and improve the efficiency and effectiveness of its budget execution.

Without adequate controls over IS budget appropriation formulation, execution, and review, the IRS does not have assurance that IS program initiatives are properly prioritized for approval and funding. In addition, records of prior year budget accomplishments cannot be relied upon and used to formulate subsequent year budgets.

Problems Identified During Budget Estimate Reviews Were Not Formally Documented and Reported

The FP&B office's Formulation Section does not formally document questioned data or discrepancies identified in the budget estimates received from IS divisions. It does not have any written guidelines or operating procedures documenting Formulation Section staff duties and responsibilities for soliciting, receiving, reviewing, and reporting IS budget estimates submitted from IS and IRS operations. Although Formulation Section staff stated they communicate with IS and IRS budget analysts to resolve problems identified, they do not maintain contact logs or reports to support the identification and resolution of these problems.

Without appropriate and consistent review and reporting processes, inaccurate IS budget estimates may not be identified. Additionally, without documenting, reporting and analyzing problems identified in budget estimate reviews, the Formulation Section cannot provide budget analysts direction to improve future year estimates.

Financial Plan Changes Were Processed Without Supporting Documentation or Managerial Approval

Financial Plan Changes (FPC) are made to establish fund balances for program spending and to address budget shortages and surpluses that occur during the fiscal year due to changes in program direction, changes in divisional priorities, or adjustments to plans. We reviewed 13 FPCs involving a total of $20 million from the IS financial plan and found preparation and processing problems in all 13 FPCs.

Although the FP&B office has guidelines to ensure appropriate FPC processing, the Execution Section did not ensure the FPCs were appropriate and justified. The FP&B Chief stated that IS executives directed fund realignments requiring FPCs, but the Chief did not require formal documentation or approval to process FPCs resulting from the directed fund realignments.

Adequate internal controls are necessary to ensure FPC requests are properly documented, approved, and reviewed to prevent misapplication of funds. The absence of controls may also affect the accuracy of the amounts budgeted for program initiatives and can affect decisions involving the development of future year budget estimates.

The Spending Review Process Could Be Improved for Planning and Monitoring Budget Appropriations

The OMB requires that agencies review financial plan spending to assess the execution of budget plans. The review results enable the agencies to make funding adjustments when necessary. The FP&B Analysis Section reviewed IS spending throughout FY 2000 and reported its review results in four briefing documents in March, April, May, and June 2000, highlighting potential spending problems to IS executives. Also, the FP&B Chief presented information on spending plan status at monthly IS executive meetings. However, there was no indication that the spending concerns highlighted in the four briefings and monthly IS executive meetings were brought to the attention of the responsible budget analysts to timely correct imbalances in IS spending initiatives.

Analysis of the FY 2000 IS appropriation showed that, as of August 2000, financial plan balances varied from plans by as much as $216 million, or approximately 15 percent of the $1.45 billion FY 2000 IS budget. The FP&B staff did not contact budget analysts about correcting accumulated financial plan imbalances until the end of FY 2000.

The CFO is required to report financial plan balances to the IRS, Treasury, and OMB monthly. These entities rely on accurate financial plan balances for use in planning and monitoring budget appropriations. The absence of sufficient spending plan reviews and timely reporting of review results precludes the meaningful analysis of current year budget status and future year planning.

Summary of Recommendations

To ensure that the IS budget is appropriately accounted for and managed, the Chief Information Officer (CIO) needs to develop and implement formal processes in the FP&B office to: 1) review and report problems and discrepancies with IS budget estimate submissions to IS and IRS operations budget analysts; 2) allow only FPCs that are clearly documented, appropriately reviewed, and approved to be processed; and 3) conduct the FP&B office spending reviews, timely correct imbalances, and report financial plan status to IS and IRS operations budget analysts.

These processes should include feedback developed by the FP&B office to Financial Plan Managers about trends in problems with initiative budget estimates, FPC requests, and initiative spending reviews. This feedback can serve as a means to improve the effectiveness and efficiency of future year budget formulation and program management.

<u>Management's Response</u>: Management agreed with the audit recommendations and believes it is critical for the IS organization to implement processes to effectively manage the IS appropriation under its restructured Office of Strategic Planning and Client Services. Specifically, the CIO is working to develop and/or improve processes for

budget estimation, financial plan changes, and appropriation spending reviews. Management's complete response to the draft report is included as Appendix IV.

Objective and Scope

Our audit objective was to determine whether IS has adequate processes and controls to manage its budget.

The objective of this audit was to determine whether the Information Systems (IS) organization's Financial Planning and Budget (FP&B) office has sufficient controls to provide for adequate budget development, program funding, and accurate accounting of IS operations and resources. We analyzed the processes, controls, and related record reviews used in the formulation, execution, and monitoring activities for the Fiscal Year (FY) 2000 and 2001 IS budgets.

We conducted our audit work in the Internal Revenue Service (IRS) National Headquarters Office and IS offices in New Carrollton, Maryland, from August through November 2000. This audit was 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.

Background

The budget cycle processes include budget estimation; fund allocation to functions, organizations, and programs; and tracking and reporting of actual expenditures.

The budget cycle at the IRS begins with the formulation process wherein the IRS estimates the budget needed to operate its programs in a designated fiscal year. The IRS presents these estimates to the Department of the Treasury, the Office of Management and Budget (OMB), and the Congress. The next step in the budget process is financial plan development. In this stage, the IRS allocates funds to its various functions and organizations to operate its programs. The budget cycle concludes with the execution of the authorized budget during the fiscal year. The execution phase of the budget process consists of tracking and reporting budgeted resources versus actual expenditures. This process continues for 5 years after the availability of the appropriation ends.

The IRS' budget at year-end may differ from its originally enacted budget due to its ability to shift funds between appropriations. The IRS may shift up to 5 percent of its funds between its appropriations but only with advance approval of Congressional Appropriations subcommittees.

The Chief Financial Officer (CFO) primarily controls the IRS' budget. Each appropriation, and offices within, has a Financial Plan Manager (FPM) who assists the CFO in administering his/her particular share of the budget.

The IS organization is unique in the IRS in that it assists the CFO in managing its budget appropriation. The IS budget appropriations for FYs 2000 and 2001 are $1.45 billion and $1.58 billion, respectively.

IS has a FP&B office that works with the CFO and the FPMs from the various IS divisions. The FP&B office's duties include assisting the CFO in formulating the IS budget, developing the IS financial plan, and monitoring the execution of the IS budget. The IS budget appropriations for FYs 2000 and 2001 are $1.45 billion and $1.58 billion, respectively.

The FP&B office uses staff in three sections to manage the IS budget:

- The Formulation Section is responsible for soliciting, receiving, reviewing, and processing budget estimates from IS offices and the IRS operating divisions supported by IS.
- The Analysis Section is responsible for developing the IS financial plan and monitoring IS non-labor spending throughout the fiscal year.
- The Execution Section is responsible for executing IS' financial transactions and monitoring labor spending throughout the fiscal year.

The FY 2000 IS budget appropriation included budget estimates for 80 initiatives. These initiatives included funding for management, operating and maintenance activities and application support for existing and emerging programs. The FY 2001 IS budget appropriation included budget estimates for 74 initiatives.

Results

The FP&B office is currently part of the IS Office of Information Resources Management and is scheduled to complete its transfer to the IS Office of Strategic Planning and Client Services early in Calendar Year 2001. This change is intended to increase the FP&B office's independence within IS and mirrors the structure of the CFO's Office of FP&B. The transfer will also facilitate coordination of strategic planning and support of IS operations with its financial planning and budgeting activities.

The FP&B office can improve controls to ensure that the IS budget appropriation is effectively formulated, monitored, and reviewed.

The FP&B office has recognized the need to perform reviews of the execution of the IS organization's budget appropriation. To do this, it has performed periodic reviews of spending activity. However, the FP&B office's controls could be improved to help ensure IS properly manages its budget appropriation. Specifically, it can improve and formalize processes to:

- Analyze incoming budget appropriation estimates.
- Control the approval and processing of financial plan changes.
- Review IS spending throughout the fiscal year and report the results of those reviews to appropriate managers.

Without adequate controls over IS budget appropriation formulation, execution, and review, the IRS does not have assurance that IS program initiatives are properly prioritized for approval and funding. IS needed to shift significant amounts of funds within its appropriation ($360 million) and request additional funds from another appropriation ($40 million) to meet its FY 2000 budget needs. While much of the fund shifting and transfer was due to the transition to a new IS organizational structure that began during the year, adjustments were also needed because of changes in program direction or divisional priorities, and revised or inaccurate plans. Improved controls for budget monitoring and review will help IS assess its future budget requirements and improve the efficiency and effectiveness of its budget execution.

Problems Identified During Budget Estimate Reviews Were Not Formally Documented and Reported

The Formulation Section does not maintain contact logs or reports to support resolution of budget estimate issues.

The Formulation Section staff reviews the IS budget estimates for completeness, accuracy, and validity, and compiles the data for submission to the CFO. The process is initiated by sending a "call memorandum" requesting the estimated IS resource requirements for a designated fiscal year to FPMs and budget analysts within IS and the IRS operating divisions. The "call memorandum" includes instructions and formats for preparing and submitting the IS budget estimates. The staff communicates with IS and IRS operations budget analysts by telephone or e-mail to resolve questionable issues about the budget estimate before submitting the data to the CFO. However, the Formulation Section does not maintain contact logs or reports to support the identification and resolution of issues raised through this process.

The General Accounting Office's *Standards for Internal Control in the Federal Government* suggest that significant actions be clearly documented to maintain their relevance and value to management in controlling operations and making decisions. Documented procedures should be included in management directives, administrative policies, or operating manuals.

The FP&B office did not develop formal guidelines to direct the operations of the Formulation Section.

When the FP&B office was established in 1998, it did not have any formal guidelines to direct its operations. The Formulation Section subsequently developed the informal process described above to obtain budget estimates from the IS divisions. However, management never formalized the process to better assure the accuracy and reliability of the IS budget submissions and reviews.

Without appropriate and consistent review and reporting processes, inaccurate IS budget estimates may not be identified. Additionally, without documenting, reporting and analyzing problems identified in budget estimate reviews, the Formulation Section cannot provide budget analysts direction to improve future year estimates.

Recommendation

To help ensure the accuracy and reliability of the IS budget submission to the CFO and ensure program analysts perform timely, consistent, and appropriate reviews of IS budget estimates, the Chief Information Officer (CIO) should:

1. Develop a formal process to review and report problems and discrepancies with IS budget estimates submitted by IS and IRS operations budget analysts to the Formulation Section. This process should require documenting and reporting review results. This documentation can provide the basis for trending problems and discrepancies in the budget estimates. The Formulation Section should provide its budget analysts with feedback about problem trends to prevent them from being repeated in the future. It should also report these trends to IS executives for their consideration in directing the development of future budget estimates.

<u>Management's Response</u>: IS management agreed with the audit recommendation and is working with the CFO to develop a process to ensure the IS organization develops budget estimates in compliance with guidelines from the Commissioner and CFO, and appropriately documents development of the IS organization's budget estimates.

Financial Plan Changes Were Processed Without Supporting Documentation or Managerial Approval

FPCs are used to establish fund balances for program spending and to address budget shortfalls and surpluses that occur during the fiscal year due to inadequate planning, changes in program direction, or changes in divisional priorities.

Financial Plan Changes (FPC) are used to establish fund balances for program spending and to address budget shortages and surpluses that occur during the fiscal year due to inadequate planning, changes in program direction, or changes in divisional priorities. FPMs, Division Information Officers,[1] and program executives move money to under-funded areas from both within the IS appropriation (intra-appropriation transfers) and the Compliance appropriation (inter-appropriation transfers). From January through August 2000, the FP&B office processed 1,164 FPCs, totaling almost $360 million, to adjust the deficits and surpluses that developed during the execution of the IS budget.

FPC requests should be initiated by the office requiring the additional funding and approved by the executive requiring the change. The request is submitted to the FP&B office and is processed in the Execution Section. The Execution Section requires review and approval by the Analysis Section to confirm the availability of funds.

The FPC requests should be limited to 10 percent of the initiative balance or $500,000, whichever is less, and contain sufficient documentation to justify the changes. The FP&B office is required to process the FPCs at least weekly.

FPCs were processed without meeting required criteria. These criteria are used to ensure that FPCs are appropriate and processed accurately and timely.

We reviewed 13 FPCs involving $20 million in fund transfers from the IS financial plan (see Appendix I for details on sample selection). We found preparation and processing problems in all 13 FPCs. The problems included:

- Changes initiated by offices not responsible for the project initiative.

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[1] Division Information Officers prioritize requests for IS support and coordinate IS services with the IRS' business operating divisions and functional units.

- Absence of managerial approval or review.
- Absence of review and approval by the FP&B Analysis Section.
- Insufficient documentation to support reasons for the change.
- Amounts exceeding levels authorized by the CIO.
- Untimely processing of the FPCs (3 FPCs were processed 12 to 19 days after their approval dates, and 1 was dated 19 days before the FPC initiation date).

We could not determine the propriety of these 13 FPCs because narrative descriptions accompanying the requests did not provide adequate support to make change approval decisions. The FP&B office processed these FPCs without requesting additional support.

Adequate internal controls are necessary to ensure FPC requests are properly documented, approved, and reviewed to prevent misapplication of funds.

Adequate internal controls are necessary to ensure FPC requests are properly documented, approved, and reviewed to prevent misapplication of funds. These controls also prevent furthering the effects of a shortage or surplus in a program initiative. Incorrect FPCs can create discrepancies in other financial plans, requiring additional FPCs to correct the errors. Although the FP&B office has guidelines to ensure appropriate FPC processing, the Execution Section did not ensure the FPC requests were appropriate and justified. In discussions with the FP&B Chief, we learned that IS executives directed fund realignments requiring FPCs, but the Chief did not require formal documentation or approval to process FPCs resulting from the directed fund realignments.

The absence of controls over FPCs may affect the accuracy of the amounts budgeted for program initiatives and can affect decisions involving the development of future year budget estimates.

Recommendations

To ensure changes to the IS financial plan are appropriate and to improve future year budget estimates, the CIO should:

2. Implement managerial controls in the FP&B office that allow only those FPCs that are clearly documented, appropriately reviewed, and approved to be processed and posted to the Automated Financial System and the Project Cost Accounting System.[2]

Management's Response: The CIO will issue financial operating guidelines to ensure FPCs are processed with appropriate reviews and approvals.

3. Capture the number and dollar amounts of FPCs made during the fiscal year. Capturing this information can provide a basis for identifying trends within those initiatives requiring significant adjustments to their budgets. Identifying these programs can lead to improvements in planning and developing future year budget estimates.

Management's Response: IS management has developed a log to capture FPC amounts, and information to identify trends and improve planning of future year budget estimates.

The Spending Review Process Could Be Improved for Planning and Monitoring Budget Appropriations

The OMB requires that agencies review financial plan spending to assess the execution of budget plans. The

[2] The Automated Financial System and the Project Cost Accounting System provide automated accounting and financial reporting for use in managing the IRS' budget obligations and spending activities.

review results enable the agencies to make funding adjustments when necessary.

The FP&B office did not provide budget analysts with spending review results to timely correct imbalances in IS spending initiatives.

The FP&B Analysis Section reviewed IS spending throughout FY 2000 and reported its review results in four briefing documents in March, April, May, and June 2000, highlighting potential spending problems to IS executives. Also, the FP&B Chief presented information on spending plan status at monthly IS executive meetings. However, there was no indication that the spending concerns highlighted in the four briefings and monthly IS executive meetings were brought to the attention of the responsible budget analysts to timely correct imbalances in IS spending initiatives.

Analysis of the FY 2000 IS appropriation showed that, as of August 2000, financial plan balances varied from plans by as much as $216 million,[3] or approximately 15 percent of the $1.45 billion FY 2000 IS budget. The FP&B staff did not contact budget analysts about correcting accumulated financial plan imbalances until the end of FY 2000.

The FP&B management does not have formal guidance to ensure consistent, adequate, and timely IS spending reviews. Also, the FP&B office can improve the method by which it reports its review results to responsible budget analysts and FPMs. Specifically, the FP&B office spending reviews did not:

- Provide analysis of the expenditures versus the budget throughout the fiscal year to assess the adequacy of the spending plans.
- Timely and consistently identify and alert management and budget contacts about initiatives that required more funds than originally obligated.

[3] The $216 million represents the sum of all spending over 100 percent of initiative financial plan balances and all spending less than the prorated elapsed FY 2000 financial plan balances as of August 31, 2000.

Accurate financial plan balances are imperative because the IRS, Treasury, OMB, and Congress routinely rely on these balances.

The CFO is required to report financial plan balances to the IRS, Treasury, and OMB monthly. These entities rely on accurate financial plan balances for use in planning and monitoring budget appropriations. The absence of sufficient spending plan reviews and timely reporting of review results precludes the meaningful analysis of current year budget status and future year planning.

Recommendation

To improve the accuracy of financial plan balances and monthly fund balance reports to oversight agencies, the CIO should:

4. Develop detailed procedures for the FP&B spending reviews, reporting results of those reviews, and ensuring imbalances are corrected in a timely manner. These procedures should include a process for recording plan changes that were required throughout the year. Plan change data should be communicated to the Analysis and Formulation Sections, as well as to budget analysts and FPMs affected by the plan changes, for consideration in future year planning and financial plan development. This process will help ensure future year plans are adjusted accordingly. The procedures should also include appropriate managerial controls that ensure reviews and reports are timely, accurate, and complete.

Management's Response: The IS office of FP&B will implement guidelines for spending reviews for the balance of FY 2001. These guidelines will contain feedback mechanisms to ensure review results include approved spending levels, the need for timely financial plan changes to realign funds, and potential subsequent year impacts. The guidelines will direct that review results be communicated to FP&B, IS Executives, and business partners.

Conclusion

As the budget process in the IRS evolves into one that is focused around strategic planning and budget, it is critical that IS establish and maintain sufficient controls to ensure spending levels are supported in the financial plan balances, providing sound management of the IS appropriation. Proper financial plan balances are imperative since the IRS, Treasury, OMB, and Congress continually monitor these balances to evaluate current program status and to plan future budget requests.

The development of sufficient processes to formulate budget estimates, execute FPCs, and monitor spending would improve the FP&B office's ability to manage the IS budget. Linking these processes among the three FP&B Sections will also provide IS the ability to improve support to the IRS through more efficient and effective budget formulation and program management.

Appendix I

Detailed Objective, Scope, and Methodology

The objective of this audit was to determine whether controls over the Information Systems (IS) organization's Office of Financial Planning and Budget (FP&B) are sufficient to provide for adequate budget development, program funding, and accurate accounting of IS operations and resources. To achieve this objective, we:

I. Determined whether the FP&B office policies and procedures allow achievement of its mission of formulating, developing, and monitoring the execution of the IS budget.

   A. Determined the processes and controls the FP&B office uses to accomplish its IS budget activities.

      1. Identified and obtained the FP&B office procedures and guidelines related to performing IS budget activities through Internet research and from FP&B management.

      2. Interviewed FP&B and Strategic Planning and Client Services management to determine:

         a) The responsibilities and status for developing the FP&B mission statement, policies and procedures.

         b) Whether IS documented and communicated these policies and procedures to all appropriate employees, including budget contact points.

   B. Obtained and reviewed guidelines and directives developed through November 2000 to assess whether the FP&B office provided sufficient direction to adequately account and budget for IS operations.

II. Determined whether the FP&B office's budget formulation controls included appropriate processing and reviews of budget estimates provided by IS offices and the Internal Revenue Service (IRS) operating divisions supported by IS.

   A. Determined whether the FP&B office's processes and controls were effective to analyze budget estimate information prepared by Divisional Information Officers (DIO) and IS Division executives prior to submission to the Chief Financial Officer (CFO).

1. Interviewed appropriate FP&B Formulation Section program analysts to determine if:

   a) Budget estimate format instructions and due dates were provided to the budget analysts within IS offices and the IRS operating divisions.

   b) Follow-up actions taken to ensure budget estimates were submitted timely.

   c) IS budget estimate review processes were adequate.

2. Assessed whether budget estimate reviews were performed by the FP&B office employees for Fiscal Year (FY) 2001 budget estimates to determine whether the reviews adequately explained and documented the exception issues and the actions for resolving the budget estimate issues.

B. Determined whether the FP&B office provided sufficient guidance to budget control contacts, i.e., Divisional Budget Analysts, DIOs, Financial Plan Managers (FPM), to facilitate the budget estimation process.

1. Interviewed FP&B management and employees to determine the guidance and instructions that were provided to the budget analysts to assist them with the budget estimation process.

2. Interviewed budget analysts from the Deputy Chief Information Officers for Operations and Systems to determine the type of guidance and procedures they received from the FP&B office to assist them with the budget estimation process and reviews.

3. Obtained and reviewed procedural documents provided to the budget analysts to aid them in the formulation of the budget estimates.

C. Assessed the amount of training FP&B employees had received to perform their budget activities.

1. Reviewed the Office of Management and Budget (OMB) Circular A-11 to identify any OMB-mandated training and/or skills required to develop, formulate, and execute a budget.

2. Obtained the FP&B employee training record information to determine the amount of the required training delivered.

D. Assessed the potential impact and resolution of issues identified with the budget formulation process by interviewing FP&B and CFO management.

III. Reviewed controls in the FP&B Execution Section to determine whether it implemented all critical controls and provided for accurate accounting of IS operations.

A. Reviewed OMB Circular A-34 and IRS Budget Cycle documentation to identify criteria for federal budget execution controls.

B. Determined whether the FP&B office's controls provided for adequate budget and spending reviews and whether these controls were implemented.

1. Obtained documentation of the FP&B office's spending reviews from August 1999 to August 2000 to identify potential spending problems.

2. Assessed whether the FP&B office's guidance and communication to FPMs provided sufficient detail for self-review and monitoring.

C. Interviewed the Deputy CFO, Strategic Planning and Budget, and obtained documentation of IS execution results for FY 2000 to identify trends and incidents of irregular spending and ascertain the impact mid-year reprogramming and financial plan adjustments have had on strategic planning and subsequent budgets.

D. Reviewed current Automated Financial System (AFS) data for unliquidated prior year obligations.

1. Identified unliquidated obligations showing no activity for 9 months or longer and determined whether they were identified, investigated, and deobligated as necessary.

2. Identified whether Divisional Budget Analysts and FP&B Analysis and Execution Section employees performed reviews to identify unliquidated obligations.

E. Determined if budget execution controls provided for adherence to OMB reprogramming guidelines. Assessed these controls by reviewing the Financial Plan Changes (FPC) performed during FY 2000 to determine if they were properly coordinated with and approved by the initiative owners. Requested a judgmental sample of 30 FPC request forms from the FP&B office. The FP&B office provided documentation for only 13 of the FPCs requested. Reviewed all 13 of the FPCs provided.

F. Determined whether FPCs were input and posted to the AFS in a timely manner to reflect the actual state of the financial plan throughout the fiscal year. Analyzed Authorized Spending Level reports, Project Cost Accounting System reports, and historical IS financial data for August 1999 through August 2000.

G. Determined if budget execution controls provided adherence to OMB inter-appropriation transfer guidelines by reviewing all FYs 1999 and 2000 inter-appropriation transfers and corresponding memoranda from IS to the CFO.

Appendix II

Major Contributors to This Report

Scott E. Wilson, Associate Inspector General for Audit (Information Systems Programs)
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Appendix III

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Appendix IV

Management's Response to the Draft Report

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

CHIEF INFORMATION OFFICER

RECEIVED
MAR 12 2001

MAR - 8 2001

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Toni L. Zimmerman
Acting Chief Information Officer

SUBJECT: Management Response to Draft Audit Report – "Information Systems Organization Can Improve Processes to Manage its Budget Appropriation" (Audit No. 200020045)

Thank you for the opportunity to comment on your draft report, dated February 9, 2001, on our improvements in managing the Information Systems (IS) Budget Appropriation. I fully support your recommendations. It is critical we implement processes to effectively manage the IS Appropriation under the restructured Strategic Planning and Client Services organization.

The audit reviewed FY 2000 and FY 2001 processes. During this time, through the Commissioner's strategic planning and budgeting process, we realigned our organization structure to the new business lines. To prepare for this realignment, we implemented the FY 2000 financial plan using a zero-based type analysis and shifted funding to critical areas. The strategic planning and budget process is still evolving this year as we align the Financial Planning and Budget Branch (FP&B) under the new Strategic Planning and Client Services organization.

Our attached corrective actions address each of your specific recommendations as they correspond with the changing roles of the FP&B. Generally, your recommendations are to:

1) Develop a formal process to review and report problems and discrepancies with IS budget estimates;
2) Implement managerial controls for Financial Plan Changes (FPC);
3) Capture the number and dollar amounts of FPC's; and,
4) Develop procedures for spending plan reviews.

If you have any questions regarding our response to the draft audit report, please call me at (202) 622-6800. Members of your staff may 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 Information Systems Organization Can Improve Processes to Manage its Budget Appropriation" (Audit No. 200020045)

Recommendation #1

To help ensure the accuracy and reliability of the IS budget submission to the CFO and ensure program analysts perform timely, consistent, and appropriate reviews of IS budget estimates, the Chief Information Officer (CIO) should develop a formal process to review and report problems and discrepancies with IS budget estimates submitted by IS and IRS operations budget analysts to the Formulation Section. This process should require documenting and reporting review results. This documentation can provide the basis for trending problems and discrepancies in the budget estimates. The Formulation Section should provide its budget analysts with feedback about problem trends to prevent them from being repeated in the future. It should also report these trends to IS executives for their consideration in directing the development of future budget estimates.

Assessment of Cause

Prior to FY 2001, the Information Systems Budget (ISB) database provided the Information Systems organization with the means to formulate future year budgets and to formally document, review and report on IS requirements by Initiative. While the ISB provided this tool, we did not maintain contact logs and reports to support resolution of budget estimate issues.

During the FY 2002 budget cycle, Information Systems changed to a Service-wide approach for strategic planning and budgeting to improve IT service to business partners. Using the Commissioner's Guidance, the Financial Planning and Budget Branch (FP&B) worked with IS management and program/project staffs to develop the Strategy and Program Plans (S&PP) and budget estimates to align the plan within the FY 2001 and FY 2002 targets dictated by the CFO. As a result of this change, IS no longer used the ISB as a tool for developing Information Systems budget estimates creating a void in the process of ensuring accurate budget submissions.

Attachment

Management Response to Draft Audit Report – "The Information Systems Organization Can Improve Processes to Manage its Budget Appropriation" (Audit No. 200020045)

Corrective Action for Recommendation #1

We agree with your recommendation that we develop a better process to review budget estimates to ensure the accuracy and reliability of our budget submission. For the FY 2003 strategic planning and budgeting cycle, the Financial Planning and Budget Branch (FP&B) will continue to work with the Chief Financial Officer's (CFO's) Strategic Planning and Budgeting organization to develop a process for ensuring budget estimates comply with the Commissioner's Guidance and CFO guidelines, and appropriately document the development of our budget estimates.

Implementation Date of Corrective Action #1

Proposed: July 1, 2001
Beginning with the FY 2003 budget estimates, implement documented IS guidelines based on Commissioner Guidance and CFO guidelines.

Responsible Official(s) for Corrective Action #1

Chief Information Officer IS
Director, Strategic Planning and Client Services IS:SP
Director, Strategic Planning and Budget IS:SP:SPB

Corrective Action Monitoring Plan

Director, Strategic Planning and Budget, will assess the implementation of documented IS budget estimate guidelines and revise them as needed.

Recommendation #2

To ensure changes to the IS financial plan are appropriate and to improve future year budget estimates, the CIO should implement managerial controls in the FP&B office that allow only those FPC's that are clearly documented, appropriately reviewed, and approved to be processed and posted to the Automated Financial System and the Project Cost Accounting System.

Attachment

Management Response to Draft Audit Report – "The Information Systems Organization Can Improve Processes to Manage its Budget Appropriation" (Audit No. 200020045)

Assessment of Cause

The Budget Execution Office currently has Standard Operating Procedures (SOP's) for processing FPC's that have been in effect since 1999. To better meet the needs of the new IRS organization and the IT requirements of the business units in FY 2000, we changed the plan development process to review spending plans and prioritize available resources prior to allocation. To ensure correct alignment of funds in the Automated Financial System, the majority of the ISY resources were distributed during budget execution by FPC's. Although these FPC's were processed using approved spending plan levels, many of the FPC's were not properly documented and this resulted in a potential for misapplication of funds.

Corrective Action for Recommendation #2

We agree with the audit recommendation. We will issue Financial Operating Guidelines based on the Strategy and Program Plan (S&PP), and include an updated Standard Operating Procedure (SOP) for processing FPC's. The revised SOP will designate appropriate approval levels that ensure FPC's are processed, reviewed and approved in AFS. The SOP for processing FPC's will remain in effect until we issue new Financial Operating Guidelines and update the SOP.

Implementation Date of Corrective Action #2

Proposed: May 1, 2001
Issue Financial Operating Guidelines containing the updated SOP on FPC's to budget contacts.

Responsible Official(s) for Corrective Action #2

Chief Information Officer IS
Director, Strategic Planning and Client Services IS:SP
Director, Strategic Planning and Budget IS:SP:SPB

Corrective Action Monitoring Plan

Director, Strategic Planning and Budget, will assess implementation of Financial Operating Guidelines and revise them as needed.

Attachment

Management Response to Draft Audit Report – "The Information Systems Organization Can Improve Processes to Manage its Budget Appropriation" (Audit No. 200020045)

Recommendation #3

To ensure changes to the IS financial plan are appropriate and to improve future budget estimates, the CIO should capture the number and dollar amounts of FPC's made during the fiscal year. Capturing this information can provide a basis for identifying trends within those initiatives requiring significant adjustments to their budgets. Identifying these programs can lead to improvements in planning and developing future year budget estimates.

Assessment of Cause

FPC's are used to establish fund balances for program spending and to address budget shortfalls and surpluses that occur during the fiscal year due to inadequate planning, changes in program direction, or changes in divisional priorities. Although the tools exist to capture the number of FPC's processed each year, this data has not been tracked. This has resulted in no historical data available for trend analysis.

Corrective Action for Recommendation #3

We agree with the recommendation to capture the number of FPC transactions to help determine trends and to improve our budget projections in the Strategy and Program Plan (S&PP). We will also use the FPC Log, developed with the implementation of the Balanced Measures, to ensure timely processing of FPC's, and record the number and amount of FPCs the Budget Execution Office processes. The Budget Formulation Office will use this information to identify trends and improve budget projections.

Additionally, we will ensure budget contacts use the online AFS/RMS reports, "Current Year Audit Trail" and "PCAS Audit Trail," to reconcile the number of FPC Transactions processed.

Implementation Date of Corrective Action #3

Proposed: April 1, 2001
Revise FPC Log to include numbers, amounts, and processing time.

Attachment

Management Response to Draft Audit Report – "The Information Systems Organization Can Improve Processes to Manage its Budget Appropriation" (Audit No. 200020045)

Responsible Official(s) for Corrective Action #3

Chief Information Officer IS
Director, Strategic Planning and Client Services IS:SP
Director, Strategic Planning and Budget IS:SP:SPB

Corrective Action Monitoring Plan

Director, Strategic Planning and Budget, will assess the effectiveness of the FPC log in identifying trends and information for budget estimates and revise it as needed.

Recommendation #4

To improve the accuracy of financial plan balances and the monthly fund balance reports to oversight agencies, the CIO should develop detailed procedures for the FP&B spending reviews, reporting results of those reviews, and ensuring imbalances are corrected in a timely manner. These procedures should include a process for recording plan changes that were required throughout the year. Plan change data should be communicated to the Analysis and Formulation Sections, as well as to budget analysts and FPMs affected by the plan changes, for consideration in future year planning and financial plan development. This process will help ensure future year plans are adjusted accordingly. The procedures should also include appropriate managerial controls that ensure reviews and reports are timely, accurate, and complete.

Assessment of Cause

During FY 2000, and in prior years, IS conducted spending plan reviews at the project level. IS used these reviews to ensure resource alignments supported the project (Project Cost Accounting System) requirements and that unfunded needs could be managed within available surpluses. While the reviews were not conducted formally throughout the fiscal year, the Deputy Chief Information Officers (DCIO's) for Systems and Operations continued to perform internal quarterly reviews to validate their spending plans and available resources. This fragmented review process did not provide a well-coordinated approach to the management of ISY resources for future year financial plan development, and this resulted in the potential for inaccuracies in the reporting of financial plan balances.

Attachment

Management Response to Draft Audit Report – "The Information Systems Organization Can Improve Processes to Manage its Budget Appropriation" (Audit No. 200020045)

Corrective Action for Recommendation #4

We agree with the audit recommendation. The Financial Planning and Budget Branch (FP&B) will implement guidelines for spending reviews for the balance of FY 2001. These guidelines will provide mechanisms to report changes to ensure review results include:

-Approved spending levels;
-Assessment of financial plan changes needed to realign funds;
-Evaluation of subsequent year impacts of financial plan changes; and,
-Communication of this information to FP&B, IS Executives, and business partners.

Implementation Date of Corrective Action #4

Proposed: June 1, 2001
Implement revised guidelines beginning with the first spending review of FY 2001.

Responsible Official(s) for Corrective Action #4

Chief Information Officer IS
Director, Strategic Planning and Client Services IS:SP
Director, Strategic Planning and Budget IS:SP:SPB

Corrective Action Monitoring Plan

Director, Strategic Planning and Budget, will assess implemented spending review guidelines and revise them as needed.