

Why GAO Did This Study

The Internal Revenue Service (IRS) began developing the Information Reporting and Document Matching (IRDM) program in fiscal year 2009 to enhance IRS's ability to automatically compare different sources of tax information and thus improve its capacity to identify and address taxpayer noncompliance.

GAO's May 2011 report recommended that IRS follow best practices from the GAO's *Cost Estimating and Assessment Guide* if IRS updated the cost estimate for building IRDM systems. IRS provided a new cost estimate for IRDM in August 2011. In this report, GAO assessed the extent to which (1) the IRDM funding request is supported by a reliable cost estimate and, if not reliably supported, why not; and (2) IRS's practices for capturing data on IRDM's actual costs and comparing them to estimated costs—known as earned value management (EVM)—generate reliable performance data. GAO compared IRS's 2011 IRDM cost estimate to criteria in GAO's cost guide and analyzed IRDM's earned value management data.

What GAO Recommends

GAO recommends that IRS ensure that IRDM has a reliable cost estimate, require certain project teams to work with its Estimation Program Office, improve cost estimation guidance, and improve the reliability of IRDM's EVM data. IRS agreed with one, partially agreed with one, and disagreed with two of GAO's recommendations. GAO generally disagrees with IRS's concerns, and still believes the recommendations have merit.

View [GAO-12-59](#). For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

IRS MANAGEMENT

Cost Estimate for New Information Reporting System Needs to be Made More Reliable

What GAO Found

The 2011 Information Reporting and Document Matching (IRDM) cost estimate, used to justify the program's projected budgets of \$115 million for fiscal years 2012 through 2016, generally does not meet best practices for reliability. As shown in the table below, the cost estimate did not fully meet any of the four best practices for a reliable cost estimate.

Best Practices for a Reliable Cost Estimate and IRDM Assessment

Best practices	IRDM rating
Comprehensive: <i>the estimate should cover the entire program over its full life-cycle.</i>	Partially meets.
Well documented: <i>the estimate should be supported by detailed documentation.</i>	Minimally meets.
Accurate: <i>the estimate should provide unbiased results that are not overly conservative or optimistic.</i>	Minimally meets.
Credible: <i>the estimate should check for and discuss any limitations.</i>	Does not meet.

Source: GAO analysis of IRS's 2011 IRDM cost estimate.

For example, the cost estimate minimally meets best practices for a well documented estimate because the Internal Revenue Service (IRS) did not provide detailed support for staff resources, and the cost estimate documentation only justified about 6 out of the 86 requested full time equivalent staff for IRDM, among other things. If documentation does not provide source data or cannot explain the calculations underlying the cost elements, the estimate's credibility may suffer. Although IRS has an independent office of cost estimators that can develop and update cost estimates using cost modeling software that generally follows GAO's best practices, this office did not develop the 2011 IRDM cost estimate. IRS policy does not require project teams to work with the office to update cost estimates. Additionally, IRS's cost estimation guidance for project managers is inconsistent regarding how cost estimates should be related to a budget, an inconsistency that could lead to budget requests that do not accurately estimate program funding needs.

The IRDM program's earned value management (EVM) data did not meet data reliability criteria in the areas GAO reviewed. For example, the IRDM project schedule was not properly sequenced—meaning activities were not properly linked in the order in which they are to be carried out. In addition, surveillance was not conducted on IRDM's EVM system, as required by the Office of Management and Budget and the Department of the Treasury. Surveillance involves having qualified staff review an EVM system. Because IRDM's 2011 cost estimate is based on unreliable EVM data, it does not provide adequate support for IRDM's budget requests. Until IRS addresses deficiencies in the EVM data, it cannot provide a reliable cost estimate for IRDM.