Treasury Inspector General for Tax Administration

OVERSIGHT OF THE ELECTRONIC FRAUD DETECTION SYSTEM RESTORATION ACTIVITIES HAS IMPROVED, BUT RISKS REMAIN

Issued on March 29, 2007

Highlights

Highlights of Report Number: 2007-20-052 to the Internal Revenue Service Chief Information Officer.

IMPACT ON TAXPAYERS

The Electronic Fraud Detection System (EFDS) is the primary information system used by the Criminal Investigation Division to detect and stop fraudulent and fictitious claims for refunds on income tax returns. During Processing Year 2006, the EFDS was not operational, resulting in an estimated $318.3 million in fraudulent refunds being issued as of May 19, 2006. The Internal Revenue Service (IRS) has improved controls over the EFDS restoration activities including executive governance and project management. As a result, project risks are being identified and mitigation actions are being taken to ensure the EFDS is implemented and fraudulent refunds are stopped during Processing Year 2007.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS adequately monitored the contractors' development efforts in 2006 to ensure a system was delivered in time for the 2007 Filing Season.

In January 2006, the IRS planned to launch a new version of the EFDS application after failing to implement it in January 2005 because of system development problems. However, the IRS and its contractors were unable to launch a web-based version of the EFDS to prevent fraudulent refunds during Processing Year 2006. On April 19, 2006, all system development activities for the web-based EFDS were stopped, and all efforts were focused on restoring the client-server EFDS for use in January 2007. This is a follow-up to a prior TIGTA audit, *The Electronic Fraud Detection System Redesign Failure Resulted in Fraudulent Returns and Refunds Not Being Identified* (Reference Number 2006-20-108, dated August 9, 2006).

WHAT TIGTA FOUND

The IRS has improved controls over the EFDS restoration activities including executive governance and project management.

The IRS recently issued a contract to the Computer Sciences Corporation (Contractor) for an estimated amount of $3,080,004 for restoration work to be performed from November 1, 2006, through February 24, 2007. The contract included a cost sharing agreement not to exceed $3,080,004 as an equitable adjustment amount to compensate the IRS for the cost to restore the client-server EFDS. However, the agreement does not include a provision that would refund the unused equitable adjustment to the IRS, and the cost sharing commitment is exclusively related to delivering the client-server EFDS in January 2007. Based on our review of the tasks required to complete the project, it does not appear the Contractor has $3,080,004 worth of work remaining on the restoration project. The EFDS Executive agreed with this conclusion and stated the Contractor has verbally agreed to work on two application changes unrelated to the restoration work to ensure the IRS will receive the $3,080,004 equitable adjustment. However, the contract states the Contractor's cost sharing commitment is exclusively related to delivering a client-server-based EFDS and will not apply to any Federal Government-directed scope increases. Therefore, the IRS may not receive the entire equitable adjustment.

WHAT TIGTA RECOMMENDED

The Chief Information Officer should work with the Director, Procurement, to ensure the IRS receives all of the $3,080,004 equitable adjustment from the Contractor.

In their response to the report, IRS officials agreed with the recommendation and prepared a modification to the task order to ensure the IRS receives the full equitable adjustment. The modification, signed by the IRS and the Contractor on February 23, 2007, extends the base period of performance and includes additional work within the scope of the cost sharing agreement.

READ THE FULL REPORT

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

http://www.treas.gov/tigta/auditreports/2007reports/200720052fr.pdf.

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