



Treasury Inspector General for Tax Administration Office of Audit

THE INFORMATION REPORTING AND DOCUMENT MATCHING CASE MANAGEMENT SYSTEM COULD NOT BE DEPLOYED

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Highlights

Highlights of Report Number: 2014-20-088 to the Internal Revenue Service Chief Technology Officer.

IMPACT ON TAXPAYERS

In January 2012, the IRS issued a Tax Gap report estimating taxes owed but not paid at about \$450 billion. A significant portion of this is attributed to noncompliance from businesses and corporations that underreport income. The IRS has long concluded that compliance is higher when income is subject to third-party reporting or withholding. Congress enacted Information Reporting and Document Matching (IRDM) legislation to narrow the Tax Gap by requiring third-party payors, such as banks and brokerage firms, to submit information returns to the IRS reporting income earned by businesses on merchant payment card and cost basis for securities transactions. The IRS deployed four of five IRDM information technology projects to assimilate and correlate data submitted on filed business tax returns to information returns and select individual sole proprietor and business returns for examinations.

WHY TIGTA DID THE AUDIT

The overall objective was to determine how system development risks for the IRDM Case Management (IRDMCM) System were being mitigated and whether established business and information technology requirements to improve compliance and reduce the Tax Gap were adequately addressed. Specifically, TIGTA evaluated requirements management, change management, and the controls over System Acceptability Testing.

WHAT TIGTA FOUND

The IRDMCM System requirements were not sufficient. User Acceptance Testing generated a high number of problem tickets, 50 percent of which were to clarify requirements and business rules. After a year of User Acceptance Testing, IRS officials acknowledged that the IRDMCM System could not effectively process business cases containing underreported income and could not be deployed into the IRS production environment. In the absence of an IRDMCM System, thousands of business

taxpayer cases containing underreported income could not be processed. The IRS spent approximately \$8.6 million from Fiscal Years 2009 through 2013 developing the IRDMCM System. Based on available data from the IRS, TIGTA estimated that unprocessed 2011 cases could have potentially resulted in assessed taxes of \$54.9 million.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Technology Officer should ensure that: 1) requirements management processes for future IRDMCM System development include using Business Process Modeling to specify well-defined requirements; 2) IRDMCM System requirements are completely identified; 3) case management capabilities of Entellitrak[®] are thoroughly assessed, and IRS Information Technology organization officials act promptly to implement an IRDM case management application to avoid losing significant tax assessment revenue in the future.

The IRS agreed with two of the recommendations, but did not provide an implementation date for one of its corrective actions. The IRS partially agreed with the third recommendation, stating that while it is currently determining how the Entellitrak case management solution can meet business needs, significant budget constraints could affect future work on the IRDMCM System.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2014reports/201420088fr.pdf>

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