



Treasury Inspector General for Tax Administration Office of Audit

ANNUAL ASSESSMENT OF THE BUSINESS SYSTEMS MODERNIZATION PROGRAM

Issued on September 23, 2010

Highlights

Highlights of Report Number: 2010-20-094 to the Internal Revenue Service Chief Technology Officer.

IMPACT ON TAXPAYERS

The Business Systems Modernization (BSM) Program, which began in 1999, is a complex effort to modernize the Internal Revenue Service's (IRS) technology and related business processes. This is being done while replacing outdated technology and maintaining the current tax system. The objective of the BSM Program is to address and manage the inherent risks of modernization, while still delivering the level of service American taxpayers expect.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of TIGTA's Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Modernization of the IRS. TIGTA is required to assess and report annually on the progress of the IRS's modernization activities.

WHAT TIGTA FOUND

The BSM Program is now in its 12th year and has received approximately \$3.24 billion for contractor services, plus an additional \$474 million for internal IRS costs. The IRS originally estimated the BSM Program effort would last up to 15 years and incur contractor costs of approximately \$8 billion. The three core projects of the BSM Program, referred to as the "Pillars of Modernization," are the:

- Customer Account Data Engine (CADE) – the databases and related applications that include applications for daily posting, settlement, maintenance, refund processing, and issue detection for taxpayer tax account and return data.
- Modernized e-File – an electronic filing platform used for electronic tax return filing for both business and individual taxpayers.

- Account Management Services/Integrated Data Retrieval System – systems that provide IRS employees with the ability to view, access, update, and manage taxpayer accounts.

The BSM Program has continued to provide new information technology capabilities and the related benefits to both the IRS and taxpayers. Since July 2009, the IRS has implemented new releases of the CADE, Account Management Services, and Modernized e-File systems. Most significantly, the Modernized e-File for the first time included individual tax returns in addition to business tax returns.

The IRS is at a key point in its BSM Program, with respect to the demands for achieving success, and has refocused the BSM Program to deliver the modernized systems sooner. TIGTA is encouraged by the actions planned and taken to refocus the BSM Program, especially related to the retooling of the CADE program, known as the CADE 2. When successful, the CADE 2 program will provide a significant boost to the IRS's ability to move away from its antiquated tax return processing systems and provide improved service to taxpayers. However, there are significant risks involved in retooling the entire BSM Program and with the use of techniques and processes new to the IRS.

WHAT TIGTA RECOMMENDED

Because this was an assessment of the BSM Program status and accomplishments through Fiscal Year 2010, TIGTA did not offer any recommendations. However, because of the significant risks involved with the refocusing of the BSM Program, TIGTA believes the IRS should continue to consider the BSM Program as a material weakness until it can successfully demonstrate that the CADE 2 can operate securely and effectively.

In its response, the Chief Technology Officer responded that the IRS was pleased to read TIGTA's comments and observations that the BSM Program has continued to provide new information technology capabilities and related benefits to the IRS and taxpayers. The Chief Technology Officer also acknowledged the IRS is at a key point in the BSM effort and believes it is on its way to successfully demonstrate that the CADE 2 can operate effectively.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201020094fr.pdf>.