

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Efforts to Implement Taxpayer First Act Section 2101 Have Been Mostly Successful

September 29, 2021

Report Number: 2021-25-058

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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Why TIGTA Did This Audit

On July 1, 2019, Congress enacted the Taxpayer First Act (TFA) to amend the Internal Revenue Code of 1986 to modernize and improve the IRS. Specifically, § 2101 of this Act, *Management of Internal Revenue Service Information Technology*, requires the appointment of a Chief Information Officer (CIO) with control over the IRS's information technology, the development and implementation of a multiyear information technology strategic plan, and the verification and validation of the implementation plans for two significant information technology applications.

This audit was initiated to assess the IRS's implementation of the CIO's duties and responsibilities in relation to TFA § 2101.

Impact on Taxpayers

The TFA will improve IRS operations and administration of the tax laws by strengthening taxpayer rights, enhancing customer service, restructuring the organization, and advancing information technology.

What TIGTA Found

The IRS has implemented most of the provisions of TFA § 2101. In July 2020, the Chief of Staff, Deputy Commissioner for Services and Enforcement, and Deputy Commissioner for Operations Support issued a memorandum to define the CIO's roles and responsibilities. This memorandum also established policy to guide the CIO and the Chief Procurement Officer regarding the consultation and notification processes required by the TFA.

The CIO oversees the development, implementation, and maintenance of information technology enterprise-wide. In February 2021, the IRS Commissioner identified and appointed a permanent CIO. Further, the IRS developed a multiyear *Information Technology Strategic Plan* and arranged for an independent verification and validation assessment of systems implementation plans for two significant information technology applications.

However, the Information Technology organization has not updated the Memorandum of Understanding with Criminal Investigation, a business unit that operates its own information technology environment, to reflect the oversight requirements of TFA § 2101. In addition, the CIO is not being notified of all significant information technology product and service acquisitions. Specifically, the Office of the Chief Procurement Officer's May 2021 *Fiscal Year 2021 Greater Than \$1 Million Report* did not identify all information technology acquisitions for non-information technology business units. Finally, the Information Technology organization is not approving all significant information technology acquisitions as required.

What TIGTA Recommended

TIGTA recommended that the CIO coordinate with the Chief, Criminal Investigation, to ensure that the CIO information technology oversight requirements of TFA § 2101 are addressed. In addition, the Chief Procurement Officer and the CIO should review reporting options and implement the most effective approach for identifying the acquisition of information technology products and services. TIGTA also recommended that the CIO consult with the Chief Procurement Officer to ensure that the acquisitions of all significant information technology products and services are properly approved prior to acquisition.

The IRS agreed with our recommendations and plans to 1) conduct a review of the Criminal Investigation Information Technology Practice and implement measures to address the CIO oversight requirements of TFA § 2101, 2) have the Chief Procurement Officer and the CIO review and implement the most effective approach for identifying acquisitions of information technology, and 3) have the CIO continue to consult with the Chief Procurement Officer to ensure that all significant information technology acquisitions are properly approved.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 29, 2021

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Efforts to Implement Taxpayer First Act
Section 2101 Have Been Mostly Successful (Audit # 202020514)

This report presents the results of our review to assess the Internal Revenue Service's (IRS) implementation of the Chief Information Officer's duties and responsibilities in relation to Taxpayer First Act¹ § 2101. This review is part of our Fiscal Year 2021 Annual Audit Plan and addresses the major management and performance challenge of *Modernizing IRS Operations*.

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

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

¹ Pub. L. No. 116-25, also referred to as 26 U.S.C. § 7812.

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Background

On July 1, 2019, Congress enacted the Taxpayer First Act (TFA)¹ to amend the Internal Revenue Code of 1986 to modernize and improve the Internal Revenue Service (IRS). Specifically, the TFA will improve IRS operations and administration of the tax laws by strengthening taxpayer rights, enhancing customer service, restructuring the organization, and advancing information technology.² TFA § 2101, *Management of Internal Revenue Service Information Technology*, defines the Chief Information Officer's (CIO) roles and responsibilities, and requires the IRS Commissioner to appoint a CIO. It also requires the creation of a multiyear information technology strategic plan and an independent verification and validation of the Customer Account Data Engine 2 (CADE 2)³ and the Enterprise Case Management⁴ applications' implementation plans. Further, it requires the Chief Procurement Officer (CPO) to inform the CIO of all significant⁵ acquisitions of information technology products and services.

There are two IRS organizations primarily involved in the procurement of information technology products and services.

1. **Strategic Supplier Management:** Located in the Information Technology (IT) organization's Strategy and Planning function, it manages information technology acquisitions and vendors to maximize the IRS's investment in key commodities while simultaneously minimizing business risk. The primary goal of Strategic Supplier Management is to identify significant opportunities to improve information technology procurements.
2. **Office of Information Technology Acquisitions:** Located in the Office of the CPO, it plans, negotiates, executes, and manages the procurement of information technology products and services. In addition, the Office of Information Technology Acquisitions

¹ Pub. L. No. 116-25, also referred to as 26 U.S.C. § 7812.

² Refers to the definition of information technology given by 40 U.S.C. § 11101. The term "information technology" (A) With respect to an executive agency means any equipment or interconnected system or subsystem of equipment, used in the automatic acquisition, storage, analysis, evaluation, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information by the executive agency, if the equipment is used by the executive agency directly or is used by a contractor under a contract with the executive agency that requires the use (i) of that equipment or (ii) of that equipment to a significant extent in the performance of a service or the furnishing of a product; (B) Includes computers, ancillary equipment (including imaging peripherals, input, output, and storage devices necessary for security and surveillance), peripheral equipment designed to be controlled by the central processing unit of a computer, software, firmware and similar procedures, services (including support services), and related resources; but (C) Does not include any equipment acquired by a Federal contractor incidental to a Federal contract (Internal Revenue Code § 2101(a)(f)(5)(A)).

³ An IRS application that will replace components of the existing Individual Master File, *i.e.*, the IRS database that maintains transactions or records of individual tax accounts, and is designed to provide state-of-the-art individual taxpayer account processing and technologies to improve customer service to taxpayers and enhance tax administration.

⁴ An enterprise-wide solution comprised of data-driven applications and services that will streamline processes and reduce the number of duplicate applications related to case management.

⁵ The TFA defines the term significant to mean: 1) any acquisition of information technology in excess of \$1 million and 2) any other acquisition of information technology as the CIO, in consultation with the CPO, may identify.

provides customers technical and administrative support throughout all stages of the acquisition life cycle.⁶

In addition, TFA § 1302, *Modernization of Internal Revenue Service Organizational Structure*, requires the IRS to develop a plan to redesign the IRS organization that prioritizes the taxpayer experience, streamlines the structure of the organization to minimize the duplication of services and responsibilities, and position the IRS to be able to combat cybersecurity and other threats. In the proposed reorganization, the CIO position will be replaced by the Assistant Commissioner CIO position, be a member of the IRS Senior Leadership Team, and report directly to the IRS Commissioner. The position will oversee the IT organization, collaborate with the members of the IRS Senior Leadership Team to understand their technology operational requirements, and assist in developing and delivering those requirements. Specifically, the Assistant Commissioner CIO will:

- Manage the core technology infrastructure.
- Oversee the day-to-day information technology operations and departments.
- Provide leadership on emerging technologies.
- Select the proper technological capabilities to integrate into the IRS.
- Work with the Office of the CPO to effectively identify and deploy new technological capabilities.
- Identify and bring forward key technologies related to improving the taxpayer experience and meeting taxpayers' expectations.

According to the IRS's *Taxpayer First Act Report to Congress*,⁷ the timeline for the proposed reorganization is dependent upon annual budget commitments. However, the IRS expects to begin to move the CIO position to a Commissioner's direct report in Fiscal Year⁸ 2021 and complete the move in Fiscal Year 2022.

Results of Review

Most Provisions of Taxpayer First Act Section 2101 Have Been Implemented

The CIO's roles and responsibilities have been defined

TFA § 2101 specifies that the IRS Commissioner and the Secretary of the Treasury will act through the CIO with respect to the development, implementation, and maintenance of the IRS's information technology. It also defines the general duties and responsibilities of the CIO, requiring the CIO to:

⁶ A documented process of required activities to procure information technology and other products and services, including the acquisition planning and pre-solicitation phase, award phase, and post-award phase.

⁷ Dated January 2021.

⁸ 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.

- 1) Oversee the development, implementation, and maintenance of information technology throughout the IRS, including the Taxpayer Advocate Service, Criminal Investigation, and the Office of Chief Counsel.
- 2) Ensure that the information technology is secure and integrated.
- 3) Maintain operational control over the information technology.
- 4) Act as the principal advocate for the IRS's information technology needs.
- 5) Consult with the CPO on significant information technology acquired.

Although many of these activities were already under the CIO's purview in one form or another, the IRS has taken some steps to further define and implement the CIO's roles and responsibilities. For example, in July 2020, the Chief of Staff, Deputy Commissioner for Services and Enforcement, and Deputy Commissioner for Operations Support issued a memorandum to define the CIO's roles and responsibilities. The memorandum states that the CIO is responsible for developing, implementing, and maintaining the IRS's information technology, ensuring that the information technology is secure and integrated, maintaining operational control of all information technology, and being the principal advocate for information technology needs. Further, the memorandum also states that, to be compliant with the TFA, the IT organization must approve the procurement of information technology products and services before the acquisitions occur.

Another example of steps being taken is that the Cybersecurity function is in the process of updating Internal Revenue Manual 10.8.2, *Security Roles and Positions* (November 2019). In November 2020, the Cybersecurity function prepared an Interim Guidance Memorandum, IT-10-0620-0014, *Internal Revenue Manual 10.8.2, Information Technology Security, Information Technology Security Roles and Responsibilities – Chief Information Officer and Chief Information Security Officer*, to 1) align the CIO's security-related duties and responsibilities to TFA requirements⁹ and 2) include the same general duties and responsibilities of the CIO contained in the July 2020 memorandum.

The IRS Commissioner appointed a permanent CIO

TFA § 2101 requires the Commissioner of Internal Revenue to appoint a CIO. An acting CIO was initially retained while a search was conducted to identify a qualified candidate to fill the permanent CIO position. After an extensive search, a permanent CIO was identified and appointed by the IRS Commissioner in February 2021.

The CIO oversees the development, implementation, and maintenance of information technology enterprise-wide

TFA § 2101 requires the CIO to be responsible for the development, implementation, and maintenance of information technology enterprise-wide. The CIO and the IT organization have engaged in a number of actions to satisfy this requirement.

⁹ Interim Guidance Memorandum, IT-10-0620-0014, is intended to be incorporated into Internal Revenue Manual 10.8.2 by October 31, 2022.

For most business units,¹⁰ the IT organization maintains the operational information technology environment and provides information technology services. According to the CIO, some business units may have contracts for software and other information technology, but the CIO oversees the information technology budgets of these business units. This provides the CIO awareness of the information technology products and services that are acquired.

In addition, the IT organization provides oversight of IRS information technology efforts through several governance boards. The IT organization has governance boards over Associate CIO areas of responsibility, such as User and Network Services, Cybersecurity and Privacy, and Enterprise Services. There are also IRS enterprise governance boards to which the CIO is either a member or co-chair. These include the Executive Risk Committee, the Filing Season Readiness Executive Steering Committee, the Management Controls Executive Steering Committee, the Senior Executive Team, the Insider Threat Steering Committee, the Data and Analytics Strategic Integration Board, and the Strategic Development Executive Steering Committee.

Further, there are dedicated program governance boards, such as the CADE 2 Governance Board; the web applications Governance Board; the Authentication, Authorization, and Access Governance Board; and the Financial Services Governance Board. The program governance boards govern selected investments and their systems, programs, and projects to ensure that investment, program, and project objectives are met; risks are managed appropriately; and enterprise expenditures are fiscally sound.

The IT organization is also involved in functional governance boards, such as the Criminal Investigation Governance Board. Criminal Investigation chairs this board, and voting IT organization members include representatives from the Cybersecurity, Enterprise Services, and Applications Development functions. The Criminal Investigation Governance Board reports to the Sustaining Operations Executive Steering Committee, which is co-chaired by the Deputy CIO for Operations.

While some business units maintain their own information technology staff, in September 2020, the then acting CIO issued a memorandum to all heads of office that describes the process for business units to fill select information technology positions outside of the IT organization. Specifically, the memorandum sets forth policy that work related to the determination of information technology solutions and investments, cybersecurity, and technology products inherently used in the IT organization should not be staffed from within business units, outside of the IT organization. Further, the memorandum established an annual reporting requirement for business units to report their information technology staffing needs, describing their existing, vacant, and any proposed new information technology positions to the IT organization.

However, Criminal Investigation is an exception to the other business units as it operates its own information technology environment as well as maintains its own information technology staff. In Fiscal Year 2016, the Deputy Commissioner for Services and Enforcement and the Deputy Commissioner for Operations Support signed a Memorandum of Understanding to outline the operation and management of a consolidated information technology environment between Criminal Investigation and the IT organization. The IT organization began to update the Memorandum of Understanding with Criminal Investigation to reflect the roles and responsibilities outlined in TFA § 2101; however, this effort remains on an “indefinite pause” as

¹⁰ A title for IRS offices and organizations such as the Office of Appeals, the Office of Professional Responsibility, and the IT organization.

IRS leadership considers broader options. The indefinite pause of updating the Memorandum of Understanding means that the working relationship between the CIO and Criminal Investigation does not reflect TFA requirements.

According to the CIO, the IT organization engages monthly with Criminal Investigation leadership to ensure that Criminal Investigation remains strategically aligned with the IT organization. The CIO maintains oversight of Criminal Investigation's [REDACTED] information technology budget. While the budget does not include the \$15 million that Criminal Investigation received through the Consolidated Appropriation Acts of 2020¹¹ for investigative technology, the IT organization retains oversight of these funds through the Work Request Management System.¹² In addition, the Office of the CIO has approval authority over Criminal Investigation's acquisition of information technology products and services except for information technology acquisitions required for sensitive law enforcement activities related to covert and law enforcement needs that do not affect the IRS network.

Recommendation 1: The CIO should coordinate with the Chief, Criminal Investigation, to ensure that the CIO information technology oversight requirements of TFA § 2101 are addressed.

Management's Response: The IRS agreed with this recommendation. The CIO will conduct a review of the Criminal Investigation Information Technology Practice and implement measures to address the CIO information technology oversight requirements of TFA § 2101.

The IT organization developed an *Information Technology Strategic Plan*

TFA § 2101 requires the CIO to develop and implement a multiyear strategic plan for the information technology needs of the IRS. The plan should:

- 1) Include performance measurements of the implementation of the plan.
- 2) Include a plan for an integrated enterprise architecture.
- 3) Include and take into account the resources needed to accomplish the plan.
- 4) Consider planned major acquisitions.
- 5) Align with the *IRS Strategic Plan*.¹³

The IT organization has created and released an *Information Technology Strategic Plan*.¹⁴ According to the CIO, the IRS Commissioner and the Department of the Treasury have approved the plan. The *Information Technology Strategic Plan* addresses multiple years and contains performance measurements that allow the IRS to assess its progress towards reaching the desired end state as set out in the plan. The plan identifies nine performance measurements. Five measurements are in place and actively tracked with baseline and target performance goals, including reduction of selected legacy code, aged infrastructure, service availability at the

¹¹ Pub. L. No. 116-93, 133 Stat. 2317.

¹² The authoritative, centralized database and repository for information technology-related work requests. The system maintains, distributes, and tracks work requests and their associated documentation, attachments, and responses.

¹³ Dated April 2018.

¹⁴ Dated November 2020.

appropriate level of redundancy, application at the assessed level of risk or mitigated with compensating controls, and operations and maintenance cost stabilization. In addition, the plan identifies four new performance measurements, including security compliance, workforce mobility, data, and new hire retention.

The *Information Technology Strategic Plan* refers to other companion documents such as the *Target Enterprise Architecture*, the *Enterprise Technology Blueprint*, the *Annual Key Insights Report*, the *Information Technology Integrated Modernization Business Plan*, and the *Taxpayer Experience Strategy* for further information on how the multiyear plan will be implemented. The *Target Enterprise Architecture* and the *Enterprise Technology Blueprint* discuss the integrated enterprise architecture by taking into consideration the present, short-term, and long-term integrated architecture for the IRS.

The *Annual Key Insights Report* considers resources that are required to accomplish the *Information Technology Strategic Plan* by discussing budgets and resources of information technology projects and initiatives for the coming year. Further, the *Annual Key Insights Report* provides updates to the *Information Technology Strategic Plan*, including budget expectations for information technology programs and major information technology acquisitions. The *Annual Key Insights Report* also describes the capabilities scheduled for delivery in the coming year, which shows what information technology will be acquired. In addition to the *Annual Key Insights Report* describing future capabilities, the *Information Technology Integrated Modernization Business Plan* and the *Taxpayer Experience Strategy* describe specific projects and when the capabilities will be implemented and delivered.

The *Information Technology Strategic Plan* aligns with the *IRS Strategic Plan*. Specifically, the plan states that it “builds on enterprise-wide strategic goals outlined in the *IRS Strategic Plan* and provides specifics around the mission, vision, and goals set forth for the technology landscape.” The *Information Technology Strategic Plan* takes the overall objectives from the *IRS Strategic Plan* and links them to the information technology environment.

The IT organization arranged for an independent verification and validation assessment for the CADE 2 and the Enterprise Case Management applications’ implementation plans

TFA § 2101 requires the IRS to enter into a contract with an independent reviewer to verify and validate¹⁵ the implementation plans developed for the CADE 2 and the Enterprise Case Management applications, including assessing the performance milestones and cost estimates. The IRS needed to complete these assessments by July 1, 2020. We reviewed the independent verification and validation reports for the CADE 2 and the Enterprise Case Management applications and were able to confirm that the IRS engaged a contractor to perform an independent verification and validation of both applications’ implementation plans and that it received the contractor’s reports prior to the deadline established in the TFA. The contractor concluded that, if the IRS uses the opportunities presented in its reports, the IRS would be on track to complete both projects on time and on budget. According to the CIO, the

¹⁵ A comprehensive review, analysis, and testing of software and hardware performed by an objective third party to confirm, *i.e.*, verify, that the requirements are correctly defined and to confirm, *i.e.*, validate, that the system correctly implements the required functionality and security requirements.

IT organization has presented the independent verification and validation results for both applications to the IRS Senior Leadership Team and the Department of the Treasury.

Policies were established to guide the CIO and the CPO regarding the consulting and notification processes required by the TFA

TFA § 2101 requires the CPO to notify the CIO of all significant IRS information technology purchases and provide written notification in advance of their acquisition. The July 2020 memorandum addresses the planned IRS coordination efforts to comply with TFA § 2101, including that: 1) the CIO should regularly consult with the CPO concerning information technology products and services acquired for the IRS, and 2) the CPO should notify the CIO of all significant information technology purchases prior to their acquisition. The memorandum further requires the CPO to ensure that any procurement requests for information technology products and services reflect engagement with the IT organization, and if they do not, the CPO should cease the procurement activities and inform the requesting business units that they must engage the IT organization. To satisfy the notification requirement of TFA § 2101, the IRS relies on two processes: 1) the *Greater Than \$1 Million Report* and 2) monthly meetings between the CPO and the CIO in which they discuss significant planned and in-process information technology acquisitions.

The Chief Information Officer Is Not Notified of All Significant Information Technology Acquisitions

TFA § 2101 requires the CIO to be aware of all information technology acquisitions throughout the IRS enterprise. Further, the TFA requires the CPO to identify and notify the CIO of all significant information technology product and service acquisitions. It also requires the CPO to consult with the CIO on a regular basis about information technology acquisitions.

The Office of the CPO created the *Greater Than \$1 Million Report* in response to the notification requirements of the TFA. Initially, the report showed only acquisitions for the IT organization and did not include the information technology product and service acquisitions for non-information technology business units, *e.g.*, the Wage and Investment Division, the Taxpayer Advocate Service, Criminal Investigation, and the Office of Chief Counsel. While the report did contain a way to filter the data to include all non-information technology business unit acquisitions, it did not have the ability to identify which acquisitions were for information technology products and services.

In November 2020, the Office of the CPO modified the *Greater Than \$1 Million Report* to incorporate logic to identify information technology product and service acquisitions initiated by non-information technology business units. Monthly, the Office of the CPO generates the *Greater Than \$1 Million Report*, which is a cumulative report of all information technology acquisitions for the fiscal year to date. As a cumulative measure of the dollar value of IRS information technology acquisitions, the May 2021 report identified approximately [REDACTED] in information technology acquisitions. Of this total, approximately [REDACTED] in information technology acquisitions came from non-information technology business units.

Each month, the Office of the CPO annotates the information technology shopping carts¹⁶ that non-information technology business units initiated and sends the report to the CPO. The CPO contacts the division director to get contracting officers¹⁷ to review each acquisition. The contracting officers report their findings, and the CPO sends the report to the CIO with any notes on the outcome of actions taken by the contracting officers. If the IT organization has not approved an information technology product or service acquisition, the contracting officer must pause the procurement, and the contracting officer's representative¹⁸ must work with IT organization management to obtain the proper approvals.

To test the accuracy of the *Greater Than \$1 Million Report*, we analyzed and compared current Procurement for Public Sector application¹⁹ data to the *Fiscal Year 2021 Greater Than \$1 Million Report* as of May 2021. Using some of the more general material group codes²⁰ that could be applicable to information technology acquisitions, we initially identified 100 potential information technology shopping carts not on the *Fiscal Year 2021 Greater Than \$1 Million Report*. However, upon further research and discussions with the IRS, we determined that, in our initial group of 100 acquisitions, there were 25 shopping carts, each in excess of \$1 million²¹ that included information technology products and services. These 25 shopping carts,²² totaling approximately \$57.8 million, were initiated by non-information technology business units and contained material group codes that were not listed in the selection criteria used to create the *Greater Than \$1 Million Report*.²³

Office of the CPO personnel stated that the general descriptions of the material group codes that we identified do not specifically indicate that the acquisitions were for information technology products or services. While we agree that the general material group code descriptions may not specifically indicate information technology acquisitions, the contents of these shopping carts included information technology products and services, as was confirmed by Office of the CPO personnel.

The IT organization's Delegation Order IT 2-1-1, *Approval of Information Technology Requisitions*,²⁴ requires the approval signature of an IT organization executive for shopping carts

¹⁶ IRS business units use shopping carts in the Procurement for Public Sector application to request external products and services and to secure the necessary approval and funding for those products and services prior to their acquisition.

¹⁷ An agent of the Federal Government empowered to execute contracts and obligate Government funds.

¹⁸ The principal program representative assigned to Government procurements. The primary role of the contracting officer's representative is to provide technical direction, monitor contract performance, and maintain an arm's-length relationship with the contractor, ensuring that the Government pays only for the services, materials, and travel authorized and delivered under the contract.

¹⁹ This application provides the means to request, fund and award contracts, and verify receipt and acceptance of procured products and services as well as access procurement-related liabilities and payment information.

²⁰ The IRS uses material group codes to describe the type of expenses for financial accounting purposes. Document 12353, *Financial Management* (January 2020), which is updated quarterly, provides a comprehensive list of valid financial codes (including material group codes) for use during the current fiscal year.

²¹ The shopping carts ranged from \$1 million to \$7.5 million.

²² Appendix III provides the details of the 25 shopping carts we identified as containing information technology acquisitions that were not included on the *Fiscal Year 2021 Greater Than \$1 Million Report*.

²³ These material group codes included: 1) 2512 – Management Consulting Services, 2) 2357 – Communications Enforcement, and 3) 252H – Other Indirect Services Non-Federal.

²⁴ Dated October 2018.

containing information technology products and services.²⁵ To determine if the IT organization properly approved shopping carts containing significant information technology acquisitions for non-information technology business units, we analyzed the approvals for the 25 shopping carts in the Procurement for Public Sector application that were not identified on the *Fiscal Year 2021 Greater Than \$1 Million Report* as of May 2021. We found that none of these shopping carts for information technology products and services initiated by non-information technology business units were properly approved by the IT organization. According to Strategic Supplier Management personnel, the shopping carts were not approved because they were not identified and reported as containing information technology products and services.

The second process the IRS relies upon to comply with the notification requirements of TFA § 2101 is the monthly meetings between the CPO and the CIO. The CIO has monthly status meetings with the CPO to discuss upcoming and in-process information technology acquisitions. The *Greater Than \$1 Million Report* is the written mechanism that the CPO uses in these monthly meetings as the starting point to communicate and discuss significant information technology acquisitions with the CIO.

The *Greater Than \$1 Million Report* and the monthly meetings are the primary tools used by the CPO to notify the CIO of significant information technology acquisitions. However, by not accounting for all significant information technology shopping carts for non-information technology business units, the usefulness of these tools is limited and compliance with TFA § 2101 notification requirements cannot be achieved.

Recommendation 2: The CPO and CIO should review reporting options and implement the most effective approach for identifying the acquisition of information technology products and services.

Management's Response: The IRS agreed with this recommendation. The CPO and the CIO will review reporting options and implement the most effective approach for identifying the acquisition of information technology products and services.

Recommendation 3: The CIO should consult with the CPO to ensure that all significant information technology product and service shopping carts initiated by non-information technology business units are properly approved prior to acquisition.

Management's Response: The IRS agreed with this recommendation. The TFA requires the CIO to regularly consult with the CPO regarding information technology acquisitions, and requires the CPO to notify the CIO of significant (greater than \$1 million) information technology acquisitions. The CIO will continue to consult with the CPO on significant information technology products and services and reinforce the Deputy Commissioners' and Chief of Staff's *Memorandum for Management of IRS Information Technology*, dated July 15, 2020, to ensure compliance.

²⁵ Direct Report Executives and Executive Officers of the Deputy Associate CIOs and the Associate CIOs have signature authority up to \$500,000. The Deputy Associate CIOs, Associate CIOs, Deputy CIOs, and CIO have unlimited signature authority.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the IRS's implementation of the CIO's duties and responsibilities in relation to TFA § 2101. To accomplish our objective, we:

- Verified that the IRS defined and implemented the CIO's roles and responsibilities by interviewing the CIO, reviewing the CIO's job description, reviewing the July 2020 memorandum outlining the roles and responsibilities of the CIO under the TFA, reviewing the Internal Revenue Manual and related interim guidance, and assessing the Memorandum of Understanding between the IT organization and Criminal Investigation.
- Reviewed documentation that the IRS Commissioner appointed a permanent CIO.
- Reviewed the IT organization's multiyear *Information Technology Strategic Plan*.
- Reviewed an independent contractor's verification and validation assessments of the CADE 2 and Enterprise Case Management applications' implementation plans.
- Evaluated whether information technology acquisitions were consistent with the *Information Technology Strategic Plan* by reviewing the approvals for 25 shopping carts with significant information technology product and service acquisitions not listed on the *Fiscal Year 2021 Greater Than \$1 Million Report* as of May 2021.
- Evaluated whether the CPO is identifying all significant information technology acquisitions enterprise-wide and providing written notification to the CIO in advance of the acquisitions by comparing the data in the Procurement for the Public Sector application to the Office of the CPO's *Fiscal Year 2021 Greater Than \$1 Million Report* as of May 2021 for non-information technology business units.

Performance of This Review

This review was performed with information obtained from the Office of the CIO and the Office of the CPO located in the New Carrollton Federal Building, in Lanham, Maryland, and the IRS Headquarters in Washington, D.C., during the period September 2020 through July 2021. 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.

Major contributors to the report were Danny R. Verneuille, Assistant Inspector General for Audit (Security and Information Technology Services); Bryce Kisler, Director; Carol Taylor, Audit Manager; Allen Henry, Lead Auditor; and Lauren Ferraro, Auditor.

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: IRS policies and procedures that define the CIO's roles and responsibilities as well as the processes and approvals required for shopping carts containing significant information technology product and service acquisitions. We evaluated these controls by interviewing Office of the CIO and Office of the CPO personnel, reviewing information technology governance documentation, reviewing the content and criteria of the *Greater Than \$1 Million Report*, and analyzing relevant documentation in the Procurement for Public Sector application.

Appendix II

Outcome Measure

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

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 25 shopping carts initiated by non-information technology business units containing significant information technology acquisitions from the Procurement for Public Sector application not identified on the Office of the CPO's *Fiscal Year 2021 Greater Than \$1 Million Report* as of May 2021 (see Recommendation 2).

Methodology Used to Measure the Reported Benefit:

To test the accuracy of the *Greater Than \$1 Million Report*, we analyzed and compared current Procurement for Public Sector application data to the *Fiscal Year 2021 Greater Than \$1 Million Report* as of May 2021. Using some of the more general material group codes that could be applicable to information technology acquisitions, we initially identified 100 potential information technology shopping carts not on the *Fiscal Year 2021 Greater Than \$1 Million Report*. However, upon further research and discussions with the IRS, we identified 25 shopping carts, each in excess of \$1 million, for information technology products and services initiated by non-information technology business units that were not included on the May 2021 report. These 25 shopping carts totaled approximately \$57.8 million. Our analysis determined that these shopping carts all contained material group codes that could be applicable to information technology products and services but were not listed in the selection criteria used to create the *Greater Than \$1 Million Report*.

Appendix III

**Information Technology Acquisitions Not Identified on
the *Fiscal Year 2021 Greater Than \$1 Million Report***

Date	Business Unit	Material Group Code	Product or Service	Amount
10/06/2020	Privacy, Governmental Liaison, and Disclosure	2512	Contractor support to assist in protecting Federal taxpayer information by conducting computer security reviews and other related tasks.	\$1,000,000
11/19/2020	Wage and Investment	2512	Portal Website Helpdesk services.	\$1,959,186
01/12/2021	National Headquarters	2512	Contractor support to develop online strategies and enhance key processes to improve overall service and compliance.	\$3,551,750
01/21/2021	Wage and Investment	2512	Staff for operations and maintenance for IRS contact center applications.	\$2,610,399
01/28/2021	Large Business and International	2512	Product that provides commercial-off-the-shelf financial data through the Internet.	\$3,540,920
02/02/2021	National Headquarters	2512	Support for operations and maintenance of the yK1 application for Fiscal Year 2021.	\$1,238,509
02/09/2021	Wage and Investment	2512	Software and hardware maintenance and technical support.	\$2,500,000
02/11/2021	Privacy, Governmental Liaison, and Disclosure	252H	On-demand use of third-party data, services, reporting, and analytical support to verify taxpayer identity and to assist in ongoing identity verification and validation needs.	\$1,314,104
02/24/2021	Large Business and International	2512	Web access to international business data.	\$3,674,035
02/25/2021	Privacy, Governmental Liaison, and Disclosure	2512	Contractor support to assist the Office of Safeguards in its mission of protecting Federal taxpayer information by conducting computer security reviews and other related tasks.	\$1,000,000

Efforts to Implement Taxpayer First Act Section 2101 Have Been Mostly Successful

Date	Business Unit	Material Group Code	Product or Service	Amount
03/02/2021	National Headquarters	2512	Contractor services for Compliance Data Warehouse database management.	\$1,431,170
03/10/2021	Wage and Investment	2512	Convert and migrate legacy applications.	\$3,400,270
03/29/2021	National Headquarters	2512	Contractor support for Enterprise Case Management.	\$2,922,362
03/30/2021	Wage and Investment	252H	Link and Learn Taxes training application.	\$1,050,792
04/05/2021	Large Business and International	2512	Research noncompliance involving complex technology issues, including software development.	\$1,500,000
04/06/2021	Criminal Investigation	2357	Service plan for Criminal Investigation's cellphones.	\$1,311,908
04/13/2021	Wage and Investment	2512	Short-Term Intelligent Voice Assistant.	\$1,605,000
04/15/2021	Chief Counsel	252H	Contractor-hosted software-as-a-service platform.	\$2,783,190
04/15/2021	Large Business and International	2512	Automated application modules supporting Large Business and International tax enforcement.	\$2,923,044
04/16/2021	National Headquarters	2512	Contractor for Dashboard and Digital Services.	\$3,000,000
05/04/2021	Large Business and International	2512	Development of machine learning modules and source code.	\$1,500,000
05/06/2021	National Headquarters	2512	Enterprise Digitalization and Case Management Office business process modernization support services.	\$7,535,697
05/07/2021	Large Business and International	2512	Research solution to the analysis of tax laws, policies, and regulations to detect tax noncompliance scenarios.	\$1,650,000
05/07/2021	Wage and Investment	2512	Short-Term Intelligent Voice Assistant.	\$1,400,000
05/10/2021	National Headquarters	2512	Support services and maintenance for the Compliance Data Warehouse.	\$1,411,670
Total				\$57,814,006

Source: Treasury Inspector General for Tax Administration analysis of shopping carts containing information technology acquisitions that were not included on the Office of the CPO's Fiscal Year 2021 Greater Than \$1 Million Report as of May 2021. (Material Group Codes 252H – Other Indirect Services Non-Federal, 2357 – Communications Enforcement, and 2512 – Management Consulting Services).

Appendix IV

Management's Response to the Draft Report



CHIEF INFORMATION OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

August 30, 2021

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Nancy A. Sieger
Chief Information Officer
Shanna Webbers
Chief Procurement Officer

Nancy A.
Sieger

Digitally signed by Nancy
A. Sieger
Date: 2021.08.30
18:16:35 -04'00'

Shanna R.
Webbers

Digitally signed by Shanna R.
Webbers
Date: 2021.09.01 08:33:52 -04'00'

SUBJECT: Response to Draft Audit Report – Efforts to Implement Taxpayer First Act
Section 2101 Have Been Mostly Successful (e-trak # 2021-39495).

Thank you for the opportunity to review the draft audit report and meet with the audit team to discuss early report observations. We appreciate that TIGTA recognizes the IRS has largely been successful in implementing the multi-faceted requirements of section 2101 of the Taxpayer First Act with the overall intent of strengthening the management IRS information technology.

The IRS has taken positive steps to implement each part of section 2101, including the appointment of a permanent CIO in February 2021 and the issuance of a multi-year Information Technology Strategic Plan. The plan identifies prospective performance measures and calls for an independent verification and validation assessment of the Enterprise Case Management (ECM) and Customer Account and Data Engine 2 (CADE 2) programs. In addition, the Chief of Staff, Deputy Commissioner for Services and Enforcement, and Deputy Commissioner for Operations Support issued a memorandum in July 2020 defining the CIO's roles and responsibilities and establishing guidance on the consultation and notification processes for significant IT acquisitions; the Office of the Chief Procurement Officer (OCPO) takes its role in awarding and administering contracts related to the Taxpayer First Act Section 2101 very seriously.

We agree with your recommendations. See attached Corrective Action Response.

The IRS values the continued support and assistance provided by your office. Should you have any questions, please contact me or a member of your staff may contact Robert Bedoya, ACIO, Enterprise IT Program Management Office, at (240) 613-6203.

Attachment

Draft Audit Report – Efforts to Implement Taxpayer First Act
Section 2101 Have Been Mostly Successful (Audit # 202020514)

RECOMMENDATION 1

The Chief Information Officer should coordinate with the Chief, Criminal Investigation, to ensure that the CIO information technology oversight requirements of TFA § 2101 are addressed.

CORRECTIVE ACTION

The IRS agrees with this recommendation. The Chief Information Officer (CIO) will conduct a review of the Criminal Investigation Information Technology (IT) Practice and implement measures to address the CIO information technology oversight requirements of TFA Sec. 2101.

IMPLEMENTATION DATE

August 15, 2022

RESPONSIBLE OFFICIAL(S)

Associate Chief Information Officer, Strategy & Planning

CORRECTIVE ACTION MONITORING PLAN

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2

The Chief Procurement Officer (CPO) and Chief Information Officer should review reporting options and implement the most effective approach for identifying the acquisition of information technology products and services.

CORRECTIVE ACTION

The IRS agrees with this recommendation. The Chief Procurement Officer and Chief Information Officer will review reporting options and implement the most effective approach for identifying the acquisition of information technology products and services.

IMPLEMENTATION DATE

August 15, 2022

RESPONSIBLE OFFICIAL(S)

Chief Procurement Officer

CORRECTIVE ACTION MONITORING PLAN

IRS will monitor this corrective action as part of our internal management system of controls

OUTCOME MEASURE: Concur

The Chief Procurement Officer and Chief Information Officer will determine the best method to ensure the reliability of information to track the acquisition of information technology products and services.

RECOMMENDATION 3

The Chief Information Officer should consult with the CPO to ensure that all significant information technology product and service shopping carts initiated by non-information technology business units are properly approved prior to acquisition.

Draft Audit Report – Efforts to Implement Taxpayer First Act
Section 2101 Have Been Mostly Successful (Audit # 202020514)

CORRECTIVE ACTION

IRS agrees with the recommendation. TFA requires the CIO to have regular consultation with the CPO for information technology acquired for the IRS and a requirement for the CPO to notify the CIO of all significant (>\$1M) IT acquisitions. The CIO will continue to consult with the CPO on significant information technology products and services and reinforce the Deputy Commissioners and Chief of Staff Memorandum for Management of IRS Information Technology, dated July 15, 2020, to ensure compliance.

IMPLEMENTATION DATE

January 15, 2022

RESPONSIBLE OFFICIAL(S)

Chief Procurement Officer (CPO)

CORRECTIVE ACTION MONITORING PLAN

IRS will monitor this corrective action as part of our internal management system of controls.

Appendix V

Abbreviations

CADE 2	Customer Account Data Engine 2
CIO	Chief Information Officer
CPO	Chief Procurement Officer
IRS	Internal Revenue Service
IT	Information Technology
TFA	Taxpayer First Act



**To report fraud, waste, or abuse,
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Treasury Inspector General for Tax Administration

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Ben Franklin Station

Washington, D.C. 20044-0589

Information you provide is confidential, and you may remain anonymous.