



Treasury Inspector General for Tax Administration Office of Audit

CHANGING EXCISE FILES INFORMATION RETRIEVAL SYSTEM DEVELOPMENT REQUIREMENTS RESULTED IN INCREASED COSTS AND SCHEDULE DELAYS

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Highlights

Highlights of Report Number: 2009-20-093 to the Internal Revenue Service Chief Technology Officer.

IMPACT ON TAXPAYERS

In late 1998, the Internal Revenue Service (IRS) began developing the Excise Files Information Retrieval System (ExFIRS) to improve motor fuel excise tax compliance and identify and reduce fraud. The IRS has spent more than \$108 million to develop the ExFIRS, and in April 2006 began using it to perform data matching to identify potential noncompliant taxpayers. However, changing system requirements resulted in increased costs of almost \$2.8 million and delayed implementation of the first phase of the ExFIRS modernization by 1 year. Improvements are needed to help ensure that continued ExFIRS development is efficient and effective at identifying and reducing motor fuel tax evasion.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS and its contractors are making improvements to the ExFIRS using sound systems development practices and to follow up on prior ExFIRS findings. The IRS is developing and maintaining the ExFIRS, which was mandated by Congress as a result of motor fuel excise tax evasion schemes perpetrated by organized crime syndicates in the late 1980s and early 1990s. Motor fuel excise taxes are the major source of funding for the Highway Trust Fund.

WHAT TIGTA FOUND

The IRS has taken actions to improve system development effectiveness and address concerns identified in a prior TIGTA audit report. These actions include elevating the ExFIRS to a major information technology investment; ensuring the ExFIRS Project Office updates and completes appropriate project management documents; and ensuring the ExFIRS Project Office includes measurable performance standards in statements of work, clearly defines deliverables, and implements

an effective plan for monitoring contractor performance.

While actions have been taken, additional improvements are needed to ensure more efficient and effective system development. For example, in October 2007, the ExFIRS Project Team began a modernization upgrade of two of the six ExFIRS subsystems using the Tax Exempt and Government Entities Division's Reporting and Examination System (TREES) Compliance Case Management System as the platform. However, in February 2008, Small Business/Self-Employed Division Excise Tax Program personnel saw a demonstration of the new Large and Mid-Size Business Division's Issue Management System and recommended that consideration be given to moving the two ExFIRS subsystems to this new platform. The Unisys Corporation study provided a detailed analysis comparing the TREES capabilities and functionality to the requirements for the ExFIRS modernization, but did not provide a similar analysis of the Issue Management System. The Unisys Corporation stated in its report that insufficient information and time were available to complete a detailed study of the then current Issue Management System. In addition, the Unisys Corporation study was not extended to allow for an analysis of the new version of the Issue Management System.

A study conducted by the MITRE Corporation concluded that both platforms technically met the user requirements. In August 2008, IRS executives approved the migration of the two ExFIRS subsystems to the Issue Management System platform. The decision to move ExFIRS modernization development to the Issue Management System increased the costs by almost \$2.8 million and delayed implementation by 1 year.

Improvements are also needed to ensure the completeness and accuracy of reported actual system development costs.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Technology Officer ensure that 1) all future system redesign alternatives are adequately considered before final alternative selection, and 2) the processes for collecting, computing, verifying and reporting financial data are clearly understood and followed by Project Office personnel so that the information reported is accurate and can be relied upon when making project decisions.

In their response to the report, IRS officials agreed with the two recommendations and plan to take corrective actions.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200920093fr.pdf>.

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