



*The Information Reporting and Document  
Matching Case Management System  
Could Not Be Deployed*

**September 29, 2014**

**Reference Number: 2014-20-088**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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## HIGHLIGHTS

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

## Highlights

Final Report issued on  
September 29, 2014

Highlights of Reference 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 examination.

### 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<sup>®</sup> 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.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 29, 2014

**MEMORANDUM FOR CHIEF TECHNOLOGY OFFICER**

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – The Information Reporting and Document  
Matching Case Management System Could Not Be Deployed  
(Audit # 201420012)

This report presents the results of our review of the Information Reporting and Document Matching Case Management System to determine whether system development risks were being mitigated and whether established business and information technology requirements to improve compliance and reduce the Tax Gap were adequately addressed. This audit is included in our Fiscal Year 2014 Annual Audit Plan and addresses the four major management challenges of Modernization, Tax Compliance Initiatives, Fraudulent Claims and Improper Payments, and Achieving Program Efficiencies and Cost Savings.

Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Danny Verneuille, Acting Assistant Inspector General for Audit (Security and Information Technology Services).



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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*Table of Contents*

**Background**.....Page 1

**Results of Review** .....Page 8

    Insufficient Requirements and Failure to Pass User Acceptance  
    Testing Contributed to Unsuccessful Deployment for the Information  
    Reporting and Document Matching Case Management System .....Page 8

Recommendations 1 through 3:.....Page 15

**Appendices**

    Appendix I – Detailed Objective, Scope, and Methodology .....Page 17

    Appendix II – Major Contributors to This Report .....Page 19

    Appendix III – Report Distribution List .....Page 20

    Appendix IV – Outcome Measures.....Page 21

    Appendix V – Glossary of Terms .....Page 24

    Appendix VI – Management’s Response to the Draft Report .....Page 28



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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## *Abbreviations*

IRDM	Information Reporting and Document Matching
IRDMCM	Information Reporting and Document Matching Case Management
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IT	Information Technology
SAT	System Acceptability Testing
SB/SE	Small Business/Self-Employed
TY	Tax Year
UAT	User Acceptance Testing



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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## *Background*

According to the Internal Revenue Service's (IRS) latest estimate (January 2012), the Tax Gap,<sup>1</sup> which is the amount of tax liability owed by taxpayers that is not paid on time, is 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 increasing the voluntary compliance of business taxpayers through information reporting.

***Since 2009, Congress has enacted a number of provisions in the Internal Revenue Code to enhance business tax filing accuracy and compliance by automating the matching of data reported on the legislatively mandated information returns to the data submitted on filed business tax returns.***

Since Fiscal Year 2009, Congress has enacted a number of provisions in the Internal Revenue Code to enhance business tax filing accuracy and compliance by automating the matching of data reported on the legislatively mandated information returns to the data submitted on filed business tax returns. Under the legislation, third-party payors<sup>2</sup> will submit the information returns to the IRS showing the amount of revenue earned by the businesses. The IRS established the IRDM Program to create the infrastructure needed to implement legislation related to third-party reporting to help reduce the Tax Gap. The IRDM legislation requires new information reporting to the IRS for three issues that contribute to the Tax Gap. The three transaction types involve merchant payment cards, cost basis for securities, and certain Government payments. The following provides information on the transaction types and effective dates:

**Merchant Payment Cards** – The merchant payment card transactions under Regulation 6050W apply to tax returns for calendar years beginning after December 31, 2010. The two types of merchant card transactions are third-party network transactions and payment card transactions.

1. **Third-Party Network Transactions:** A third-party network transaction involves a third-party settlement organization. A third-party settlement organization is the organization that has the contractual obligation to make payments to participating payees in a third-party payment network. The most common example of a third-party settlement organization is an online auction-payment facilitator, which operates as an intermediary between buyer and seller by transferring funds between accounts in settlement of an

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<sup>1</sup> See Appendix V for a glossary of terms.

<sup>2</sup> Third-party payors include merchant banks that make payments on credit cards, brokerage firms that sell securities, and Government entities that withhold 3 percent of the payments made to businesses for providing property or services.



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## *The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

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auction/purchase. Third-party settlement organizations charge sellers a fee for facilitating the transaction. Under the new reporting requirements, settlement organizations must complete Form 1099-K, *Payment Card and Third Party Network Transactions*, when there are more than 200 transactions and payments to payees exceed \$20,000.

2. **Payment Card Transactions:** A payment card transaction involves a bank or other entity that makes a payment to a merchant or other business, in settlement of payment card transactions, which includes credit cards, debit cards, and stored-value cards. The entity that transfers funds to the merchant's account is responsible for preparing and furnishing Form 1099-K to the merchant and to the IRS.

Cost Basis for Securities – Starting in Tax Year (TY) 2011, brokers began reporting on Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*, the adjusted basis and whether any gain or loss from the sale of “covered securities” is classified as short term or long term. The IRS revised the Form 1099-B to include new boxes beginning with TY 2011. The term “covered securities” generally means shares of corporate stock acquired on or after January 1, 2011. The Department of the Treasury and the IRS issued a notice advising that implementation of the security transactions was delayed until January 1, 2014. At the time of our audit, the IRS had not initiated any system development efforts related to the cost basis for securities.

Certain Government Payments – In May 2011, the IRS initially delayed the 3 percent withholding requirement until after December 21, 2012. Subsequently, after repeated momentum to repeal the withholding requirement, on November 21, 2011, President Obama signed the Three Percent Withholding Repeal and Job Creation Act<sup>3</sup> into law. It repeals the requirement, originally created under the Tax Increase Prevention and Reconciliation Act of 2005,<sup>4</sup> for the Government to withhold 3 percent of certain payments to contractors.

Implementation of the IRDM Program involves five system development projects. In IRDM Release 1, four of the five projects have been deployed as follows:

1. Data Assimilation: Assimilation identifies the link between tax forms and information returns filed for the same taxpayer to identify potential underreporter cases. The project groups them into specific categories to support IRS compliance programs associated with merchant payment cards and securities cost basis transactions. (Deployed)
2. Data Correlation: Correlation matches tax return and information return data and applies business rules to identify potential underreporter cases for use in the IRDM case selection process. After case selection, data correlation builds a complete case record for analysis

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<sup>3</sup> Public Law 112-56 125 Stat. 711.

<sup>4</sup> Public Law No. 109-222 120 Stat. 345.



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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by a tax examiner to support IRS compliance programs associated with merchant payment cards and securities cost basis transactions. (Deployed)

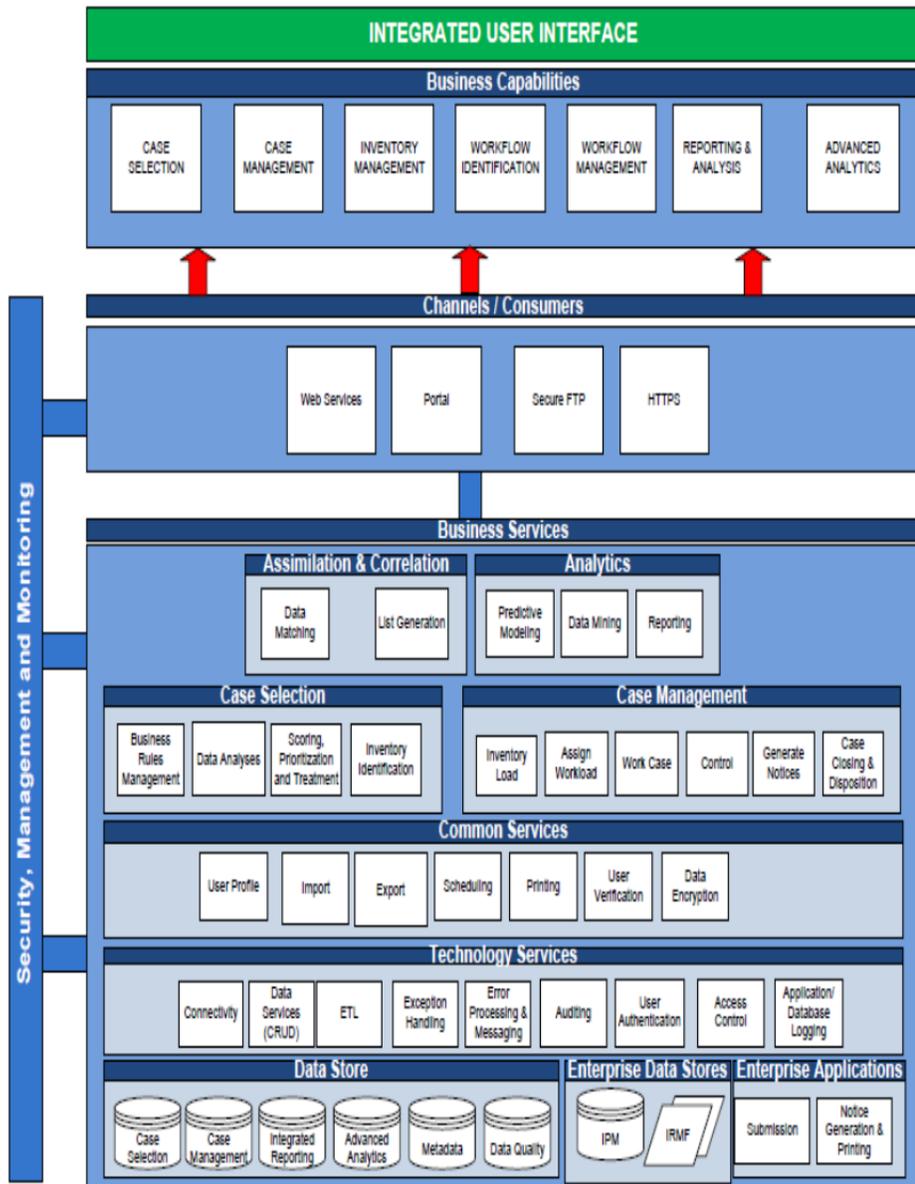
3. Business Master File Analytics: Analytics provides IRS users with the ability to define and execute logic for the intelligent selection of business taxpayer case inventory to ensure that cases selected result in the largest financial return. (Deployed)
4. Case Inventory Selection and Analytics: The IRDM Program primarily involves business transactions but does include individual transactions when individuals are self-employed and report their business transactions on their individual tax returns. The IRDM Case Inventory Selection and Analytics Project provides IRS users with the ability to define and execute logic for the intelligent selection of individual taxpayer case inventory and creates an analytical environment that offers a greater ability to evaluate case data to improve the selection of cases to be worked. The individual transactions are processed by the Automated Underreporter System. (Deployed)
5. Case Management (IRDMCM): The case management system enables IRS tax examiners to manage and work business cases selected through the IRDM Business Master File Analytics Project with identified discrepancies that could potentially affect tax liabilities on business tax returns. The IRDMCM System manages selected potential underreporter business cases as the cases are being worked by Small Business/Self-Employed (SB/SE) Division tax examiners. During Fiscal Years 2009 to 2013, the IRS spent \$8,620,851 on the development of the IRDMCM System. (Not Deployed)

Figure 1 provides a graphic of the IRDM Program showing data assimilation, data correlation, analytics, case selection, and case management processing.



*The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

**Figure 1: IRDM Program Graphic**



Source: IRDM Solution Architecture Diagrams.

FTP – File Transfer Protocol; HTTPS – Hypertext Transfer Protocol Secure;  
 ETL - Extraction/Transformation/Load; CRUD – Create, Read, Update, Delete; IPM - Integrated  
 Production Model; IRMF- Information Returns Master File.



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## *The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

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The IRDMCM Team planned to use the Waterfall systems development path to deliver the following functionality over four phases:

1. **Phase 1 Case Creation:** All the necessary case data are downloaded from the IRDM Data Correlation and the Taxpayer Information File system and loaded into the IRDMCM database. All the cases are built into batches, which are then divided into work units to be analyzed by tax examiners. Screening batches are requested by technical units to be worked. It is the manager's responsibility to monitor and control work coming through their units. Several reports are available to monitor inventory and the volume of mail sent to taxpayers.
2. **Phase 2 Case Screening:** Tax examiners' screening of cases includes verification of discrepancies, calculation of tax, preparation and issuance of notices and/or letters, and closure of cases with invalid discrepancies. Tax examiners perform in-depth analysis of each case using various application screens. A process code, which is a four-digit number used to identify the action taken on a case, is assigned to the case and resides in the IRDMCM System until it is uploaded to the Integrated Data Retrieval System. If the identified income discrepancy amount is resolved, the case is generally closed with no taxpayer contact. If the discrepancy was not included on the return or otherwise resolved, the taxpayer is sent either a letter indicating that a case has been closed, or a letter acknowledging that the taxpayer correspondence has been received and that further actions may be taken.
3. **Phase 3 Case Response:** The tax examiner reviews the cases based upon the taxpayer's response or lack of response to the notice. The tax examiner's review of the response or if no response is received can lead to several actions: a) recalculation of tax based on the taxpayer's response to the notice; b) the case can be resolved and closed; c) a Statutory Notice of Deficiency can be issued; or d) additional tax can be assessed or the case can be transferred or referred to other units.
4. **Phase 4 Case Closure/Statutory Notice:** This final phase adds the issuance of and the resolution of any issues addressed in the Statutory Notice of Deficiency. The response from the taxpayer may resolve the issues in the Statutory Notice of Deficiency. The case is defaulted when the response from the taxpayer does not resolve the issue, if no response is received, if the statutory suspense period has expired, or if the notice was undeliverable and the IRS has no record of a better address.

The scope of our audit was limited to reviewing the system development activities of the IRDMCM Project. Figure 2 presents a timeline of the IRDMCM System development activities.



*The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

**Figure 2: IRDMCM System Development Timeline**

<b>IRDMCM System Development Activity</b>	<b>Date</b>
System Development Initiated for IRDMCM Release 1	April 2009
Requirements Baselined	July 2010
System Acceptability Testing (SAT) Release 1	September 2011 – January 2013
SAT Release 1.5	July 2012 – December 2013
Planned Initial Deployment Date	November 2012
User Acceptance Testing (UAT)	January 2013 – January 2014
IRDM Change Requests Added Critical Functionality as Release 1.5	May 2013 - August 2013
Development Halted	January 2014

Source: The IRS IRDMCM Team.

The following groups and organizations share responsibilities for developing the IRDMCM System.

- IRDM Executive Steering Committee is co-chaired by the IRS Chief Technology Officer and the SB/SE Division Commissioner.
- IRDM Governance Board reports to the IRDM Executive Steering Committee and is chaired jointly by the IRS Information Technology (IT) organization and the SB/SE Division. Key representatives include the:
  - IRS IT organization Assistant Chief Information Officer, Applications Development.
  - IRS IT organization Deputy Assistant Chief Information Officer, Applications Development.
  - IRS IT organization Director, Applications Development, Compliance Domain.
  - SB/SE Division Director, Communications, Outreach, Systems, and Solutions.
  - SB/SE Division Director, Campus Compliance Services.
- IRS SB/SE Division is the business owner of the IRDM Program.



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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- IRS IT organization Applications Development is responsible for building, testing, delivering, and maintaining integrated information applications systems, *i.e.*, software solutions, to support IRS systems and the production environment.
- A contractor provided the IRS IT organization application development support, including architecture activities, Enterprise Life Cycle support, scheduling, weekly minutes, project status reports, and IRDM Program and Project documentation.
- IRS IT organization Enterprise Services, Enterprise Systems Testing, was responsible for managing the SAT for the IRDM Program.
- The IRS IT organization Enterprise Information Technology office, Program Management office, has an emphasis on major Business System Modernization programs as well as enterprise solutions for such services as case management.

This review was performed at the IRS IT organization facilities in the IRS Western Development Center in Ogden, Utah; the Headquarters in Washington, D.C.; and the New Carrollton Federal Building in Lanham, Maryland, during the period January through May 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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## *Results of Review*

### ***Insufficient Requirements and Failure to Pass User Acceptance Testing Contributed to Unsuccessful Deployment for the Information Reporting and Document Matching Case Management System***

The process of requirements development is important to successfully describe the activities that go into specifying the required functionality and characteristics of the IRS's business systems.<sup>5</sup> Key activities include identifying, capturing, recording, refining, and approving requirements. This process includes clarifying the needs of the customer and translating those needs into system specifications. For IRS systems, the Business System Requirements Report is the main deliverable for documenting users' requirements. During the system development life cycle, the Business System Requirements Report becomes the approved requirements baseline and the respective Configuration Control Board needs to approve any changes to the baseline requirements.

Functional requirements involve the users' interactions with the system and specify what the information system is expected to do - its functionality. Section 4.1 of the Requirements Handbook describes the characteristics of well-written, valid, high-quality requirements. The requirements should be clearly and properly stated, understandable, complete, state exactly one requirement, be specific enough to implement and test, and be verifiable. Requirements must be specific enough for a design team to work on design activities.

Our review identified three conditions that existed during the development of the IRDMCM System: 1) key baseline requirements were not sufficiently detailed; 2) all essential requirements were not included in the requirements baseline in July 2010; and 3) the IRDMCM System did not successfully pass the UAT.

#### **Key baseline requirements were not sufficiently detailed**

Our review identified that 173 of approximately 4,010 approved baseline requirements in the Business System Requirements Report did not contain descriptions specifying required functionality for the IRDMCM System. Based on our review of these 173 baseline requirements, we determined that they involved capabilities that are critical to protect and accurately process tax returns and make proper adjustments to tax accounts. For example, the requirements affected tax calculations, system interfaces, encryption, batch processing, and tax notices to taxpayers. The following examples detail two critical baseline functional requirements for the IRDMCM System that did not contain sufficient descriptions:

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<sup>5</sup> IRS IT organization's Requirements Handbook, Section 5.1 (Mar. 2007).



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## *The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

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- Payer Agent – The Payer Agent file is a compilation of payer information return documents that have been verified as erroneously filed or processed. During a tax examiner’s review of an underreporter case, the case analysis screen includes a Payer Agent Indicator that alerts the tax examiner that the Payer Agent file contains data for the information return in question. The data presented include the payer’s name, the type of document, and a synopsis of the reporting problem. If the tax examiner’s review of the data does not resolve the issue of underreported income, the tax examiner will continue normal processing of the case.
- Compute Assessment – The Compute Assessment module is a significant component of the IRDMCM System. The module contains a form that allows the tax examiner to view the computed assessment and make modifications to the taxpayer’s tax liability. For instance, the tax examiner can change the transaction codes and reason codes. These changes are validated by the system using a set of defined business rules that are available as part of the Compute Assessment Validation process.

While this problem did not exist for the majority of the requirements for the IRDMCM System, the requirements for which the problem did exist are essential to the overall system solution. Further, without descriptions that were sufficiently understood and agreed upon, the IRDMCM System was not properly designed, developed, coded, tested, or deployed for customer use.

During our interviews with the system developers and SAT testers, they stated that: a) the requirements should have been more detailed; b) the developers sometimes proceeded with coding based on assumptions whenever requirements were not adequate; and c) the SB/SE Division business processes continued to be established and requirements continued to change during the SAT. Finally, IRS officials advised us that when the requirements were entered into the Requisite Pro automated tool, some of the descriptions were inadvertently lost.

### **All essential requirements were not included in the requirements baseline in July 2010**

The requirements baseline established for the IRDMCM System in July 2010 did not include four essential IRDMCM System requirements concerning interest provisions, Power of Attorney, batch processing, and expanding the case history screen. These requirements were added to the IRDMCM System using approved change requests. The IRDMCM Team advised us that they became aware of the interest provision in August 2013 when they received an approved change request. They stated that the other three changes were clarifications to earlier requirements. The following describes two of these four essential requirements:

- Two percent interest penalty assessment – Internal Revenue Code Section 6621(c) imposes a 2 percent interest penalty assessment on large corporations if they underpay their taxes by more than \$100,000. Errors made in applying the 2 percent penalty assessment against large corporations could result in millions of dollars being wrongly assessed or abated by the IRS. The IRS advised us that this requirement was to identify



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## *The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

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cases subject to the additional 2 percent penalty, and it was added to the IRDMCM System after the IRS made an internal decision that the Integrated Data Retrieval System would no longer perform this calculation and assessment.

- **Priority Batches** – This requirement was essential because the majority of IRS tax processing is performed using batch processing. A batch is a collection of tax returns, correspondence, or cases that have been grouped together for processing. IRS processes included a received date restriction that prevented IRS users from creating priority batches of cases. This requirement removed that restriction and allowed IRS users to create priority batches of cases within the IRDMCM System. The IRS advised that this requirement was a clarification of earlier requirements.

### **The IRDMCM System did not successfully pass the UAT**

The UAT is conducted by IRS business owners to ensure that systems, as delivered, satisfy stated business requirements. During the UAT, the SB/SE Division staff learned that the IRDMCM System could not process the business underreporter cases from beginning to end without generating problem tickets, including tickets involving numerous interface issues and clarifying system requirements. For example, in November 2013, the IRDMCM Team advised the IRDM Executive Steering Committee that the majority of UAT-generated problem tickets, 95 of 191 (or 50 percent), were to clarify requirements and business rules for the IRDMCM System. After a year of the UAT, IRS officials acknowledged that the IRDMCM System could not effectively process the business cases containing underreported income and could not be deployed into the IRS production environment.

### **The IRS has experienced adverse effects due to the unsuccessful deployment of the IRDMCM System**

IRS officials advised us that due to budget constraints and the difficulties SB/SE Division users encountered during a year of UAT, the IRS decided to “strategically pause” development of the IRDMCM System effective at the end of January 2014. IRS officials decided they would focus on building a case management capability using Entellitrak<sup>®</sup> software. We identified the following three major consequences of insufficient requirements and failed UAT for the IRDMCM System.

### **The IRS spent millions of dollars on unsuccessful development for the IRDMCM System.**

The IRS does not currently have a plan in place or an estimated time frame for restarting the IRDMCM System. If the IRS does not complete development of the IRDMCM System or implement an alternative solution, it may not realize the full benefit from its IRDMCM System investment. We obtained IRDMCM System costs from IRS management for the period of development from Fiscal Years 2009 to 2013. During this time, the IRS spent \$8,620,851 on the development of the IRDMCM System. The \$8.6 million does not include contractor costs that benefited the overall IRDM Program and were not captured separately for each IRDM project.



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## *The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

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**Office of Audit Comment:** In their response to the report, IRS management did not agree that \$8.6 million spent on this project constitutes an inefficient use of resources (as we note in Appendix IV). Management stated that any future enterprise-wide case management solution implementation would benefit from the requirements that were identified during the IRDMCM Project, and they expect to reuse significant portions of the IRDMCM System programming code once the budget allows the IRS to address these needs. Notwithstanding management's assertion, they have not been able to demonstrate the likelihood or feasibility of this. The \$8.6 million was clearly intended for the development and deployment of the IRDMCM System, which has not been deployed as planned. As a result, the IRS has not yet realized expected benefits of an operational, automated IRDMCM System.

***There is no automated case management system to process and manage thousands of business taxpayer cases containing underreported income.***

The IRS does not have an effective and efficient case management system capable of processing thousands of identified IRDM business taxpayer cases containing underreported income. Tens of thousands of business cases with potentially underreported income were not processed when IRS officials decided to halt development of the IRDMCM System.

The IRS identified an inventory of 97,406 business taxpayer cases for TY 2011 with potential underreported income. IRS SB/SE Division staff advised that not all of these cases had to be processed. Instead, they analyzed the cases and selected 37,965 of those cases with the highest potential to generate additional tax assessments.

Of the TY 2011 cases, the IRS staff processed 22,767 of the 37,965 cases and reported additional tax assessments of \$83,696,052, or an average assessment of \$3,676. However, 14,945 of the high potential TY 2011 cases were not processed when IRS officials decided to halt IRDMCM System development. IRS officials advised that the statute of limitations has passed on examining and assessing taxes on these TY 2011 cases. Projecting the average over the 14,945 TY 2011 cases that were not processed indicates that the IRS could have increased the revenue assessed by potentially \$54.9 million if it had been able to implement the IRDMCM System as originally planned in November 2012.<sup>6</sup>

Figure 3 provides the status and results of IRS processing of selected IRDM TY 2011 cases.

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<sup>6</sup> Our contract statistician assumed that the 22,767 cases worked were a representative sample of the population of 37,965 cases; therefore, we are 95 percent confident that the true total assessment amount not obtained is between \$50,405,655 and \$59,475,963.



*The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

**Figure 3: IRS Processing of Identified IRDM Business Underreporter Cases as of August 8, 2014**

Category	TY 2011 Cases
Total Business Taxpayer Cases Identified With Potentially Underreported Income	97,406
Total Cases Selected for Review	37,965
Total Cases Completely Processed	22,767
Total Cases Still in Process	253
Additional Assessments From Completed Cases	\$83,696,052
Cases That Were Not Processed Because the System Was Not Deployed	14,945

Source: The IRS IRDMCM Team.<sup>7</sup>

**Next steps for a case management solution to support the IRDM Program are being reconsidered.**

IRDMCM System development has been shut down since March 2014. The IRS informed us that the IRDM projects currently in production would be managed under Operations and Maintenance status. IRS officials have advised us that Entellitrak has been selected as the commercial off-the-shelf solution for future case management capabilities that will support the IRDM Program.

During our review of the IRDMCM System, we learned that there are more than 200 case management applications in operation across the IRS enterprise. Twenty-three of these case management applications are based on nine installations of a single commercial off-the-shelf product called Entellitrak, owned by MicroPact. Regarding the Entellitrak product, we recently issued a report on case management development for the Taxpayer Advocate Service.<sup>8</sup> Our review of that development effort identified unresolved risks related to Entellitrak case management functionality for the Taxpayer Advocate Service Integrated System.

During our discussion with IRS officials about the planning process for a new enterprise case management solution, we asked how system specific and business process requirements are being considered. However, the IRS could not confirm that its selection of a commercial

<sup>7</sup> The number of cases and related assessment dollars were provided by the SB/SE Division and were not independently verified by the auditors.

<sup>8</sup> Treasury Inspector General for Tax Administration, Ref. No. 2014-20-071, *Information Technology: Improvements Are Needed to Successfully Plan and Deliver the New Taxpayer Advocate Service Integrated System* (Sept. 2014).



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## *The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

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off-the-shelf solution for enterprise case management would verify that the product could meet essential business needs including SB/SE Division case management requirements for the IRDM Program. Further, as of April 2014, IRS officials acknowledged three outstanding risks related to case management for the IRDM Program. First, IRDMCM System requirements were not yet complete. Second, the IRS has not fully evaluated Entellitrak as a possible case management solution for the IRDM Program. Finally, the IRS did not have a viable plan for implementing Entellitrak as a replacement for the IRDMCM System.

### **Several issues contributed to the IRS's inability to deploy the IRDMCM System**

Our review found several causes for the insufficient requirements and the unsuccessful UAT for the IRDMCM System.

#### **An IT organization business analyst was not assigned to interpret and validate system requirements.**

The IRDMCM Team explained that there were no IT organization business analysts assigned to assist in identifying and interpreting IRDMCM System business requirements. The IRDMCM Team advised that the need for business analysts was elevated to the Associate Chief Information Officer, Applications Development. Unfortunately, the Applications Development organization was not given hiring authority for these positions.

#### **IRS IT organization policy did not stipulate the need for business process modeling techniques to specify well-defined requirements until February 2013.**

Business process modeling is a software development technique typically used to develop business and information requirements. The development of requirements based on the contents of the business model (process, organization, location, and data models) allows for a comprehensive view of requirements as a whole to ensure that all requirements are interrelated without being contradictory or redundant. The objective of business process modeling is to produce fully defined future state processes and associated requirements that will be key inputs to the business rules, organization, and location modeling activities. The business process model, when complete, provides a holistic representation of the business requirements that will be used for information system design, build, and implementation.

The IRDMCM Team explained that during Release 1, they did not develop formal business process models. The IRDMCM Team did not use business process modeling techniques for specifying the initial requirements in July 2010 because modeling was not required at that time, although it was an industry best practice. After the independent SAT was completed in January 2013, the IRS contracted with the MITRE Corporation to perform an independent review of the IRS IT organization development processes that had been followed for the IRDMCM System. One of the action items from the review stated that the existing requirements process being followed could be improved by employing business process modeling. The IRDMCM Team used business process modeling to develop requirements for IRDMCM Release 1.5.



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## *The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

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The Requirements Handbook, Section 5.5.2.2, dated March 2007, states that the use of models to provide the detail needed to explicitly state the requirements are recommended, where appropriate.

As a leader among its peers, the IRDMCM Team wrote their Requirements Management Plan, Section 4.1.2.2, dated July 2010, to state that business modeling techniques will be used to support requirements analysis and specification. The section further states that business and technical models are required during the system development Domain Architecture (Milestone 2) and Preliminary Design (Milestone 3) phases and can be used to decompose requirements.

Finally, Internal Revenue Manual (IRM) 2.110.1.1.4, *Requirements Engineering, Requirements Engineering Directive*, dated February 2013, outlined IRS IT organizational directives and mandates to analyze requirements, develop models, *e.g.*, business process, data, interface, system, and perform verification activities, *e.g.*, peer reviews, for establishing well-defined requirements. Prior to issuance of this mandate, IRS IT organization policies and procedures did not mandate that business process modeling be used when developing system requirements.

**Management Action:** In 2013, the IRDMCM Team began using business process models to specify the system requirements for Release 1.5.

### **Three key IRDMCM System interfaces were minimally tested during the SAT.**

The SAT is conducted by independent testers to verify that IRS systems, as delivered, satisfy defined business requirements. From September 2, 2011, through January 10, 2013, the IRS IT organization Enterprise Systems Testing Office performed SAT testing for the IRDMCM System. During the SAT, independent testers wrote problem tickets to document issues in testing IRDMCM System interfaces. Similar concerns were identified with IRDMCM System interfaces during the UAT. In November 2013, IRDM Executive Steering Committee executives were advised that there were repeated IRDMCM System interface testing concerns. Incomplete SAT interface testing increases the likelihood that systemic errors will not be identified and that the system will not satisfy its intended business needs.

The SAT Chief advised us that because the SAT test environment is not fully integrated, three IRDMCM System interfaces were not fully tested during the SAT and these interfaces continued to create problems during the UAT. The interfaces that were not fully tested included the downloading and uploading of interest calculations, which are critical to the correct determination of tax liability. In addition, during the UAT, the SB/SE Division staff used a tool to validate the interest calculations; however, this tool was not available to SAT testers. The IRS stated that the tool has licensing requirements and typically involves a six-month learning curve to master simple tax calculations. The SAT Chief explained three constraints that existed during SAT testing for the IRDMCM System:

- Enterprise System Testing Office's priority during IRDMCM System testing was to test the system's core functionality before testing its interfaces.



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## *The Information Reporting and Document Matching Case Management System Could Not Be Deployed*

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- The IRS did not have a fully integrated test environment containing all the tax modules that are needed to properly test system interfaces.
- Mid-way through Calendar Year 2012, the Enterprise System Testing Office moved the SAT environment forward to test data formats for the upcoming filing season; accordingly, the SAT environment was no longer available to test earlier data formats like those processed through a compliance system like the IRDMCM System.

### ***Recommendations***

The Chief Technology Officer should ensure that:

**Recommendation 1:** The requirements management processes for future IRDMCM System development activity are performed in accordance with established guidelines, to include using business process modeling to specify well-defined requirements.

**Management's Response:** The IRS agreed with this recommendation. The various IT organizations leading and supporting IRDM Program management activities will continue to follow applicable Enterprise Life Cycle methodology, milestones, and where appropriate, will use business process modeling to specify requirements. The IRS stated it is currently using the process.

**Recommendation 2:** The IRDMCM System requirements are completely identified.

**Management's Response:** The IRS agreed with this recommendation, but added a qualification stating it would continue to follow established Enterprise Life Cycle paths for IRDMCM System and would identify requirements at the appropriate level for the various milestones of the Enterprise Life Cycle chosen for the IRDMCM System, as future budgets allow.

**Office of Audit Comment:** The IRS agreed with this recommendation, but did not identify an implementation date for completely identifying IRDM case management requirements. We remain concerned that the IRS has selected Entellitrak as its IRDMCM System solution before fully considering IRDM case management requirements.

**Recommendation 3:** Case management capabilities of Entellitrak, or its replacement solution, are thoroughly assessed to ensure that it satisfies the IRDMCM System requirements and meets stated business needs. IRS IT organization officials should also act promptly to implement an IRDM case management application to avoid losing significant tax assessment revenue in the future.

**Management's Response:** The IRS partially agreed with this recommendation. The IRS stated that it is currently engaging the commercial off-the-shelf solution vendor to conduct product technical demonstrations to determine how various project/program business needs and requirements can best be met. The IRS is currently under significant budget constraints and is expecting additional budget cuts in Fiscal Year 2015.



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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Therefore, the funding of the IRDMCM System is subject to overall budgets and prioritization of essential taxpayer operations.



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall audit objective was to determine how system development risks for the IRDMCM Project are being mitigated and whether established business and information technology requirements to improve compliance and reduce the Tax Gap<sup>1</sup> are adequately addressed. To accomplish this objective, we:

- I. Determined whether requirements management and change management guidelines were followed in developing and managing changes to the IRDMCM System requirements.
  - A. Reviewed the requirements and configuration management plans.
  - B. Reviewed the IRM guidelines for requirements and configuration management.
  - C. Interviewed the IRDMCM Team to determine whether the guidelines were followed in developing the requirements.
  - D. Determined whether the Requirement Traceability Verification Matrix was developed and used to trace requirements to test cases and the test results were recorded as required by the IRM guidelines.
  - E. Reviewed the approved change requests associated with the new requirements developed and added via the IRDMCM System Release 1.5.
  - F. Reviewed the IRDMCM System requirements to determine whether they were prepared in accordance with the guidelines.
  - G. Determined the number of TY 2011 underreporter cases identified and their processing status, including the number of cases that were not processed, and those that resulted in additional tax assessments.
    1. Determined that the IRS identified an inventory of 97,406 TY 2011 business taxpayer cases with potential underreported income.
    2. Determined that the IRS selected for processing 37,965 of the 97,406 TY 2011 cases identified. The IRS selected those cases containing the highest potential to generate additional tax assessments.<sup>2</sup>

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<sup>1</sup> See Appendix V for a glossary of terms.

<sup>2</sup> We discussed the IRS case selection methodology with a contract statistician. The IRS attempted to prioritize the review of cases so that those cases with the greatest likelihood of yielding additional assessments were worked first. However, this was the first year that this prioritization methodology was used for this application, and the IRS was unable to provide any historical data from prior years as evidence to validate that this methodology actually worked.



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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3. Determined that the IRS staff completely processed 22,767 of the 37,965 selected cases.<sup>3</sup>
  4. Determined that the IRS did not process 14,945 of the 37,965 cases when IRS officials decided to halt development of the IRDMCM System.
- II. Determined whether the SAT of the IRDMCM System was performed in accordance with established IRS testing guidelines.
- A. Reviewed the SAT test guidance in the IRM.
  - B. Reviewed the IRDMCM System SAT Test Plan to ensure that the plan was developed in accordance with testing guidelines.
  - C. Reviewed the Requirement Traceability Verification Matrix to ensure that test cases were completed for approved requirements, test cases were executed, and test results were recorded.
  - D. Interviewed the SAT Chief to determine whether the guidelines were followed in testing the IRDMCM System.
  - E. Reviewed the IRDMCM System Release 1 End of Test Status Report and the End of Test Completion Report to ensure that key controls such as audit trails were not failed, waived, or deferred to future releases.

**Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRM and related IRS guidelines and the processes followed in the development of the information technology project. We evaluated these controls by conducting interviews with management and staff and reviewing and analyzing IRDM Program documentation such as the Requirements Management Plan, the SAT Test Plan, and other documents that provided evidence of whether IRS system development processes were adequately followed.

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<sup>3</sup> The contract statistician assumed that the 22,767 cases worked were a representative sample of the population of 37,965 cases.



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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**Appendix II**

*Major Contributors to This Report*

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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Deputy Commissioner for Services and Enforcement SE  
Commissioner, Small Business/Self-Employed Division SE:S  
Deputy Chief Information Officer for Operations OS:CTO  
Deputy Chief Information Officer for Strategy and Modernization OS:CTO  
Associate Chief Information Officer, Applications Development OS:CTO:AD  
Associate Chief Information Officer, Enterprise Services OS:CTO:ES  
Director, Campus Compliance Services SE:S:CCS  
Director, Communications, Outreach, Systems, and Solutions SE:S:COSS  
Director, Compliance OS:CTO:C  
Director, Enterprise Systems Testing OS:CTO:ES:EST  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Director, Business Planning and Risk Management OS:CTO:SP:RM  
    Director, Program Management OS:CTO:AD:PM



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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## Appendix IV

### *Outcome Measures*

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

#### **Type and Value of Outcome Measure:**

- Inefficient Use of Resources – Potential; \$8.6 million (see page 8).

#### **Methodology Used to Measure the Reported Benefit:**

The IRDMCM System is an application designed to allow IRS SB/SE Division<sup>1</sup> users to manage and work identified business taxpayer cases that have discrepancies in the income reported which could potentially affect taxpayers' tax liabilities. The IRDMCM System Release 1 was designed to manage the cases selected while they are being worked by IRS tax examiners. However, in January 2014, IRS officials decided to halt development of the IRDMCM System due to Fiscal Year 2014 budget constraints and the problems experienced in more than a year of the UAT. IRS officials decided they would focus on building a case management capability using Entellitrak<sup>®</sup>.

Currently, there is neither a plan in place nor a time period for restarting the IRDMCM System. Moreover, the IRS does not have a viable plan for implementing an alternative commercial off-the-shelf solution for the IRDMCM System. If the IRS does not complete the development of the IRDMCM System or implement an alternative solution, it may not realize the full benefit from its investment. During Fiscal Years 2009 to 2013, the IRS spent \$8,620,851 on the development of the IRDMCM System. We obtained the IRDMCM System costs from IRS management for this period. The \$8.6 million does not include contractor costs that benefited the overall IRDM Program.

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<sup>1</sup> See Appendix V for a glossary of terms.



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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**Type and Value of Outcome Measure:**

- Increased Revenue – Potential; \$54.9 million<sup>2</sup> (see page 8).

**Methodology Used to Measure the Reported Benefit:**

The IRS does not have an effective and efficient case management system capable of processing thousands of identified IRDM business taxpayer cases containing underreported income. Tens of thousands of business cases with potentially underreported income were not processed when IRS officials decided to halt development of the IRDMCM System.

The IRS identified an inventory of 97,406 business taxpayer cases for TY 2011 with potential underreported income. The IRS SB/SE Division staff advised that not all of these cases had to be processed. Instead, they analyzed the 97,406 cases and selected 37,965 of those cases with the highest potential to generate additional tax assessments.<sup>3</sup> Of the selected TY 2011 cases, the IRS staff completely processed 22,767 cases and reported additional tax assessments of \$83,696,052. However, 14,945 of the high potential TY 2011 cases were not processed when IRS officials decided to halt IRDMCM System development. IRS officials advised that the statute of limitations has passed on examining and assessing taxes on these cases.

The average assessment of additional taxes for the TY 2011 cases that were completely processed is \$3,676 ( $\$83,696,052/22,767$ ). Projecting that average over the 14,945 TY 2011 cases that were not processed suggests the IRS could have increased the revenue assessed by potentially \$54,937,820 ( $\$3,676 \times 14,945$ ) if it had been able to implement the IRDMCM System as originally planned in November 2012.

Figure 1 provides details of our estimate of the lost tax assessments associated with the unprocessed TY 2011 business cases containing potential underreported income.

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<sup>2</sup> The contract statistician assumed that the 22,767 worked cases are a representative sample of the population of 37,965 cases; therefore, we are 95 percent confident that the true total assessment amount not obtained is between \$50,405,655 and \$59,475,963.

<sup>3</sup> The IRS attempted to prioritize the review of cases so that those cases with the greatest likelihood of yielding additional assessments were worked first. However, this was the first year that this prioritization methodology was used for this application, and the IRS was unable to provide any historical data from prior years as evidence to validate that this methodology in fact worked.



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

**Figure 1: Estimate of Tax Assessments Lost  
From Unprocessed TY 2011 Business Underreporter Cases**

Tax Return Category	Estimated Potential Lost Tax Assessments		
	Lower Limit	Point Estimate	Upper Limit
Unprocessed TY 2011 Business Underreporter Cases	\$50,405,655	\$54,940,809	\$59,475,963

*Source: Treasury Inspector General for Tax Administration contract statistician.*



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

**Appendix V**

*Glossary of Terms*

<b>Term</b>	<b>Definition</b>
<b>Applications Development</b>	The IRS organization responsible for building, testing, delivering, and maintaining integrated information applications systems, <i>i.e.</i> , software solutions to support IRS modernized systems and the production environment.
<b>Assessment</b>	Assessment is a change to the amount of tax on the taxpayer's account.
<b>Automated Underreporter System</b>	An inventory control system used in the Individual Master File Underreporter Program.
<b>Business Analyst</b>	The analyst who leads and coordinates the development of business architecture and design models (process, organization, location, and business rules) from which some requirements can be deduced.
<b>Business Master File</b>	The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.
<b>Business System Requirements Report</b>	Within the Enterprise Life Cycle, the Business System Requirements Report documents a feasible, quantified, verifiable set of requirements that define and bind the business system or subsystem(s) being developed or enhanced by the project. These requirements form the basis for business system design, development, integration, and deployment.
<b>Commercial Off-the-Shelf</b>	Pre-packaged, vendor-supplied software that will be used with little or no modification to provide all or part of the solution.
<b>Configuration Control Board</b>	A group of technical experts and managers with the assigned authority and responsibility to make decisions on the configuration of a baselined product.
<b>Default</b>	If the response from the taxpayer does not resolve the issue, there is no response, or if the Post Office returns the notice to the taxpayer as undeliverable, the Statutory Notice of Deficiency defaults. The IRS completes the assessment and closes the case.



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

<b>Term</b>	<b>Definition</b>
<b>Domain Architecture Phase (Milestone 2)</b>	The Domain Architecture Phase includes the portion of the life cycle between Milestones 1 and 2, and includes development of a business system concept, business system requirements, and business system architecture.
<b>Encryption</b>	The process of making data unreadable by other humans or computers for the purpose of preventing others from gaining access to its contents.
<b>Entellitrak<sup>®</sup></b>	A commercial off-the-shelf software created by MicroPact consisting of pre-configured applications that reflect best practices, business rules, and terminology for case management solutions.
<b>Enterprise Life Cycle</b>	The approach used by the IRS to manage and effect business change. The Enterprise Life Cycle provides the direction, processes, tools, and assets for accomplishing business change in a repeatable and reliable manner.
<b>Executive Steering Committee</b>	A committee that oversees investments, including validating major investment business requirements and ensuring that enabling technologies are defined, developed, and implemented.
<b>Filing Season</b>	The period from January 1 through April 15 when most individual income tax returns are filed.
<b>Functional Requirements</b>	Requirements that involve the users' interaction with the system. Functional requirements specify what the information system is expected to do – its functionality – which may include existing system functionality that the new or enhanced system will retain.
<b>Infrastructure</b>	The fundamental structure of a system or organization. The basic, fundamental architecture of any system (electronic, mechanical, social, political, <i>etc.</i> ) determines how it functions and how flexible it is to meet future requirements.
<b>Integrated Data Retrieval System</b>	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
<b>Interface</b>	Data exchange between one or more systems.
<b>Internal Revenue Code</b>	Federal statutes pertaining to taxes that are imposed by the Federal Government are compiled into Title 26 of the United States Code. This title is commonly referred to as the "Internal Revenue Code" or, often by tax practitioners, as the "Code."



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

<b>Term</b>	<b>Definition</b>
<b>MITRE Corporation</b>	The MITRE Corporation was hired by the IRS as a Federally Funded Research and Development Center to assist with the IRS's systems modernization effort.
<b>Power of Attorney</b>	A form authorizing a representative to perform certain acts on the taxpayer's behalf.
<b>Preliminary Design Phase (Milestone 3)</b>	One of the eight phases in the System Life Cycle Layer of the Enterprise Life Cycle Framework. The Preliminary Design Phase includes the portion of the life cycle between Milestones 2 and 3, and includes development of application requirements and logical design of the system.
<b>Rational Requisite Pro (ReqPro)</b>	A software tool used to track system requirements.
<b>Reason Code</b>	A taxpayer is issued a notice of adjustment when the IRS takes an action on the taxpayer's tax account. The notice includes an explanation of the action. The reason code determines the type of notice generated to the taxpayer and the statement that will be printed to explain the tax adjustment.
<b>Requirements Baseline</b>	A requirements baseline is a specification or product that has been formally reviewed and approved and serves as a basis for further development. It is changed only through formal change procedures.
<b>Small Business/ Self-Employed Division</b>	The SB/SE Division has approximately 22,000 employees who serve 54 million taxpayers. The SB/SE Division serves roughly one-third of the overall taxpayer base. Its mission is to help small business and self-employed taxpayers understand and meet their tax obligations, while applying the tax law with integrity and fairness to all.
<b>Statutory Notice of Deficiency</b>	Legal notification sent to taxpayers by certified mail, which explains the taxpayer's right to file a petition with the Tax Court and the IRS's right to change tax without taxpayer consent if no timely petition is filed.
<b>Statutory Suspense Period</b>	The time period, either 90 days or 150 days, that a taxpayer has to file a petition with the Tax Court after receiving a Statutory Notice of Deficiency.
<b>System Acceptability Testing</b>	A system test conducted to verify that the system satisfies application requirements.



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

<b>Term</b>	<b>Definition</b>
<b>Tax Examiner</b>	Employees in field offices who conduct examinations through correspondence. Among other duties, a tax examiner processes tax returns, establishes and edits tax account records, and determines proper tax liabilities.
<b>Tax Gap</b>	The Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
<b>Tax Module</b>	Part of a taxpayer's account which reflects tax data for one tax class (Master File Tax) and one tax period.
<b>Taxpayer Information File</b>	A file containing entity and tax data processed at a given campus for all Taxpayer Identification Numbers.
<b>Transaction Code</b>	A three-digit code used to identify actions being taken to a taxpayer's account.
<b>User Acceptance Testing</b>	Testing conducted to validate that the system works as designed and implemented and satisfies the business requirements of the system.
<b>Waterfall</b>	Distinguished by development of a solution with frequent reviews and formal approvals required at multiple points in the life cycle prior to additional work being performed.



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

**Appendix VI**

*Management's Response to the Draft Report*



CHIEF TECHNOLOGY OFFICER

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

September 19, 2014

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Terence V. Milholland  
Chief Technology Officer

SUBJECT:

Draft Audit Report – Information Reporting and Document  
Matching Case Management System Could Not be Deployed  
(Audit #201420012)(e-trak # 2014-58587)

Thank you for the opportunity to review and respond to the audit report.

Since 2009, Congress has enacted a number of provisions in the Internal Revenue Code (IRC) to enhance business tax filing accuracy and compliance by automating the matching of data reported on information returns to the data submitted on filed business tax returns. The Information Reporting and Document Matching (IRDM) Program was established to ensure IRS (1) provided information return filers with the proper support to file their returns and (2) effectively utilized the new information returns in taxpayer assistance and compliance programs. To this end, IRS completed four significant systems implementation's; Data Assimilation, Data Correlation, Business Master File Analytics, and Case Inventory Selection and Analytics projects. These deployed projects are currently in production and providing valuable capability to the agency, identifying potential under-reporting by businesses.

Another piece of the IRDM development was the case management system (IRDMCM). IRDMCM was designed to provide the IRS with an automated system to manage the significant number of cases being identified. In January 2014, IRS, through our established governance process, decided to strategically pause development of the IRDMCM system due to budget constraints and the inability to certify that the ongoing case management functionality deployment would not have an adverse impact on taxpayers.

Since then, IRS has determined that future case management systems will be developed utilizing software called entellitrak®. We have identified entellitrak® as our enterprise standard to allow us to more efficiently and effectively provide IT systems across the organization. As part of our re-planning of IRDMCM we intend to use entellitrak®. Once our budget allocations improve, we will continue the re-planning



*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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effort. Meanwhile, we will continue to process cases manually and will integrate IRDM data into existing compliance workstreams.

The IRS disagrees with the Outcome Measure of inefficient use of Resources of \$8.6 million. Any future enterprise-wide case management COTS solution implementation will benefit from the requirements that were identified & refined by the IRDMCM project. Most of the IRDMCM system programming code was written in JAVA programming language, we expect to leverage and re-use significant portions of that code base as part of any IRDMCM COTS based solution, once the budget allows IRS to address these needs.

The IRS agrees with the Outcome Measure of potential increased revenue of \$55.1 million, however due to budgetary constraints and the lack of an automated case management system, we can only process cases with the highest potential to generate additional tax assessments. Until a systemic case management system is available, we will continue to process cases manually at maximum levels and will integrate IRDM data into existing compliance workstreams. Once our budget allows and a certified system to automate case management can be deployed, we will be able to systemically process larger volumes of cases.

We value your continued support and the assistance your organization provides. If you have any questions, please contact me at (240) 613-9373, or a member of your staff may contact Lisa Starr, Senior Manager of Program Oversight, at (240) 613-4219.

Attachment



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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Discussion Draft Report – TIGTA Audit #201420012 Information Reporting and Document Matching Case Management System Could Not Be Deployed

**RECOMMENDATION #1:** The CTO should ensure that the requirements management processes for future IRDMCM activity are performed in accordance with established guidelines, to include using Business Process Modeling to specify well-defined requirements.

**CORRECTIVE ACTION #1:** The IRS agrees with this recommendation. The various IT organizations leading & supporting IRDM Program Management activities will continue to follow applicable Enterprise Lifecycle (ELC) methodology, milestones and, where appropriate, will use Business Process Modeling to specify requirements.

**IMPLEMENTATION DATE:** N/A – currently using process

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Enterprise Services & Associate Chief Information Officer, Applications Development

**CORRECTIVE ACTION MONITORING PLAN:** We enter accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES) and monitor them on a monthly basis until completion.

**RECOMMENDATION #2:** The CTO should ensure that IRDMCM requirements are completely identified.

**CORRECTIVE ACTION #2:** The IRS agrees with this recommendation with the following clarification: we will continue to follow established Enterprise Life Cycle path(s) for IRDMCM and will identify requirements at the appropriate level for the various milestones of the ELC chosen for IRDMCM, as future budgets allow.

**IMPLEMENTATION DATE:** NA – When IRS budget allows IRDMCM to be restarted, the proper requirements methods will be applied.

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Applications Development & Associate Chief Information Officer, Enterprise Services

**CORRECTIVE ACTION MONITORING PLAN:** We enter accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES) and monitor them on a monthly basis until completion.

**RECOMMENDATION #3:** Case management capabilities of Entellitrak, or its replacement solution, are thoroughly assessed to ensure that it satisfies the IRDMCM System requirements and meets stated business needs. IRS IT officials should also act promptly to implement an IRDM case management application to avoid losing significant tax assessment revenue in the future.



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*The Information Reporting and Document Matching  
Case Management System Could Not Be Deployed*

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Discussion Draft Report – TIGTA Audit #201420012 Information Reporting and Document Matching Case Management System Could Not Be Deployed

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**CORRECTIVE ACTION #3:** The IRS partially agrees with this recommendation. We are currently engaging the COTS solution vendor to conduct product technical demonstrations to determine how various project/program business needs and requirements can best be met. The IRS is currently under significant budget constraints and the Service is expecting additional budget cuts in FY15. Therefore, the funding of the IRDMCM is subject to overall budgets and prioritization of essential taxpaying operations.

**IMPLEMENTATION DATE:** October 25, 2015

**RESPONSIBLE OFFICIAL:** Associate Chief Information Officer, Enterprise Services

**CORRECTIVE ACTION MONITORING PLAN:** We enter accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES) and monitor them on a monthly basis until completion.