

IRS to scrap its ailing, \$103 million computer system

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Until recently, the Internal Revenue Service had said it planned to meet its basic data-processing needs "well into the 1990s" by upgrading a \$103 million computer system that began operating last year.

But last week the agency said it must scrap its new system by 1989 and spend almost \$364 million on computer equipment before the end of this decade. It plans to invest hundreds of millions more on a new generation of data-processing equipment in the early 1990s.

The cause of the sharp change in plans is clear. The collapse of the IRS computer system this year cost the agency tens of millions of dollars in overtime and interest on late tax returns and hundreds of millions more in tax revenue that was not collected.

In the aftermath of the tax-processing disaster, the IRS has decided that it cannot afford to have a computer system that does not work.

As a first step in its effort to solve its massive computer problems, the agency is installing 20 additional central data processors nationwide to supplement its troubled, year-old Sperry Univac system.

The hardware additions will raise data-processing capacity at the agency's 10 processing centers by between 33 percent and 50 percent, predicts Thomas Laycock, IRS assistant commissioner in charge of computer systems. The cost of this new hardware is projected to be \$39.7 million.

Between the additional 20 proces-

sors and a continuing effort to optimize [software] programs, we will not be suffering capacity problems in 1986," Laycock said.

Yet to keep up with its growing data-processing needs, the IRS has decided that it must scrap its entire existing computer network in June 1989 and replace it with a new system. The IRS will extend bids this January for that system, currently projected to cost \$185.5 million.

The new system, to be known as the "Capacity Enlargement of the Processing System" (CEPS), will not perform any new tasks for the IRS, but it will allow the agency to meet future needs.

"It's not going to do anything that isn't now being done," Laycock said. Beginning in 1991, the IRS hopes to overhaul its entire data-processing system once again. It will install a dramatically expanded, nationwide computer system that will enable taxpayers to replace paper returns with electronic filings; electronically transfer money, with refunds directly credited to taxpayers' bank accounts within a week; replace the cumbersome, tape-based computer system with advanced "random access" technology, and enhance its search-and-match capability for pursuing about \$90 billion in taxes that the IRS estimates is being withheld by delinquents and tax cheats.

The IRS says it has no estimate of what such a system will cost. When the IRS makes its award in January for a new interim computer system, it will have contractually obligated itself to computer equipment costs of \$363.4 million for service

center tax processing through this decade. That is roughly 3 1/2 times the amount originally projected for data processing.

The Sperry computer network, installed in October 1984, was originally projected to cost \$103 million and meet the IRS's data-processing needs "well into the 1990s," with upgrading after four years, according to the General Accounting Office, the congressional watchdog agency.

But in July 1983 — 16 months before the system was installed in service centers across the nation — IRS officials realized that they had grossly miscalculated their data-processing needs and the processing capabilities of the new system, they say.

About \$35.2 million worth of equipment was added to the system along with \$12 million worth of central processors provided free by Sperry because of a series of disputes with the vendor over the abilities of its equipment.

In October 1984, the agency's four largest-volume service centers — Atlanta, Austin, Texas, Fresno, Calif., and Ogden, Utah — along with the agency's National Computer Center in West Virginia received additional processors to augment equipment already installed.

But at the beginning of the 1985 tax-processing season, the system was burdened with a workload that exceeded its projected capacity for 1988.

The result was chaos inside the agency's 10 regional tax-processing centers — problems of such magnitude that they undermined the credibility of the entire tax-collection sys-

tem. Processing on millions of tax returns was delayed for months. The computer disgorged hundreds of thousands of erroneous refunds, dunning notices and unjustified threats to seize property. The volume of unanswered inquiries and uncorrected errors built to such magnitude that some overworked IRS employees destroyed or hid documents to meet production quotas.

The foul-ups cost the government more than the price of new equipment. As of Sept. 30, the agency has spent \$22.7 million on overtime for employees, a 79 percent increase over the \$12.7 million spent during the first nine months of 1984. The IRS has also paid \$46.1 million in interest on late refunds to 2.1 million taxpayers in the first nine months of this year, a 70 percent increase over the \$27.1 million spent in the same period last year.

Additionally, the IRS spent \$600,000 this year to lease for three months a computer at a Pennsylvania state mental hospital in Harrisburg — the only facility available to the agency to process its huge backlog of tax returns from the Philadelphia service center.

IRS programmers have been working since April 1984 to increase the speed of the 1,500 software programs needed to process tax work. The speed of weekend updates of taxpayer files — the primary cause of massive bottlenecks in service centers this year — was increased by 68 percent by July 1985, Laycock said.

The contract for the \$39.7 million worth of supplemental computer

equipment will go again to Sperry Univac. IRS officials said in interviews last week that they were forced to limit bids to Sperry because other manufacturers' equipment would have been incompatible.

"Compatibility was a must," Laycock said. The Philadelphia service center, which the IRS says experienced the worst problems of any of the 10 this year, will receive two of the new central processing units, the IRS says.

The Philadelphia service center began processing taxes last January although it lacked sufficient manpower and computer power, according to a report produced by congressional investigators last month.

In fact, during the first few months of this year, as millions of tax returns flooded in, the computer was inoperable most of the time, so that work could not be processed through the system.

By February, the tax-processing capability with the new system was overwhelmed, creating massive backlogs that "could not be adequately addressed because basic management control points had been thrown out of balance," a House Appropriations Committee inquiry found.

By mid-March, the backlogs were so enormous that the agency had to move a major portion of its Philadelphia regional tax processing to the Pennsylvania mental health hospital. The situation had "reached the point of no return," investigators said.

Along with critical computer prob-

lems, the center also suffered from an array of managerial problems. "The people there just couldn't do the situation," said Laycock, in an interview last week.

The IRS hopes that a complete redesign of the computer system in the 1990s will eliminate the possibility of massive paper processing problems like those suffered this year. The number of tax filings in 1995 is expected to grow to 228 million, compared with 170 million this year.

"Right now it is very much a paper-oriented operation," said Fred P. Williams, an assistant commissioner in charge of planning the new system. "Certainly one of the hopes we have would be to redesign it to deal more effectively with the number of tax returns."

A new tax processing system would also include some features that Congress objected to in the mid-1970s, fearing that the IRS would become too powerful. One would be electronic linkage of IRS computers across the country so information from one region would be retrievable instantly from any IRS installation.

IRS officials have already approached some members of Congress with tentative plans for such a system. Officials say that for a new system to be in place by the early 1990, it must be approved by Congress years in advance because of the bureaucratic hurdles it must cross.

The IRS has not decided on specific proposals for a new computer system, but agency officials say they will seek help from private industry in designing it.

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