



## Treasury Inspector General for Tax Administration Office of Audit

### REVIEW OF THE ELECTRONIC FRAUD DETECTION SYSTEM

Issued on September 29, 2015

## Highlights

Highlights of Report Number: 2015-20-093 to the Internal Revenue Service Chief Technology Officer.

### IMPACT ON TAXPAYERS

Implemented in 1994, the Electronic Fraud Detection System (EFDS) remains the IRS's primary frontline system for detecting fraudulent returns. The EFDS is designed to maximize revenue protection and fraud detection at the time that tax returns are filed to reduce the issuance of questionable refunds. The EFDS supports the Department of the Treasury strategic goal to *Manage the Government's Finances Effectively*.

### WHY TIGTA DID THE AUDIT

This review is part of our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Fraudulent Claims and Improper Payments. The overall audit objective was to determine whether the IRS has properly designed and tested enhancements to the EFDS prior to the 2015 Filing Season.

### WHAT TIGTA FOUND

The IRS is developing the Return Review Program to replace the EFDS due to its fundamental limitations in technology and design. However, the IRS has not set a termination date nor established a retirement plan for the EFDS. If the IRS does not efficiently transition to the Return Review Program so that it can retire the EFDS, the estimated additional operation and maintenance costs of running the EFDS could cost taxpayers approximately \$18.2 million per year.

The EFDS project team has taken steps to mitigate the risks associated with technical obsolescence. For example, the workload management system web release addressed concerns stemming from the client-server platform.

However, a risk management plan and requirements plan were not updated. Additionally, the IRS did not use the required repository for managing the testing of system requirements.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Technology Officer: 1) develop a system retirement plan for the EFDS and retire the EFDS after validating the Return Review Program effectively identifies, at a minimum, all issues currently identified by the EFDS; 2) update the Risk Management Plan to reflect the current organizational structure, management process methodology, documentation requirements, and mitigation strategy; 3) update the Requirements Plan to reflect the current activities, methods, and techniques that are used to perform and support requirements development and requirements management; and 4) ensure that contractors have software licenses to use the required repository and verify that guidance is followed.

IRS management agreed with our recommendations. The IRS plans to finalize the EFDS retirement plan by January 2016 and to review and update documentation concerning the role of the Enterprise Program Management Office. The IRS plans to update the Requirements Plan to reflect the current organizational structure and to continue to follow the requirements traceability process as defined by the IRS's Information Technology Strategy and Planning function. The IRS also plans to ensure that contractors performing integration testing within the development cycle for the EFDS have the software licenses required to use the requirements repository.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2015reports/201520093fr.pdf>