TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Unmet Needs for Information Technology
Support Result in Inefficiencies and
Higher Tax Administration Costs

July 3, 2019

Reference Number: 2019-40-043

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UNMET NEEDS FOR INFORMATION TECHNOLOGY SUPPORT RESULT IN INEFFICIENCIES AND HIGHER TAX ADMINISTRATION COSTS

Highlights

Final Report issued on July 3, 2019

Highlights of Reference Number: 2019-40-043 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The Information Technology (IT) organization provides and maintains the information technology products and services needed by the IRS to deliver tax administration. This includes providing information technology services to maintain IRS operations, implement legislation, maintain security over taxpayer data, and ensure the timely delivery of the individual tax return filing season.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate the effectiveness of IRS efforts to prioritize computer programming requests to support effective tax administration.

WHAT TIGTA FOUND

The allocation of information technology resources is primarily set by the IT organization with minimal involvement from the business operating divisions. The operating divisions are concerned that their lack of participation limits their input when establishing agency priorities for determining how to allocate IT organization resources.

In addition, due to insufficient resources, projects are not started that would reduce taxpayer burden, protect revenue, and save significant IRS resources. For example, there were 82 requests denied in Calendar Year 2016. IRS executives informed us that this had negative impacts on tax administration, such as the potential for billions of dollars in lost revenue, taxpayers not receiving proper credits, and the IRS having to pay a large amount of interest due to withholding that was not credited to taxpayer accounts.

Finally, we found that the system used to track information technology requests does not accurately reflect the status and actions taken for some requests. For example, not all denied requests are captured, and, for the ones captured, not all included a description as to the reason denied. IT organization resources and contractor costs were not always captured as required.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Information Officer coordinate annual meetings with business operating division executives and IRS chief officers to discuss priorities in allocating IT organization resources. TIGTA also recommended that all key work requests are submitted through the IT organization's tracking system and that a process is established to track estimated and actual resources needed to complete a work request by system or application. Finally, TIGTA recommended that internal guidelines be updated to ensure that the information documented in the work request tracking system accurately reflects the status of the request, the IRS system or application to which the request applies, and the reason for the denial of the request.

IRS management agreed with five of the seven recommendations. IRS management disagreed with the need to update internal guidelines to require users to identify the IRS system or application to which the work request applies. IRS management believes it already has procedures in place that require this.

IRS management also partially agreed to establish a process to track estimated and actual resources needed to complete a work request by system or application. The IRS will work with information technology suppliers to evaluate and assess the benefits versus the cost or burden of establishing such a process.

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 3, 2019

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM:　　　　　　　Michael E. McKenney
　　　　　　　　　　　Deputy Inspector General for Audit

SUBJECT:　　　　　Final Audit Report – Unmet Needs for Information Technology
　　　　　　　　　　　Support Result in Inefficiencies and Higher Tax Administration Costs
　　　　　　　　　　　(Audit # 201740040)

This report presents the results of our review to evaluate the effectiveness of Internal Revenue
Service efforts to prioritize computer programming requests to support effective tax
administration. This audit is included in the Fiscal Year 2019 Annual Audit Plan and addresses
the major management challenge of Tax Compliance Issues.

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

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 Russell P. Martin,
Assistant Inspector General for Audit (Returns Processing and Account Services).

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Appendices

Abbreviations

BOD	Business Operating Division
IRS	Internal Revenue Service
IT	Information Technology
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration
UWR	Unified Work Request
W&I	Wage and Investment
WRMS	Work Request Management System

Background

The Internal Revenue Service (IRS) Information Technology (IT) organization provides and maintains the information technology products and services needed by the IRS to deliver tax administration. The use of some IT organization resources is mandated by statute through the budget allocation process. For example, IT organization funds needed to implement the Health Coverage Tax Credit legislative mandate were included in the Fiscal Year[1] 2017 IT organization budget.[2] The remaining IT organization resources (hereafter referred to as discretionary resources) are used to support IRS business operating division (BOD)[3] requests for services as well as to support ongoing operation and maintenance of IRS systems.

Process for BODs to request information technology services

Each year in October, the IT organization issues a memorandum informing the BODs of the time frames for submitting requests for information technology services. For example, requests to support the filing season[4] generally must be submitted no later than January 31 of the year preceding the start of the filing season. For example, requests to support the 2018 Filing Season, which began in January 2018, were due January 31, 2017. Non–filing season requests, also referred to as midyear releases, must be submitted by July 31 of the year preceding the fiscal year in which the requested change is to be implemented. For example, requests submitted with an implementation date between mid-April and September 30, 2018, were generally due by July 31, 2017.[5] The annual memorandum also provides guidance for requesting information technology services after the deadline for submissions should this be necessary. Figure 1 provides a high-level overview of the process followed by BODs prior to formal submission of a request.

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[1] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

[2] The Health Coverage Tax Credit is a key legislative mandate by Congress with limited or no funds appropriated to support the implementation of the program.

[3] The IRS divisions responsible for administering the Internal Revenue Code.

[4] The period from January through mid-April when most individual income tax returns are filed.

[5] In January 2018, the IT organization issued revised submission dates for Fiscal Year 2019 requests. The revisions that were updated in January 2018, originally issued in October 2017, were modified to accommodate the increased demand for information technology services as a result of the Tax Cuts and Jobs Act of 2017, Pub. L. No, 115-97, 131 Stat. 2054.

**Figure 1: Overview of BOD Process to
Identify Information Technology Service Needs**

Process Steps	Description
BOD Identification of Information Technology Services	Each BOD identifies its need for information technology services. Once identified, the BODs create preliminary requests for services. The BODs use various processes to track their preliminary needs/requests. The preliminary requests generally include a justification for the request and describe the information technology requirements for the services requested. Preliminary requests are reviewed by BOD executives for approval to move forward to the precoordination process.
Precoordination – IT Organization and BOD Meet to Discuss Information Technology Service Preliminary Requests	The precoordination process involves a meeting with representatives from the IT organization and the requesting BOD to discuss the information technology services needed. The purposes of precoordination are to ensure that requested computer programming requirements are complete, to identify IRS systems affected by the request, and to obtain a preliminary assessment of the IT organization resources needed to complete the request. To prevent delays, groups within the IT organization require precoordination prior to the IT organization accepting the request in the Work Request Management System (WRMS). At the completion of the precoordination process, the BOD and the IT organization will reach a determination as to whether the request contains sufficient details for submission in the WRMS or whether the IT organization recommends an alternative approach.
Formal Submission of Information Technology Service Request	At the completion of the precoordination process, BOD management determines what requests they will formally submit to the IT organization for consideration.

Source: Treasury Inspector General for Tax Administration (TIGTA) review of the IRS Internal Revenue Manual and the work request process.

The IT organization uses the WRMS used to maintain, distribute, and track requests for information technology services

In controlling and tracking requests, the IT organization uses the WRMS to ensure that appropriate groups within the IT organization evaluate requests to estimate resource costs and hours as well as approve the demand for information technology services. While BODs use various methods to develop and track preliminary requests, all formal requests are submitted to the IT organization through the WRMS. The formal request generally includes evidence of the precoordination meeting, including agreement from the IT organization to accept the request for further consideration for information technology services. The request also includes the specific programming requirements. In addition, the BOD will document the priority of the request in the WRMS as "Critical," "High," "Normal," or "Low." The priority reflects the importance of

the requested services to the BOD. Once submitted, the BODs use the WRMS to monitor the acceptance and completion status of their request.

Our analysis of WRMS data shows that, during Calendar Year 2016, the IT organization received 2,533 requests for information technology services from the various BODs. Figure 2 provides the number of requests submitted during Calendar Year 2016 by BOD.

**Figure 2: Calendar Year Work Requests
Submitted by BODs**

Requesting BOD	Number of Requests
Information Technology[6]	931
Wage and Investment (W&I) Division	886
Small Business/Self-Employed (SB/SE) Division	278
Large Business and International Division	98
National Headquarters	86
Tax Exempt and Governmental Entities Division	66
Chief Financial Officer	50
Human Capital Office	31
Privacy, Governmental Liaison, and Disclosure	30
National Taxpayer Advocate Headquarters	25
Agency-Wide Shared Services	23
Chief Counsel	13
Office of Appeals	8
Criminal Investigation	7
Communications and Liaison	1
Total Requests Submitted	**2,533**

Source: TIGTA analysis of the WRMS.

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[6] IT organization requests generally reflect the inherent information technology activities needed to maintain IRS systems and applications, such as upgrading hardware. Requests are submitted to help ensure that the resources needed for these activities are included when assessing the demand for information technology resources.

Actions taken by the IT organization to evaluate formally submitted work requests

There are three basic types of work requests for information technology services:

- **Sustaining Infrastructure** – These requests maintain current IRS operating levels (*e.g.*, annual system maintenance) and replace outdated products and services. For example, these requests could relate to upgrades for virtual servers at Volunteer Income Tax Assistance sites. Sustaining Infrastructure requests are the most common requests submitted by the BODs. Of the 2,533 requests submitted for Calendar Year 2016, 1,766 (70 percent) were sustaining infrastructure requests.

- **Legislative** – These requests are for information technology services needed to support newly enacted tax legislation as well as new programming requirements needed to administer existing legislation (*e.g.*, Affordable Care Act[7] penalties). Of 2,533 requests submitted for Calendar Year 2016, 508 (20 percent) were legislative requests.

- **Enhancement** – These requests include changes to current production applications[8] to enhance performance or functionality, development of new internal applications, purchase of new and upgraded commercial off-the-shelf software products, and hardware upgrades not considered a Sustaining Infrastructure request. Of the 2,533 requests submitted for Calendar Year 2016, 259 (10 percent) were enhancement requests.

Once a request for information technology services has been formally submitted by a BOD, the IT organization will evaluate the request and make a final determination whether to deny the request or accept it for action. When considering Applications Development requests (*i.e.*, programs that support critical tax processing), the IT organization scores the requests using a set of standard criteria. The criteria includes, but are not limited to, whether the request is needed to deliver essential tax administration, implement legislation, or maintain security as well as whether it is necessary to maintain day-to-day operations. The IRS considers those requests meeting any of these criteria to be critical requests.

Once Applications Development requests are scored, the Unified Work Request (UWR) coordinator[9] sends the requests to the Applications Development Configuration Control Board. The Configuration Control Board reviews each request, including the assigned score, to decide which requests will move forward and which will be denied. Requests identified for additional review are returned to the UWR coordinator, who sends the request to the applicable group(s) for

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[7] Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

[8] Examples of production applications include the National Account Profile, the Modernized E-File system, and the Individual Return Transaction File.

[9] A UWR coordinator is an individual that acts as the facilitator between the BOD and IT organization group affected by the work request.

further evaluation. An Application Development group[10] assesses the impact the request has on the information technology systems the group is responsible for maintaining. The group also estimates the resources needed, including any contracting costs, to provide the information technology services requested.

Once the Application Development group completes its assessment, the request is returned to the UWR coordinator along with a recommendation as to whether the request should be accepted or denied. The UWR coordinator updates the WRMS with the decision to accept or deny the request. When requests are denied at any point during the above process, notification is sent to the requesting BOD. If the BOD disagrees with the decision, it can choose to escalate the denial, whereby a discussion takes place between executives from the BOD and the Application Development group.

The IT organization is responsible for updating the status of information technology service requests through evaluation and approval in the WRMS

As requests move through approval process, the status is updated in the WRMS. Statuses include:

- **Pending** – The request is pending review.

- **Accepted** – The IT organization is initiating the review and approval process, which will result in the approval or the denial of the request.

- **Denied** – The IT organization denied the request and all escalation processes were exhausted.

- **Work Scheduled** – The IT organization approved the request, but the work has not yet started.

- **Work in Progress** – The IT organization is working on the request.

- **Cancelled** – The requesting BOD determined, after the request was accepted, that it was no longer necessary. For example, after the BOD submitted a request, it was later determined that the requested service was completed in another work request, causing the request to no longer be necessary.

- **Withdrawn** – The requesting BOD withdrew the request for consideration by the IT organization prior to its acceptance in the WRMS.

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[10] Application Development groups are the IT organization's functional groups responsible for delivering the requested services. The IT organization has nine Application Development groups – Compliance, Core Applications, Corporate Data, Customer Service, Data Delivery Services, Infrastructure Compliance, Internal Management, Submission Processing, and Technical Integration Organization.

In Calendar Year 2016, W&I Division and SB/SE Division information technology requests accounted for 1,164 (46 percent) of the 2,533 information technology service requests submitted. Our analysis of the WRMS found that 972 (83.5 percent) of the 1,164 work requests submitted by the W&I and SB/SE Divisions during Calendar Year 2016 were accepted as of December 31, 2016.[11] Figure 3 provides a breakdown of the work requests submitted by the W&I and SB/SE Divisions during Calendar Year 2016 as of December 31, 2016.

**Figure 3: Status of Work Requests Submitted
by the W&I and SB/SE Divisions in Calendar Year 2016**

Request Status	W&I		SB/SE		Combined	
	Number of Requests	Percentage	Number of Requests	Percentage	Number of Requests	Percentage
Accepted	731	82.5%	241	86.7%	972	83.5%
Cancelled	86	9.7%	12	4.3%	98	8.4%
Denied	68	7.7%	23	8.3%	91[12]	7.8%
Withdrawn	1	0.1%	2	0.7%	3	0.3%
TOTAL	886	100.0%	278	100.0%	1,164	100.0%

Source: TIGTA analysis of Calendar Year 2016 work requests from the IRS WRMS.

On average, requests for information technology services submitted during Calendar Year 2016 took 112 days from submission of the request in the WRMS to a final determination (*e.g.*, acceptance or denial) by the IT organization. The time from submission to denial of a request ranged from four to 370 days. Approved requests took from zero to 512 days from submission to approval.[13]

The IRS is piloting a new information technology development process to increase efficiency on delivering information technology services

The IT organization began piloting the use of the Agile Development Process to develop and implement expanded IRS online services. Agile software development is an approach to application development under which requirements and solutions evolve through a collaborative effort of cross-functional teams and their customers. As part of the Agile process, the requirements or needs that a new system or application must provide at its end state are identified

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[11] Totals do not include those work requests submitted and denied as part of the precoordination process as these requests are not input and tracked via the WRMS.

[12] Of the 91 denied requests, nine requests were escalated, resulting in eight requests being accepted and one request being cancelled.

[13] The range of days from submission to approval does not include one outlier request that took over two years to be approved.

up front. However, specific requirements to ultimately achieve the end state are delivered in increments within a shorter time frame. At the completion of each incremental delivery (referred to as a sprint), all of the stakeholders of the project reevaluate and prioritize the remaining requirements to determine which should be delivered next. This incremental delivery is intended to create a more efficient and lean development process by enabling entities to spend less time planning and developing requirements and more time developing systems.

The Chief Information Officer indicated that IT management is in the process of integrating the Agile concept into its system and application development processes. However, doing so requires a change in many of the current processes, such as governance and the approval and tracking of work. The Chief Information Officer also noted that not all development activities are suited for the Agile process. For example, IT management has not yet determined whether this concept is suitable to the changes needed to prepare for the annual filing season.

This review was performed at the IRS's Office of Information Technology headquarters in Lanham, Maryland; the W&I Division headquarters in Atlanta, Georgia; the SB/SE Division headquarters in Washington, D.C.; the SB/SE Division office in El Segundo, California; and the IRS Submission Processing Center in Kansas City, Missouri, during the period August 2017 through November 2018. 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 objectives. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

The Allocation of Information Technology Resources Is Primarily Set by the Information Technology Organization, With Minimal Involvement From Business Operating Divisions

The IT organization's mission is to deliver information technology services and solutions that drive effective tax administration. The IT organization is within the IRS' Operations Support function. The Operations Support function provides direction and oversight to the major operational and administrative functions of the IRS in support of its business units that provide taxpayer service and enforcement. Although the IT organization's underlying mission is to support the BODs, the processes and procedures in place to allocate discretionary information technology resources result in the IT organization ultimately having sole discretion as to the prioritization of information technology services it will provide. For example, each year the IT organization identifies the IRS's annual information technology service priorities. For Fiscal Year 2018, the IT organization established two primary priorities for use in allocating information technology resources: maintain current operations and deliver the individual tax return filing season. IT management indicated that these priorities reflect the areas in which the need for information technology services has historically been the greatest.

Furthermore, IT management informed us that while the IRS Senior Executive Team[14] establishes the overall direction and priority of the operations support required for the agency, the IT organization has sole discretion as to which information technology services it will provide to the BODs. It does not consult or include the BODs in establishing the discretionary IT organization resource priorities. As a result, there is a concern on the part of the BODs that their lack of participation limits their input when establishing agency priorities for determining how to allocate IT organization resources.

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[14] The Senior Executive Team consists of the IRS Commissioner, Deputy Commissioner for Services and Enforcement, Deputy Commissioner for Operations Support, Chief of Staff, Chief Risk Officer, Chief of Appeals, Chief of Communications and Liaison, National Taxpayer Advocate, Chief Counsel, Chief of Criminal Investigation, Chief of Agency-Wide Shared Services, Chief Financial Officer, Chief Technology Officer, Chief Human Capital Officer, Chief Procurement Officer, and BOD executives.

Information technology service requests denied during precoordination are not tracked and maintained in the WRMS; as a result, the extent of organizational demand for information technology services is unknown

The IT organization uses the WRMS to evaluate the demand for information technology services. However, the IRS's overall demand for information technology services is unknown because requests denied as part of precoordination are not tracked or maintained in the WRMS. Prior to the implementation of the precoordination process in October 2010, BODs submitted all identified needs for information technology services to the IT organization through the WRMS.

IT management informed us that, after several years of using the WRMS and as the work requests became more complex, the information needed to evaluate the work requests was not sufficient. To alleviate the number of incomplete requests and prevent delays in the delivery of the work requests, some groups within the IT organization implemented mandatory precoordination. However, even if an IT group does not mandate precoordination, the UWR coordinator will review the request and, if it does not contain strong evidence of precoordination, the request will be returned to the BOD. As a result, the WRMS does not accurately reflect resources needed based on BOD identification and requests. For example, SB/SE Division management informed us that in Calendar Year 2016, 50 requests for identified needs were not formally submitted into the WRMS. W&I Division management was unable to determine the number of requests that were denied during precoordination.

Having insufficient IT organization resources to address the need for technological support does not make it any less important for the IRS to accurately track information technology services demand—in particular, demand that cannot be fulfilled. Tracking overall demand can be used to better inform the IT organization budget process. For example, it can help the IRS more accurately portray its IT organization resource needs to stakeholders as well as provide a more complete assessment of the impact of reduced resources.

The process for requesting information technology services may discourage BODs from submitting requests that would result in more efficient and effective tax administration

W&I and SB/SE Division management informed us that, before submitting a request for information technology services, they explore whether a nonsystemic alternative can be implemented to address their need, even if a systemic solution would result in more efficient and effective tax administration. When we asked W&I Division management why they would not submit the request for information technology service, they informed us that the IT organization is more likely to deny the request during precoordination if there is a nonsystemic alternative. For example, the W&I Division explored the option of creating an electronic inventory system for the Accounts Management Return Integrity and Compliance Services' Integrity and Verification Operation organization to replace the existing labor-intensive manual inventory process. The manual inventory system requires creating a spreadsheet, monitoring the referrals

to ensure receipt of requested information from the taxpayer, and returning the taxpayer's response to the requestor.

W&I Division management indicated that the electronic inventory system would result in a cost savings that includes the reduction of 15 full-time employees and would provide increased accuracy, efficiency, and timeliness when resolving Integrity and Verification Operation cases. The IT organization denied the request due to insufficient resources. Our concern in this instance is that, because the request was denied during precoordination and not tracked on the WRMS, there is no record of the information technology services needed on the part of the W&I Division if resources become available during the fiscal year.

We confirmed that the availability of an alternative solution (*i.e.*, nonsystemic alternative) is one of the criteria the IT organization uses when determining whether to deny a request during precoordination. As we previously detailed, the BODs can escalate a denied request; however, the same individuals from the IT group involved in the initial denial are included in this process. As such, BODs may not escalate denied requests despite a business need.

Due to insufficient resources, projects are not completed that would reduce taxpayer burden, protect revenue, and save significant IRS resources

Our review of information in the WRMS for the 82[15] Calendar Year 2016 requests that were submitted and denied after precoordination found that the two most common reasons for denial were: 1) the work was discretionary rather than mandatory and 2) there were insufficient funds/resources to complete the request.[16] In our discussion with W&I and SB/SE executives on the impact of denied requests, they informed us that they submit requests for information technology services for any need that they feel is critical to their ability to deliver tax administration regardless of whether it aligns with the IT organization priorities. However, they indicated that the requests that were denied had an impact on tax administration. This included the potential of billions of dollars lost due to large corporations underpaying their tax liability, taxpayers not receiving proper credits, and the IRS having to pay a large amount of interest due to over $5 million in withholding not credited to taxpayer accounts. Figure 4 provides examples of the identified impact on tax administration as a result of denied work requests.

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[15] We reviewed 82 of the 91 denied requests in Figure 3. Nine requests had been escalated, resulting in eight requests being accepted and one request being cancelled.

[16] The IRS uses the word "discretionary" for work requests submitted to update an information technology application's functionality, enhance existing systems, create a new capability to support the IRS's mission, make changes to current applications, or make programming updates to enhance functionality.

Figure 4: Examples of the Impact on Tax
Administration As a Result of Denied Work Requests

Request Description	IRS Management's Assessment of the Impact on Tax Administration
Health Coverage Tax Credit Release	The IRS was not able to make advance Health Coverage Tax Credit payments to approximately 20,000 eligible individuals. The request was denied in May 2016 due to lack of resources; however, it was resubmitted and completed in March 2017. As such, even though the IRS should have been able to make these payments after legislation was effective in June 2016, it was unable to do so until March 2017.
Filing Information Returns Electronically	The system was not ready to allow approximately 600,000 filers to file online because the IT organization Applications Development group did not agree with an early implementation date. As such, filers were unable to file their information returns (*e.g.*, Form 1099-MISC, *Miscellaneous Income*) electronically until January 16, 2017, as opposed to the requested date of January 9, 2017.
C-Corporation Indicator to Identify Corporations Subject to Interest Rates	The IT organization denied the request because it considered this a low priority. Therefore, large corporations potentially underpaid their tax liability because an indicator was not set to identify that the taxpayer was subject to the large corporate interest rate. This potentially resulted in billions of dollars lost.
SB/SE Collection/Examination Geographic Realignment	The IRS absorbed annual work-around costs of $826,798. The denial to complete the realignment prevented the BOD from being able to monitor performance and efficiently assign and manage the collection inventory.

Source: TIGTA review of IRS executives responses to denied requests impact on tax administration.

Other TIGTA audits have identified system enhancements and application developments that would reduce taxpayer burden and result in substantial cost savings, yet these requests also go unfunded as a result of insufficient resources. For example:

- *Electronic Filing of Amended Tax Returns*[17] – IRS management stated that they have submitted funding requests for an additional $4.1 million in both Fiscal Years 2016 and 2017 to update IRS systems to enable taxpayers to electronically file amended returns. However, due to the high cost of this initiative and competing priorities, these requests have not been funded. In comparison, the IRS expended $63.5 million in additional processing costs between Fiscal Years 2013 and 2016 to manually process amended

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[17] TIGTA, Audit. No. 201840026, *Actions Have Not Been Taken to Improve Amended Tax Return Review Procedures to Reduce Erroneous and Fraudulent Refunds*.

returns. In addition, we estimate that there are billions of dollars in erroneous refunds issued due to the lack of systemic verification of these manually processed returns.

- ***Online Tax Fraud Referral Application***[18] – In September 2012, we first recommended that the IRS study the feasibility of an online referral application to report suspected instances of Federal tax fraud, which could reduce both taxpayer burden and referral processing costs. A third-party contractor estimated that it would cost $1 million to develop an application using commercial off-the-shelf software that would simplify the intake of information referrals, filter referrals to identify ones that are likely to yield a tax assessment, and interface with existing IRS case management software. This type of online application would address the significant deficiencies in the manual submission and processing of information referrals that we continue to identify and report. The application would also reduce the over $400,000 annual cost that the IRS spends, on average, to manually process referrals.

- ***Third-Party Authorization Tool***[19] – Management stated that they submitted a work request for the Third-Party Authorization Tool in January 2017. This tool would strengthen security over the process for representatives or designees to access taxpayers' account information. The security features would include multifactor authentication that requires the individual submitting the authorization to pass authentication before submitting an authorization form. However, funding was not approved, and the work request was cancelled due to the level of priority it was given and availability of resources.

The IRS faces continuing challenges with resource limitations, in particular its information technology resources. However, some of the unfunded requests would actually result in the IRS achieving overall cost savings by replacing alternative inefficient manual workarounds. As our examples show above, the overall savings to the IRS associated with replacing manual processes with systemic processes does not seem to be a factor that is adequately considered when assessing information technology funding decisions.

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[18] TIGTA, Ref. No. 2019-40-040, *Improvements Are Needed to Correct Continued Deficiencies in the Processing of Taxpayer Referrals of Suspected Tax Fraud* (May 2019).
[19] TIGTA, Ref. No. 2018-40-062, *Improved Procedures Are Needed to Prevent the Fraudulent Use of Third-Party Authorization Forms to Obtain Taxpayer Information* (Aug. 2018).

Recommendations

The Chief Information Officer should:

Recommendation 1*:* Coordinate annual meetings with BOD executives and IRS chief officers to discuss priorities in allocating IT organization resources to ensure that information technology support aligns with the priorities of the functional areas responsible for delivering tax administration.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to meet with IRS leadership at least annually to identify priorities in allocating IT resources for the delivery of tax administration.

Recommendation 2: Revise the information technology service request process to require BODs to submit key requests via the WRMS. In addition, develop procedures to notate and retain the reason the requests were denied during precoordination.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to work with information technology suppliers and BODs to establish processes and procedures to enable all work requests to be entered prior to formal submission to the IT organization. The IT organization also plans to ensure that precoordination outcomes are documented, such as reasons for denial.

Recommendation 3: Prior to the submission of the annual budget request, coordinate meetings with BOD commissioners and IRS chief officers to discuss the effect of not implementing key requests, including the forgoing of overall cost savings to the IRS. This information could be used to provide support for additional funding.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to meet with IRS leadership at least annually to assess pending priorities and mandates for consideration in formulating the IT budget.

The Workload Request Management System Does Not Always Accurately Reflect Information Technology Service Request Status and Actions Taken

Our review identified that the WRMS is not always complete and accurate as to the status of work requests and actions taken to implement or deny the requests. For example:

- ***Information Technology Service Requests Denied in Precoordination Are Not Captured*** – As we previously detailed, processes do not require all requests to be submitted via the WRMS, nor is consolidated information maintained to support the reason that a request was denied during precoordination. Because denied requests are not

captured, the IT organization cannot identify requests denied due to insufficient resources that could be fulfilled if additional resources become available later.

- *__The Status of Work Requests Is Not Always Accurate__* – Our review of 943 completed work requests as of May 31, 2018, identified 64 (7 percent) requests for which information in the notes section of the WRMS contradicted the status in the WRMS. While the notes section included language such as stopped/halted, no longer impacted, or recommended for denial, IRS management confirmed that:

    - 38 requests (59 percent) were completed and implemented.

    - 23 requests (36 percent) had not been completed.

    - 3 requests (5 percent) were partially completed and implemented.

    Internal guidelines state that an information technology request is marked with a completed status in the WRMS when the IT organization delivers the final product or service that satisfies the requirements of the request. Work requests update to a completed status in the WRMS once the IT organization inputs 1) the actual resources used and 2) the confirmation that the request has been implemented. After requests show as completed, they become a historical item and the status can no longer change.

    After requests have progressed to the "work in progress" status in the WRMS, the requests will close systemically as completed or the IT organization can select the status option of "cancelled." There was not an option to select partially implemented. Subsequent to our raising this concern, a new status code, "cancelled – partial implementation," was added to the WRMS.

- *__Required Information Was Not Consistently Captured to Describe Why Information Technology Requests Were Denied__* – Our review of the 82 denied work requests submitted in Calendar Year 2016 identified 18 (22 percent) requests for which information was not included in the WRMS to describe why the IT organization denied the request. Internal guidelines require the IT organization to provide an explanation in the WRMS as to why a work request is denied. For example, the WRMS has selections available for the reason a work request is cancelled, withdrawn, or denied. For these 18 requests, the reason for the denial was not clear. For example, the user selected "other" or "per the requestor" without sufficient details to support the reason the request was denied.

- *__IT Organization Resources and Contractor Costs Were Not Always Captured As Required__* – Our review of 1,164 work requests submitted in Calendar Year 2016 identified 80 (7 percent) work requests for which the estimated staff hours, actual staff hours, and contracting costs were not included in the WRMS as required. Internal guidelines require the input of estimated staff hours and contracting costs to the WRMS.

In addition, the work request is to be updated with the actual staff hours and contracting costs within 30 days of the completion of the work request.

When we brought this concern to management's attention, they informed us that the WRMS is an inventory system used to assess the effort needed to complete a work request and that they use other systems to inform their decision-making process. IRS management also indicated that the WRMS is not the authoritative source for cost information, so by definition cost information in the WRMS will be incomplete and inaccurate. IT management indicated that they only use those fields to give a sense of the level of effort a request might take to complete. For example, management noted that they use the Financial Management Service's Integrated Financial System to track the cost of IT organization services. However, when we asked IT management during the course of the audit to provide costing information relative to specific work requests, they were unable to provide this information. IT management stated that the financial system used does not monitor cost in that manner.

Recommendations

The Chief Information Officer should:

Recommendation 4: Update internal guidelines to ensure that the information documented in the WRMS accurately reflects the status of the work request.

> ***Management's Response:*** The IRS agreed with this recommendation. The IT organization will ensure that the WRMS accurately reflects the status of the work request and that all internal guidelines are updated accordingly. It also plans to use the Request for Change process to capture updates needed to add new statuses of work requests that are needed due to legislative mandates or updates to business processes.

Recommendation 5: Update internal guidelines to require users to identify the IRS system or application to which the request applies. Also, update the WRMS to capture additional categories as needed to identify the specific system(s) to which the request relates.

> ***Management's Response:*** The IRS disagreed with this recommendation. IRS management stated that current procedures are already in place that require the WRMS users to identify the IRS system or application affected by the changes in the work request.

> ***Office of Audit Comment:*** We agree that the WRMS has the capability to identify the system or application; however, it is not a required field. In addition, internal guidelines also do not support that this field is required to be input. IRS management stated in April 2019 that the IT organization is continuing to update the project list group because it does not currently contain a comprehensive list of projects and that they add project names as the need arises.

Recommendation 6*:* Update internal guidelines to ensure that the information documented in the WRMS accurately reflects reasons for the denial of work requests. When necessary, add additional categories to the WRMS to capture this information.

> ***Management's Response:*** The IRS agreed with this recommendation. The IT organization will ensure that the WRMS accurately reflects the reason for the denial of the work request and that all internal guidelines are updated accordingly. It also plans to use the Request for Change process to capture updates needed to add new categories for reasons of denial.

Recommendation 7: Establish a process to track estimated and actual resources needed to complete each work request by system or application.

> ***Management's Response:*** The IRS partially agreed with this recommendation. The IT organization plans to work with information technology suppliers to evaluate and assess the benefits versus costs or burden of establishing processes to further track estimated and actual resources by systems or applications.

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the effectiveness of IRS efforts to prioritize computer programming requests to support effective tax administration. To achieve this objective, we:

I.   Evaluated the current processes the IRS uses to prioritize computer programming requests before accepting and implementing the changes. We also evaluated the IRS's plans to expand or strengthen existing processes.

    A. Evaluated the W&I and SB/SE Divisions' processes to identify the need for computer programming changes or enhancements and determine which needs to submit to the IRS IT organization.

        1. Researched the IRS Internal Revenue Manual and interviewed IRS management to determine IRS processes to prioritize computer programming requests.

        2. Evaluated the current processes the W&I and SB/SE Divisions use to prioritize computer programming requests before accepting the request for implementation. Evaluated their plans to expand or strengthen existing processes.

        3. Evaluated the process to prioritize the requests.

        4. Evaluated the processes for late work requests.

        5. Reviewed all programming requests identified in the W&I and SB/SE Divisions that were submitted in Calendar Year 2016.

            a) Determined how many work requests were accepted, denied, open, cancelled, and closed.

            b) For the work requests that were denied, determined how many were escalated.

            c) Determined how many work requests have been implemented (*i.e.*, closed and placed into production).

            d) Compared the estimated cost to the actual costs incurred for all implemented work requests.

    B. Compared the W&I and SB/SE Divisions' processes and assessed the benefit of both functions using consistent processes and tools.

C. Evaluated the IT organization processes to prioritize, accept, and implement work requests.

   1. Interviewed IRS management to determine IRS processes in place to prioritize computer programming requests.

   2. Reviewed the IT organization involvement in the annual memorandum issued to the BODs, including the IT organization's role in setting annual priorities for work requests.

   3. Evaluated the processes used to estimate the IT organization resources (cost) to complete a work request and compile actual costs incurred to complete a work request.

II. Determined if the IT organization processes to prioritize, accept, and implement work requests resulted in the efficient and effective use of resources.

   A. Determined how the IT organization budget for Fiscal Year[1] 2017 was allocated and what the plans are for allocating the Fiscal Year 2018 budget.

   B. For all work requests identified in Step I.A.5, performed the following steps.

      a) Determined the cost difference between the work request estimated costs and actual costs. Determined what the IRS did with the unused portion of resources from the difference of the estimated costs to actual costs.

      b) Identified work requests for which the IRS accepted the work request but closed it before full implementation.

      c) Determined if the IRS implemented any portion of work requests without completing the entire requests.

         (1) Reviewed all explanations captured for closing the work request without completing the entire requests, if available.

         (2) Determined the actual costs expended on incomplete work requests.

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[1] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

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 Internal Revenue Manual, other policies and procedures followed when creating and submitting work requests, and the WRMS used to track the approval and completion of the work requests. We evaluated the controls by reviewing the Internal Revenue Manual, interviewing IRS management, and evaluating applicable documentation. We received extracts from the WRMS and determined that the information provided validated against the information in the WRMS. With the assistance from the IRS, we were able to validate the reliability of the final status of the work requests.

Major Contributors to This Report

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Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

JUN 1 1 2019

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Nancy Sieger   *Nancy A. Sieger*
          Acting Chief Information Officer

SUBJECT: Draft Audit Report – Unmet Needs for Information Technology
          Support Result in Inefficiencies and Higher Tax Administration
          Costs (Audit #201740040)

Thank you for the opportunity to review your draft audit report titled *Unmet Needs for
Information Technology Support Result in Inefficiencies and Higher Tax Administration
Costs* and discuss observations with the audit team. The IRS is committed to prioritize
and invest in programs that will allow the IRS to administer the tax law fairly, to become
more efficient and effective, and ultimately to assist more taxpayers.

The IRS has a structured process for allocating funding to its operations activities
consistent with best practices. However, each year requires difficult tradeoffs as we
consider making investments that support service delivery improvements, while
simultaneously ensuring that the current production systems continue to execute IRS's
core mission of processing over 150 million tax returns, ensuring taxpayer compliance,
securing taxpayer data from cyber threats, implementing new legislative requirements,
and maintaining high service availability.

Although the report suggests the Business Operating Divisions have no input to the
allocation of resources, there are established forums such as the Digital Subcommittee
and Enterprise Review Team (ERT) that are represented by senior leaders from the
Business Operating Divisions and Deputy Commissioner Services & Enforcement's
office to provide recommendations for IT resource decisions. IT is committed to expand
successful engagement with the Business Operating Divisions.

The IRS has also taken several actions to improve and increase efficiencies in how we
work to address unmet needs and deliver additional IT services. We improved the
tracking of work requests, allowing us to more accurately quantify the demand for IT
support by adding a new status code ("cancelled - partial implementation"). In addition,
where appropriate, we utilize agile development processes which includes constant
collaboration with our business customers. The agile processes, with the associated

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customer engagement, enable us to provide better control, prioritization and support of requirements as projects evolve.

Overall, the IRS is committed to prioritize IT requirements in a manner that continuously improves the allocation of our limited technology resources to most effectively support effective tax administration. This commitment and the supporting processes support the Federal Information Technology Acquisition Reform Act of 2014 (FITARA), which requires agency Chief Information Officers to approve the information technology budget requests for the entire agency.

The attachment lists our detailed planned corrective actions to implement the audit report's recommendations. The IRS agrees with the majority of the recommendations, as they align with existing practices and may help further enhance existing processes and procedures. However, in some cases, the recommendation offers no actionable insights or information that would require the IRS to change course. For example, Recommendation 5 "to require users to identify the IRS system or application to which the request applies" is already in effect. This requirement already exists within the WRMS application and we disagree that further action is necessary (as demonstrated by the documentation provided to TIGTA).

The IRS values your continued support and the assistance your organization provides. If you have any questions, please contact me at (202) 317-5000 or a member of your staff may contact Ronald Leidner, Director, Business Planning and Risk Management, at (240) 613-2168.

Attachment

Draft Audit Report – Unmet Needs for Information Technology Support Result in Inefficiencies and Higher Tax Administration Costs (Audit #201740040)

Recommendation 1: Coordinate annual meetings with BOD Commissioners and IRS Chief Officers to discuss priorities in allocating IT resources to ensure that the IT support aligns with the priorities of those Functional Areas that are responsible for delivering tax administration.

CORRECTIVE ACTION: The IRS agrees with this recommendation and will engage with IRS leadership at least annually to identify priorities for delivery of tax administration to inform the allocation of IT resources.

IMPLEMENTATION DATE: April 15, 2020

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy and Planning

CORRECTIVE ACTION MONITORING PLAN: IRS enters accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES) and monitors them monthly until completion.

Recommendation 2: Revise the IT services request process to require BODs to submit key requests via the WRMS. In addition, develop procedures to notate and retain the reason the requests were denied during pre-coordination.

CORRECTIVE ACTION: The IRS agrees with this recommendation. IT will work with IT suppliers and BODs to establish processes and procedures to enable all Work Request to be entered prior to formal submission to IT and ensure that pre-coordination outcomes are documented such as reasons for denial.

IMPLEMENTATION DATE: August 15, 2020

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy and Planning

CORRECTIVE ACTION MONITORING PLAN: IRS enters accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES) and monitors them monthly until completion.

Draft Audit Report – Unmet Needs for Information Technology Support Result in Inefficiencies and Higher Tax Administration Costs (Audit #201740040)

Recommendation 3: Prior to the submission of the annual budget request, coordinate meetings with BOD Commissioners and IRS Chief Officers to discuss the effect of not implementing key requests. This information could be used to provide support for additional funding.

CORRECTIVE ACTION: The IRS agrees with this recommendation and will engage with IRS leadership at least annually to assess pending priorities and mandates for consideration in formulating the IT budget submission.

IMPLEMENTATION DATE: April 15, 2020

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy and Planning

CORRECTIVE ACTION MONITORING PLAN: IRS enters accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES) and monitors them monthly until completion.

Recommendation 4: Update internal guidelines to ensure that the information documented in the WRMS accurately reflects the status of the work request. When necessary, add additional categories to the WRMS to capture this information.

CORRECTIVE ACTION: The IRS agrees with this recommendation. IT will ensure that WRMS accurately reflects the status of the work request and all internal guidelines are updated accordingly. The IT Request for Change (RFC) process will be used to capture updates needed to add new statuses of work request that are needed due to legislative mandates or updates to business processes.

IMPLEMENTATION DATE: December 15, 2019

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy and Planning

CORRECTIVE ACTION MONITORING PLAN: IRS enters accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES) and monitors them monthly until completion.

Draft Audit Report – Unmet Needs for Information Technology Support Result in Inefficiencies and Higher Tax Administration Costs (Audit #201740040)

Recommendation 5: Update internal guidelines to require users to identify the IRS system or application to which the request applies. When necessary, update the WRMS system to include this capability, similar to how the system was expanded to identify requests for the Tax Cuts and Jobs Act.

CORRECTIVE ACTION: The IRS disagrees with this recommendation. Current procedures are already in place that require the WRMS users to identify the IRS system or application impacted by the changes in the work request.

IMPLEMENTATION DATE: Not applicable

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy and Planning

CORRECTIVE ACTION MONITORING PLAN: Not applicable

Recommendation 6: Update internal guidelines to ensure that the information documented in the WRMS accurately reflects reason for the denial of the work request. When necessary, add additional categories to the WRMS to capture this information.

CORRECTIVE ACTION: IT will ensure that WRMS accurately reflects the reason from the denial of the work request and all internal guidelines are updated accordingly. The IT Request for Change (RFC) process will be used to capture updates needed to add new categories for reasons of denial.

IMPLEMENTATION DATE: December 15, 2019

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy and Planning

CORRECTIVE ACTION MONITORING PLAN: IRS enters accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES) and monitors them monthly until completion.

Recommendation 7: Establish a process to track estimated and actual resources needed to complete a work request by system or application.

CORRECTIVE ACTION: The IRS partially agrees with this recommendation. IT will work with IT suppliers to evaluate and assess the benefits versus costs/burden of establishing processes to further track estimated and actual resources by systems or applications.

IMPLEMENTATION DATE: August 15, 2020

Draft Audit Report – Unmet Needs for Information Technology Support Result in Inefficiencies and Higher Tax Administration Costs (Audit #201740040)

RESPONSIBLE OFFICIAL(S): Associate Chief Information Officer, Strategy and Planning

CORRECTIVE ACTION MONITORING PLAN: IRS enters accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES) and monitors them monthly until completion.