Treasury Inspector General for Tax Administration

MANAGEMENT OVERSIGHT IMPROVED, BUT EXPECTED BENEFITS AND CAPABILITIES FOR THE TAX EXEMPT DETERMINATION SYSTEM RELEASE 2 WERE NOT DELIVERED

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Highlights

Highlights of Report Number: 2008-10-025 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

In September 2003, Tax Exempt and Government Entities Division management began developing the Tax Exempt Determination System (TEDS) Release 2, which was to include the upfront imaging of Employee Plans function and Exempt Organizations function determination applications, enhanced reporting, and automated case assignment. The TEDS is currently scheduled for implementation in May 2008. However, when the System is completed, its cost may far outweigh its benefits. The high cost of the System compared to the benefits it will deliver brings into question whether sound investment decisions were made during development of the TEDS and whether this was the best use of Federal Government funds.

WHY TIGTA DID THE AUDIT

The Tax Exempt and Government Entities Division identified a critical need to modernize and improve its processing of Employee Plans function and Exempt Organizations function determination applications. The Division approved a seven-stage release strategy for the TEDS to replace the Employee Plans/Exempt Organizations Determination System, automate certain manual processes, and reduce or eliminate employee labor expense. The overall objectives of this review were to determine whether the Tax Exempt and Government Entities Division developed TEDS Release 2 using sound system development practices and whether it managed the Release 2 investment in compliance with Office of Management and Budget and Clinger-Cohen Act of 1996 requirements.

WHAT TIGTA FOUND

The Tax Exempt and Government Entities Division Investment Executive Steering Committee improved its oversight of the development of TEDS Release 2 from the oversight provided during Release 1 by developing and using certain project management techniques. In addition, management began tracking some project costs as TIGTA had recommended. However, management did not fully implement our prior recommendations to evaluate investment decisions and monitor whether business benefits would be realized.

Schedule delays and deletion of some system capabilities resulted in delivering only $33.5 million (less than one-half) of the August 2004 expected benefits of $73.1 million; total project costs were not monitored and reported, the estimated contractor cost was exceeded by $2.1 million (26 percent), and estimated internal labor costs of $5.1 million were not tracked to the August 2004 Business Case; the technical infrastructure from Release 1, including computer hardware and software designed to support all future releases and costing $17 million, was replaced because it did not meet new Internal Revenue Service standards; and project management oversight may not ensure Release 2 will align with future Internal Revenue Service systems and processes.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Tax Exempt and Government Entities Division, ensure costs, schedule delays, and changes in systems capabilities on expected benefits are tracked, reviewed against business cases, and provided to the Investment Executive Steering Committee for review. In addition, TIGTA recommended the Director, Business Systems Planning, complete plans to improve the tracking of actual Federal Government costs back to investments and provide this information to the Investment Executive Steering Committee for review.

In their response to the report, the Commissioner, Tax Exempt and Government Entities Division, agreed with our recommendations and provided planned actions to address them.

READ THE FULL REPORT

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

http://www.treas.gov/tigta/auditreports/2008reports/200810025fr.pdf.