



*Additional Actions Are Needed to
Realize Benefits of the Tax Exempt and
Government Entities Reporting and
Electronic Examination System*

January 29, 2010

Reference Number: 2010-10-020

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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 29, 2010

MEMORANDUM FOR COMMISSIONER, TAX EXEMPT AND GOVERNMENT ENTITIES
DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Additional Actions Are Needed to Realize
Benefits of the Tax Exempt and Government Entities Reporting and
Electronic Examination System (Audit # 200810035)

This report presents the results of our review to assess: 1) whether implementation of the Tax Exempt and Government Entities Reporting and Electronic Examination System (TREES) led to expected improvements in the examination process and 2) whether appropriate actions are being taken to improve the TREES. The former Commissioner, Tax Exempt and Government Entities (TE/GE) Division, requested this review, which was part of the Treasury Inspector General for Tax Administration's Fiscal Year 2009 Annual Audit Plan coverage under the major management challenge of Modernization.

Impact on the Taxpayer

The TREES is a TE/GE Division-wide information system that was developed to provide a case management system for TE/GE Division employees and to improve the examination process. While some improvements have been made to the System since its release, the TE/GE Division has not realized the expected improvements in the examination process due to the difficulties experienced in the deployment of the TREES and because many planned capabilities were not delivered because of budget cutbacks. If additional actions are not taken by TE/GE Division management, the Federal Government will not receive the highest possible return from the \$18.7 million of taxpayer funds spent on developing and implementing the System.



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Synopsis

The \$18.7 million of taxpayer funds spent on developing and implementing the TREES has yet to lead to expected improvements in the TE/GE Division examination process. The TE/GE Division deployed the System to allow revenue agents and managers to work cases while electronically tracking the inventory of cases throughout all stages of the examination process. However, due to budget cutbacks some of the planned functionalities needed to develop the TREES as a complete case management system were not implemented. In addition, the System encountered significant issues after deployment and employees, in general, have not been using the System effectively. If these issues are not resolved, expected benefits will not be achieved.

The TREES was fully deployed Division-wide in April 2008 to all TE/GE Division examination employees, but experienced hardware and software issues that resulted in poor or no access to the System. For example, users were unable to access the TREES after a software upgrade in October 2008. For approximately 8 weeks, users had to revert to a paper-intensive process while waiting for the System to come back online. Users were frustrated and noted that when the System was down it was very burdensome and in most instances examination cases were not closed until the System came back online. TE/GE Division and Modernization and Information Technology Services organization personnel took action to improve access, response time, and functionality of the System, and discussions with users indicated that access to and response time of the System was much better after these changes had been made.

The TREES Business Case, dated November 2007, identified four performance measures¹ to determine the success of the TREES. While the System was fully deployed in April 2008, the TE/GE Division did not begin analyzing its performance measures until the first quarter of Fiscal Year 2009. This is understandable due to the difficulties experienced after the System was deployed, including the October 2008 update that caused the System to be taken offline in the first quarter of Fiscal Year 2009. However, based on our observations, we are concerned that the envisioned benefits are not being realized.

As the Internal Revenue Service awaits funding to develop and expand the TREES as part of the Reporting Compliance Case Management System, we believe it can take steps to more effectively use the System and make some software improvements. Until the TREES includes critical pieces of functionality, employees receive additional training on how to use the System, and employees accept and use the TREES more fully, the TE/GE Division will not transform examinations from a paper-intensive process to an automated process and begin realizing more of the expected benefits of the TREES.

¹ Performance measures are estimates of results expected for a given time period. They are included in plans as indicators of what an organizational unit wants to achieve.



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Recommendation

We recommended the Commissioner, TE/GE Division, develop an action plan that addresses the issues identified in this report and other issues the TE/GE Division has identified. This will allow the TE/GE Division to gain increased acceptance and fuller use of the TREES.

Response

The Commissioner, TE/GE Division, agreed with our recommendation and provided planned actions to address it. By July 30, 2010, the TE/GE Division will develop an action plan to address the issues identified in this report, including providing additional information and training to TREES users. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.



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Abbreviations

IRS	Internal Revenue Service
TE/GE	Tax Exempt and Government Entities
TIGTA	Treasury Inspector General for Tax Administration
TREES	Tax Exempt and Government Entities Reporting and Electronic Examination System



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Background

The Tax Exempt and Government Entities Reporting and Electronic Examination System (hereafter referred to as the TREES or the System) is a system development project undertaken by the Tax Exempt and Government Entities (TE/GE) Division to modernize operations across its Division. The TREES was envisioned to provide a single electronic case and inventory management system across the TE/GE Division.¹ The System was designed to allow TE/GE Division employees to assign, examine, close, review, and store examination² cases electronically, reducing the cost and inefficiencies of manually conducting examination casework using paper. Prior to the TREES, the TE/GE Division workforce used examination workcenters that were labor intensive and involved manual processes. The workcenters were on obsolete technology, minimally maintained and not fully integrated with other Internal Revenue Service (IRS) computerized systems, which meant employees had to use multiple systems to accomplish their work.

The TREES was designed to allow TE/GE Division employees to assign, examine, close, review, and store examination casework electronically.

The TREES will provide more than 1,500 TE/GE Division employees³ with electronic access to account data on their computers and a greater volume of IRS information to enhance examination case management and performance. Essentially, the TREES was designed to allow examination cases and research information to be assigned to revenue agents⁴ electronically. This would allow examination cases to be created and completed more quickly. In addition, when errors are identified in the examination workpapers, electronic workpaper files can be returned to revenue agents faster for correction, with electronic messages within the TREES to explain why the case is being returned. The TREES was also designed to generate messages so revenue agents are made aware when examination cases are assigned or closed. Case inventories can also be sorted and organized based on the age of the examination case (i.e., how long it has been in the revenue agent's inventory).

¹ The TE/GE Division includes the Exempt Organizations, Employee Plans, and Government Entities functions. The Government Entities function includes the Federal, State, and Local Governments, Indian Tribal Governments, and Tax Exempt Bonds offices.

² An Examination involves a review of an entity's books, records, and other data to develop all significant issues; ensure a proper determination of exempt status, qualification, or tax liability where appropriate; and determine that applicable statutory requirements are satisfied.

³ These employees include: revenue agents, tax auditors, tax law specialists, front-line auditors, researchers, analysts, managers, tax examiners, and clerks.

⁴ Revenue agents in the TE/GE Division's Employee Plans, Exempt Organizations, and Government Entities functions conduct examinations to ensure that entities comply with all applicable tax laws.



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Based on the overall design, the TREES was intended to electronically provide Division-wide inventory control, compliance testing, tax computation, education and outreach, and team examination monitoring in one workcenter. The expected benefits of the TREES project included providing:

- Automated compliance tests and tax computations to improve accuracy of data.
- Decreased length of time an examination is open by electronically working the case more efficiently.
- Appropriate tools and relevant training to increase employee satisfaction.
- A quality work environment to increase examiner, researcher, analyst, management, and clerical productivity.
- Onsite examination planning and collaboration tools to increase team examination productivity among team coordinators and their team members.
- Enhanced issue tracking to identify productivity issues that future examinations should focus on.
- Enhanced data gathering to monitor compliance activities.
- Reduced cost by eliminating the dependency on multiple inventory control systems.

The TE/GE Division began planning for the TREES in Fiscal Year 2002. In April 2008, the TREES was fully deployed and in October 2008, the TREES was integrated with the Reporting Compliance Case Management System.⁵ Through Fiscal Year 2008, a total of \$18.7 million had been spent on the TREES. However, as shown in Figure 1, the TREES was developed over many years and encountered various setbacks during its development and early implementation.

⁵ The Reporting Compliance Case Management System will consolidate the nonmajor investments, the TREES and the TE/GE Electronic Case Compliance System, into a new major information technology investment. The TREES officially merged into the Reporting Compliance Case Management System, along with the TE/GE Electronic Case Compliance System, in October 2008. However, for the purpose of this report, we will refer to the System as the TREES, not the Reporting Compliance Case Management System.



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Figure 1: TREES Milestones and Setbacks

Date	Action Item
March 2002	Improvement Project Plan for the TREES prepared and submitted.
January 2003	TE/GE Division management approved funding for the TREES and initiated development of the System.
September 2003	TREES Exhibit 300 ⁶ approved.
May–June 2006	TREES Release 1.00 Pilot initiated. Pilot was suspended to correct critical defects. Taxpayer data were being corrupted. Additional 8 weeks of testing was conducted.
September 2006 – March 2007	TREES Release 1.20 Pilot initiated.
April 2007	TREES Release 2.0 Pilot initiated.
May 2007	TREES Release 2.0 Division-wide deployment began.
October 2007	TREES Release 2.01 Pilot initiated.
October–November 2007	Training classes cancelled because of software defects in TREES Release 2.01.
January 2008	TREES Release 2.011 updated.
April 2008	The TREES was fully deployed.
October 2008	TREES Release 2.02 updated. The System experienced major issues and was taken offline for approximately 8 weeks. Many manual workarounds were adopted for the examination process.
January 2009	TREES Release 2.021 updated.

Source: TREES project documentation and interviews with TE/GE Division personnel.

This audit was being conducted while changes were being scheduled to the TREES. Any changes that have occurred since we concluded our interviews in July 2009 are not reflected in this report. As a result, this report may not reflect the current status of the TREES.

This review was performed at the TE/GE Division National Headquarters Business System Planning function office in Washington, D.C., during the period September 2008 through August 2009. In addition, the Treasury Inspector General for Tax Administration (TIGTA) conducted site visits to various TE/GE Division offices in Baltimore, Maryland; Brooklyn, New York; Oklahoma City, Oklahoma; Nashville, Tennessee; and Austin and Dallas, Texas. We also conducted telephone interviews with TE/GE Division employees in

⁶ The Exhibit 300 is also known as the Capital Asset Plan and Business Case. It is used as a one-stop document for a myriad of information technology management issues such as business cases for investments, agency modernization efforts, and overall project management.



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Santa Ana, California; Downers Grove, Illinois; Chesterfield, Missouri;
Cheektowaga, New York; Independence, Ohio; Philadelphia, Pennsylvania; and Ogden, Utah.

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 objectives. 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 objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

The \$18.7 million of taxpayer funds spent on developing and implementing the TREES has yet to lead to expected improvements in the TE/GE Division examination process due to the difficulties experienced in the deployment of the TREES and because many planned capabilities were not delivered. The TE/GE Division deployed the System to allow revenue agents and managers to work cases while electronically tracking the inventory of cases throughout all stages of the examination process. However, due to budget cutbacks some of the planned functionalities needed to develop the TREES as a complete case management system were not implemented. In addition, the System encountered significant issues after deployment and employees, in general, have not been using the System effectively and consistently. If these issues are not resolved, expected benefits will not be achieved.

While steps have been taken to improve the System, TE/GE Division management will need to take additional actions to ensure that the implementation of the TREES transforms the TE/GE Division's examination process from one that is paper-intensive and different within each functional area to a TE/GE Division-wide system where all TE/GE Division employees involved in examinations can efficiently assign, examine, close, review, and store examination cases electronically. If additional actions are not taken by TE/GE Division management, the Federal Government will not receive the highest possible return from the \$18.7 million of taxpayer funds spent on developing and implementing the System.

Several Significant Hardware and Software Issues Have Been Overcome

The TREES was fully deployed Division-wide in April 2008 to all TE/GE Division examination employees, but experienced hardware and software issues that resulted in poor or no access to the System. However, the TE/GE Division took actions to improve access, response time, and functionality of the System.

Initially, the IRS' computer network could not accommodate the changes made to the System during the various releases. Specifically, the TREES was very slow and at times would freeze up, not allowing the users to work effectively. However, the IRS upgraded computer circuits in 8 offices and purchased approximately 750 new computers for TE/GE Division employees in the fall of 2008.

In addition, users were unable to access the TREES after a software upgrade in October 2008. As a result, the System was taken offline for approximately 8 weeks. Compounding these problems, while the upgrade was being fixed, the TREES hardware was not sized sufficiently to allow developers to reverse the changes, which would have allowed TE/GE Division employees



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to use the prior version of the System. This meant that for approximately 8 weeks users had to revert to a paper-intensive process while waiting for the System to come back online. Users were frustrated and noted that when the System was down it was very burdensome and in most instances examination cases were not closed until the System came back online.

TE/GE Division and Modernization and Information Technology Services organization personnel took action to correct the issues, including revising the process used to recognize users (i.e., passwords), developing a solution to correct user's access issues, and allowing more time to complete the software conversion process. These actions were completed in November 2008, after which TE/GE Division examination employees could use the System again. Discussions with users⁷ indicated that access to and response time of the System was much better after these changes had been made.

In January 2009, the TREES was updated to revise computer codes, improve communication between users' computers and the central database, and improve interactions with another IRS computer system. In addition, the TE/GE Division is planning to acquire additional hardware that will provide it with the capability to reverse changes if it experiences the same types of issues when upgrading the System in the future. Specifically, if the upgrade does not work properly, this new capability will allow the TE/GE Division to go back to the prior version of the System without reverting to manually intensive paper processing of examination cases.

While steps are being taken to improve the System, we believe the IRS needs to take additional actions to use the System more effectively and achieve more of the benefits initially envisioned.

An Action Plan Is Needed to Improve the Use of the System and Make Progress Towards Obtaining Expected Benefits

The TE/GE Division defined the benefits it expected to receive for its investment in the TREES as part of its business case and defined performance measures⁸ for evaluating the positive impact the deployment of the TREES would have on the TE/GE Division. We are concerned that performance measures will not be achieved because planned capabilities were not delivered and the System is not yet being used effectively. As noted previously, the initial implementation of the TREES encountered significant problems. In addition, training for some users was inadequate or poorly timed. As the IRS awaits funding to develop and expand the TREES as part of the Reporting Compliance Case Management System, we believe the IRS can take steps to more effectively and consistently use the System and make some software improvements to begin realizing more of the benefits that were envisioned for the TREES.

⁷ We interviewed 70 TE/GE Division employees from December 2008 through March 2009.

⁸ Performance measures are estimates of results expected for a given time period. They are included in plans as indicators of what an organizational unit wants to achieve.



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The TREES may not be currently achieving its performance measures

The TREES Business Case, dated November 2007, identified four performance measures to determine the success of the TREES. While the System was fully deployed in April 2008, the TE/GE Division did not begin analyzing its performance measures until the first quarter of Fiscal Year 2009. This is understandable due to the difficulties experienced after the System was deployed, including the October 2008 update that caused the System to be taken offline in the first quarter of Fiscal Year 2009. Based on our observations, we are concerned that the envisioned benefits are not being realized. Figure 2 provides details of our observations.

Figure 2: Performance Measures and TIGTA Observations

TREES Performance Measures	TIGTA Observations
Dollars saved through productivity enhancements – An increase in productivity and cost savings measured in dollars through the reduction of manual processes.	We determined that TE/GE Division examination employees were still using many manual processes and were using multiple inventory control systems to track and reconcile examination cases.
Customer [employee] satisfaction – An increase in user satisfaction with the examination process due to more efficient processes.	Employees were not consistently using the TREES to create and store examination workpapers. Instead, users were creating examination workpapers outside of the TREES and copying the workpapers into the System at the end of an examination. Users believed it took longer to work within the TREES, which makes the examination process less efficient.
Length of time a case is open – A decrease in the time measured in days used to conduct an examination.	Because the System was not available for almost 8 weeks starting in October 2008, it is difficult to judge the impact of the System on the length of time cases remain open. However, employees interviewed in early Calendar Year 2009 stated the TREES was not leading to quicker case resolution.
Number of electronic cases stored – An increase in the number of examination cases stored electronically.	The TREES may not contain a complete record of open examination cases. In addition, some employees are maintaining both a paper and electronic copy of examination cases.

Source: TREES Business Case, TIGTA analyses, and TE/GE Division Business Performance Review.

Until the TREES includes critical pieces of functionality, employees receive additional training on how to use the System, and employees accept and use the TREES more fully, the



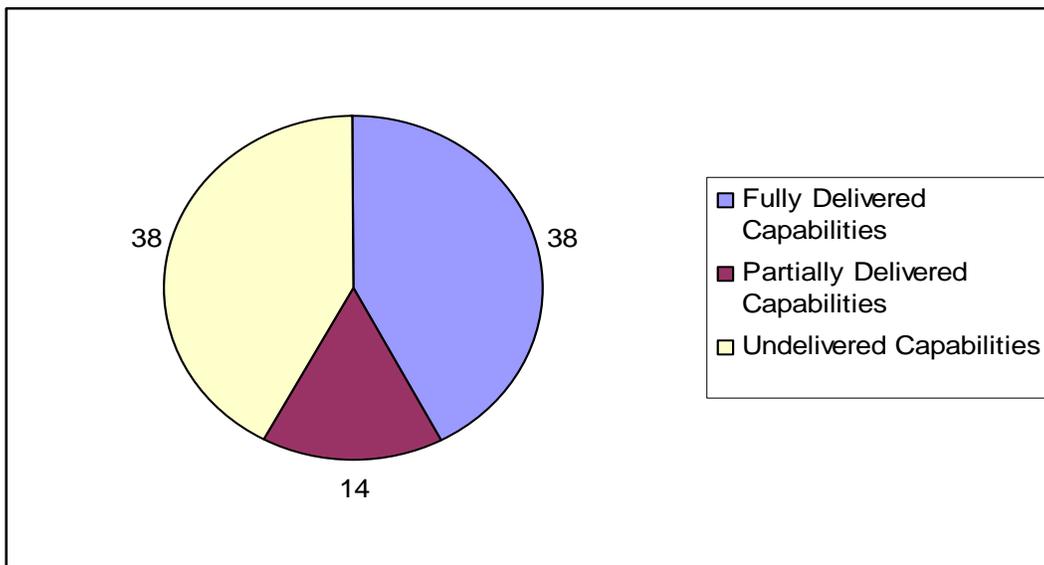
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TE/GE Division will not transform examinations from a paper-intensive process to an automated process and begin realizing more of the expected benefits of the TREES.

The TREES does not currently include all planned capabilities

While we are concerned that performance measures are not currently being met partially due to acceptance and usage, we are also aware that some of the benefits initially envisioned for the System are not being realized because many of the planned capabilities were not delivered. We identified approximately 105 high-level capabilities that the TREES project should have provided in its various releases (Release 1 through Release 2.011). We evaluated 90⁹ of 105 TREES capabilities to determine if the capability was delivered. We determined that 38 (42 percent) of 90 promised capabilities were “fully” delivered. However, we also found that 38 (42 percent) of the 90 were “not delivered” and 14 (16 percent) of the planned capabilities were only “partially” delivered. Most of the capabilities that were “partially delivered” or “not delivered” had to be foregone due to budgetary constraints. A breakdown of the status of the 90 capabilities is shown in Figure 3.

Figure 3: Status of TREES Capabilities



Source: TIGTA analyses based on the TREES Business System Requirements Report, Release 1 through 2.011, dated November 29, 2007, and discussions with the TREES Project Team and TE/GE Division personnel.

Partially delivered or undelivered capabilities pertain to issue management, trend analysis, case building, performing tax computations, allowing multiple users to work one examination case,

⁹ Fifteen capabilities were out of the scope of our review.



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time reporting, and automatically generating specific examination workpapers (e.g., letters, forms, and revenue agent reports). Some of these capabilities pertain to core examination processes. There is no development funding for the TREES for Fiscal Years 2009 and 2010, but funding is anticipated for Fiscal Year 2011 and beyond to allow the TREES (now included in the Reporting Compliance Case Management System) to deliver capabilities that were originally planned for the System. Examples of specific capabilities that were not delivered include:

- *Issue management and trend analysis functions.* Without these functions, the ability to track issues, perform trend analyses, and better allocate resources is diminished.
- *Case management reports or accomplishment reports.* Without these reports, there is a lack of efficient reporting capabilities and ability to extract data from the System. Users will have to continue to rely on independent databases for management information reporting and quality measurement reporting.
- *Quality review process.*¹⁰ Without this process, management will not have the ability to electronically identify trends, problems areas, training needs, and opportunities for process improvements.
- *Access to consistent automated tax computation capabilities.* Without this access, the TREES lacks the ability to calculate consistent tax computations for taxes commonly assessed in the TE/GE Division. This capability would enhance the accuracy and reliability of the data.

While major changes to the System are not possible until funding becomes available, we believe opportunities exist to change business processes and improve the System software, which could help achieve more benefits and lead to the transformation envisioned for the examination process.

Changing business processes to more effectively use the TREES could lead to additional benefits being realized

Our interviews of 70 TE/GE Division employees from December 2008 to March 2009 across each of the functional areas identified differences in how the functions were implementing the TREES and issues related to underutilizing the System. The TE/GE Division needs to take action to help achieve the benefits of the System without waiting for future upgrades that are planned for the Reporting Compliance Case Management System. Specific issues we identified include:

- In some instances, the TREES was being used to track only the flow of examination cases from one stage of the examination process to the next, instead of using the System as an

¹⁰ The quality review process provides a method to monitor, measure, and improve the quality of examination case work.



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automated system where all aspects of the examination process could be completed and reviewed electronically. Specifically, some users brought examination workpapers into the System at the end of the examination, instead of when they were created. Many users obtained necessary forms, letters, and templates from shared drives and other locations instead of from the System itself. Using the forms, letters, and templates on the System would ensure better consistency in the examination process. In addition, many users were duplicating efforts by maintaining both paper and electronic files, some at the request of the manager.

- Most users indicated they did not have access to scanners to convert paper documents into an electronic format. As a result, users could not store certain information in the System and the System was being underutilized.
- Some users indicated that additional guidance was needed about the type of information that should be included in the examination workpapers. For example, one manager indicated that he did not require paper employee retirement plans to be included in the workpapers. He believed that annotating the workpapers indicating that the employee had reviewed the retirement plan would be sufficient. Other managers required employees to include the retirement plans in the workpapers. Unless additional guidance is issued, employees will not know what type of case file information should be stored electronically. This guidance would be helpful prior to providing users with scanners.
- Many users expressed a need for additional information or training related to System capabilities. This need seemed to stem from frustration over what users believed the System was supposed to do and what was actually delivered. Other users were unaware of the System capabilities. Unless users are aware of the System's current capabilities and significant capabilities that are added to the System, they will not fully use the System.
- Multiple inventory tracking systems were maintained and reconciled. TE/GE Division employees used multiple inventory tracking systems because many of them lacked confidence in the TREES. Maintaining multiple inventory tracking systems is a duplication of effort and an inefficient use of limited TE/GE Division resources. As we were concluding our audit work, TE/GE Division management informed us that steps were being taken to eliminate inventory tracking systems that were no longer needed.
- Users perceived that access to the TREES case library¹¹ was too limited and did not allow them to obtain data on open or closed examination case files. In some instances, this affected the ability of groups to efficiently complete their work because they had to use

¹¹ The case library refers to a central electronic warehouse of all TE/GE Division open and closed examination cases.



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other sources or rely on others with access to the case library to obtain examination information.

- Although the TREES has the ability to automatically create cases and build the examination case files using data from another IRS computer system, some offices manually created cases on the System and manually built their examination cases (returns and research data) either on the System or in a paper file. Users believed that these approaches caused fewer errors or were less time consuming. As a result, the System may be underutilized.
- Employees lacked guidance about what types of activities should be tracked on the TREES. For example, some offices included compliance checks, customer assistance, and education and outreach activities efforts on the TREES while others did not use this functionality.
- TE/GE Division examination functions maintained other databases. For example, during our interviews TE/GE Division employees identified 15 databases used to track issues or results related to referrals, examination results, and quality review data. Management needs to review the type of information stored on other databases and determine whether the information can be stored on the TREES to minimize duplication of effort and inefficient use of limited resources.
- Although the TE/GE Division developed a uniform way of identifying or naming individual examination workpapers on the TREES, it was not being used consistently. Without a uniform way of naming files, it is more difficult to review examination case files.

Figure 1 in Appendix IV contains a complete list of the opportunities for improvement and ideas on addressing these issues.

Making system improvements to the TREES software could also lead to additional benefits being realized

In addition to identifying opportunities to improve work processes and users' experiences with the TREES, we identified areas where improvements could be made to the TREES software. Based on our interviews with TE/GE Division employees, we determined that several System improvements, if implemented, would enable the TE/GE Division employees to use the System more efficiently. These System improvements are:

- Allowing the users to create subfolders (groups of files) within the TREES to organize examination case data more efficiently rather than having the workpapers all in one inclusive folder. This will make it easier for users to locate and review specific examination workpapers.



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- Creating one examination case file to organize quarterly employment taxes, instead of bringing each quarter into the TREES as a separate case. This will allow users the ability to work the case more efficiently by compiling all employment tax returns for the year as a single file.
- Including additional pre-populated forms¹² to complete work more efficiently within the System.
- Minimizing errors related to information being shared between the TREES and the Audit Information Management System.¹³ For example, users reported inconsistencies on both systems and, as a result, users were reconciling data between the two systems. While manual workarounds were implemented, workarounds slow down case processing.

Recommendation

Recommendation 1: The Commissioner, TE/GE Division, should develop an action plan to address the issues identified in this report and other issues the TE/GE Division has identified, as well as reeducate and train TE/GE Division users. This will allow the TE/GE Division to gain increased acceptance and fuller use of the TREES, which would lead to more attainment of the System benefits.

Management's Response: IRS management agreed with this recommendation. By July 30, 2010, the TE/GE Division will develop an action plan to address the issues identified in this report, including providing additional information and training to TREES users.

¹² Pre-populated forms contain existing information from IRS computer systems which eliminates the need to manually input these data.

¹³ A computer system used by the TE/GE Division to control returns, input assessments/adjustments to the Master File, and provide management reports. It provides inventory and activity controls of active examination cases by tracking the location, age, and status of each case. The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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Appendix I

Detailed Objectives, Scope, and Methodology

Our overall objectives of this review were to assess: 1) whether implementation of the TREES led to expected improvements in the examination process and 2) whether appropriate actions are being taken to improve the TREES. To accomplish our objectives, we:

- I. Determined whether required TE/GE Division personnel (within all five offices) have access to and use the TREES.
- II. Identified the System capabilities scheduled to be delivered for the TREES project and determined whether they were delivered.
 - A. Obtained documentation detailing the various versions/releases of the TREES and identified the capabilities each version/release was to provide TE/GE Division personnel.
 - B. Interviewed applicable TE/GE Division personnel from various TE/GE Division functions (within all five offices and the Business Systems Planning office) and obtained documentation to determine whether expected capabilities were delivered as promised.
 - C. Analyzed the information gathered in Steps II.A., II.B., and III. to determine whether expected capabilities were delivered as promised.
- III. Determined whether the TE/GE Division functions were getting the expected benefits from the TREES.
 - A. Obtained documentation and identified the expected benefits of the TREES.
 - B. Determined whether measures were in place (and being monitored) that would allow management to ascertain whether expected benefits are being achieved.
 - C. Determined whether expected benefits were being achieved by reviewing available documentation.
- IV. Identified post-implementation System issues and determined whether these issues were being addressed.
 - A. Analyzed information gathered in our interviews in Step II.B. to identify post-implementation System issues.
 - B. Determined whether TE/GE Division personnel addressed or are addressing identified post-implementation System issues.



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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 objectives: the TE/GE Division's approved systems development documentation, the expected capabilities and benefits of the TREES, and TE/GE Division procedural documentation. We evaluated these controls by interviewing management and other TE/GE employees who use the TREES and reviewing expected capabilities and benefits of the System.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Appendix IV

Potential Opportunities for Improvement

Although the TE/GE Division currently does not have the funding to add all the capabilities to the TREES to make the System the primary workcenter for the examination process, opportunities exist that would improve the System. Figure 1 provides a list of issues we identified during our audit and potential opportunities for addressing each issue.

Figure 1: TREES Issues and Opportunities for Improvement

Issue Identified	Potential Opportunities for Improvement
<p>Many TREES users are using the System primarily to track the flow of the examination cases (inventory control) from one stage of the examination process to the next, instead of using the system as a case management system where most aspects of the examination process could be completed and reviewed.</p>	<ul style="list-style-type: none"> • Phase in the mandate to use the System as a case management system, in addition to an inventory control system, after successfully rolling out the October 2009 System release and successfully testing the ability to rollback the System to a previous release if upgrades to new releases are not successful. • Remove the forms, letters, and templates from the functions' shared drawers to encourage use of similar documents within the System. • Establish set standards (e.g., number of days) to complete activities (i.e., assign, review, and close) within the TREES.
<p>Many employees were maintaining both paper and electronic case files. Some of this duplication of data were at the request of the manager.</p>	<ul style="list-style-type: none"> • Establish guidelines to reduce the amount of paper being maintained Division-wide. • Require TE/GE Division managers to review the electronic files in the System to support a paperless environment and to promote storing the case files electronically in one centralized location.
<p>Additional guidance is needed relating to the type of information that should be included in the examination workpapers.</p>	<ul style="list-style-type: none"> • Provide additional guidance relating to the type of information that should and should not be included in the examination workpapers. This guidance will help to identify what type of information should be stored electronically on the TREES.



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Issue Identified	Potential Opportunities for Improvement
Most users lacked access to scanners to convert paper files into an electronic format.	<ul style="list-style-type: none"> • Purchase scanners. • Determine whether scanned signatures are acceptable for legal proceedings.
Employees expressed their frustrations with the System and need for reeducation.	<ul style="list-style-type: none"> • Communicate to users where the System is as of today and provide realistic timelines of what capabilities the TE/GE Division can expect in the near future. • Provide additional training Division-wide on the current capabilities of the System and significant capabilities that are added to the System.
TE/GE Division examination functions are maintaining and reconciling multiple inventory tracking systems.	<ul style="list-style-type: none"> • Educate users on how to use the TREES to reconcile inventory. • Retire the other inventory tracking systems used by the TE/GE Division to eliminate duplication of effort.
Users perceived that access to the TREES case library ¹ was too limited.	<ul style="list-style-type: none"> • Assess permissions assigned to employees to ensure users can efficiently complete their assigned tasks. For example, consider allowing for multiple user profiles (i.e., allowing a secretary to access the inventory of more than one group). • Provide users with specific procedures and/or written policy with regard to permissions and access to the case library.

¹ The case library refers to a central electronic warehouse of all TE/GE Division open and closed examination cases.



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Issue Identified	Potential Opportunities for Improvement
<p>Although the System has the ability to automatically create cases and build the examination case files using data from another IRS computer system, some offices manually created cases on the System and manually built their examination cases (returns and research data) either on the System or in a paper file.</p>	<ul style="list-style-type: none"> • Reeducate users to use the System to establish and build examination case files automatically to reduce paper and maximize use of limited resources. • Provide additional training on an efficient way to post returns and documents into the System. • Evaluate whether tax returns may be electronically extracted from other IRS sources in an efficient way to automatically bring returns directly into the System.
<p>Some offices are including activities other than examinations on the System. Specifically, compliance checks, customer assistance, and education and outreach activities are included in the TREES for some of the business units; other business units do not include these activities.</p>	<ul style="list-style-type: none"> • Establish consistent policy and guidelines Division-wide on what type of data should be maintained on the System to ensure that the System is used as the central electronic warehouse for all TE/GE Division compliance and education and outreach data. With consistent data, TE/GE Division management will be able to use the TREES to accurately assess compliance and education and outreach activities and efficiently allocate resources.
<p>TE/GE Division examination functions maintain other databases outside of the TREES.</p>	<ul style="list-style-type: none"> • Assess whether data from all the TE/GE Division-wide independent databases can be uploaded into the System to efficiently manage resources.
<p>Although the TE/GE Division developed a uniform way of identifying and naming individual examination workpapers on the TREES, it is not being used consistently.</p>	<ul style="list-style-type: none"> • Reemphasize to the users the need to use the required naming conventions. • Require users to bring in their files at the beginning of the examination using the required naming conventions and work within the System.

Source: TIGTA analysis of interviews with TREES users and System personnel.



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Appendix V

Management's Response to the Draft Report



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

JAN 11 2010

RECEIVED
JAN 11 2010

BY: *[Signature]*

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Sarah Hall Ingraham *[Signature]*
Commissioner, Tax Exempt and Government Entities

SUBJECT: Draft Audit Report – Additional Actions Are Needed to Realize Benefits of the Tax Exempt and Government Entities Reporting and Electronic Examination System

I am pleased to respond to your report concerning the Tax Exempt and Government Entities Reporting and Electronic Examination System (TREES or the System). We recognize that some of the planned functionalities needed to develop TREES as a complete case management system were not implemented, and that we need to provide additional training to employees in using the System effectively and consistently.

We appreciate your finding that we, along with Modernization and Information Technology Services (MITS), overcame difficulties during the deployment of TREES. As described in your Report, many of these problems were infrastructure performance issues. Our MITS partners worked cooperatively with us to largely resolve most of them. Additionally, as a result of lessons learned from the October 2008 software release, we revised our procedures for software releases. The January 2009 release was deployed very successfully.

We also appreciate your finding that the failure of TREES to provide some of the planned functionality was due to lack of funding. We are pursuing various alternative means of providing the additional functionality. We have successfully made available some of the specific functionalities detailed in your report. For example, the functionalities to create subfolders and to create one folder for multiple returns were included in Release 2.3.

Although your report accurately identifies items of functionality that were not included in the deployed version of TREES, it is also important to recognize that TREES as deployed is a working electronic case management system. A simple count of the number of items of functionality that were not delivered may not tell the whole story about TREES. Qualitatively, the functionality deployed with TREES does provide a



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useable system that if used optimally can produce much of the benefit projected in the business case.

We agree with your recommendation that additional user training is needed. When the first release of TREES was deployed, all users were given at least 32 hours of classroom, hands-on training. Prior to deployment of subsequent releases, change documents were provided to all users. An on-line user guide is available to all users, and each business unit has its own specialized training material. Nonetheless, we agree that more communication and training are needed to re-enforce employees' knowledge of the current capabilities of the System, to train employees to use new capabilities as they are added to the system, and to inform employees of plans for future additional capabilities. Our action plan, described in the attachment, will include additional training for TREES/RCCMS users.

Our specific responses to your recommendation are included in the attachment.

If you have any questions, please call Sarah Hall Ingram, TEGE Commissioner, at (202) 283-2500.

Attachment



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ATTACHMENT

Recommendation 1

The Commissioner, TE/GE Division, should develop an action plan to address the issues identified in this report and other issues the TE/GE Division has identified, as well as reeducate and train TE/GE Division users. This will allow the TE/GE Division to gain increased acceptance and fuller use of the TREES which would lead to more attainment of the System benefits.

Corrective Action

We agree with this recommendation. By July 30, 2010, TE/GE will develop an action plan to address the issues identified in this report, including providing additional information and training to TREES/RCCMS users.

Implementation Date

July 30, 2010

Responsible Official

Director, Employee Plans