



Highlights of [GAO-11-168](#), a report to the Ranking Member, Subcommittee on Financial Services and General Government, Committee on Appropriations, House of Representatives

## Why GAO Did This Study

In August 2008, the Internal Revenue Service (IRS) began defining a new strategy for modernizing the way it manages individual taxpayer accounts. The strategy, known as Customer Account Data Engine (CADE) 2, is expected to provide service, compliance, and other benefits to IRS and to taxpayers beginning in 2012. IRS expects to implement CADE 2 in three phases. The first phase is expected to be delivered in 2012, the second in 2014, and the third at a later yet to be determined date.

GAO was asked to (1) determine whether IRS has identified the expected benefits of CADE 2 and set targets for measuring success, (2) examine the estimated costs and assess IRS's process for developing them, and (3) assess IRS's process for managing the risks associated with CADE 2 and describe the risks IRS has identified using this process. To do so, GAO reviewed relevant documentation, attended program review meetings, and interviewed IRS officials.

## What GAO Recommends

GAO's recommendations include (1) identifying all of the second phase benefits, setting the related targets, and identifying how systems and business processes might be affected; and (2) improving the credibility of revised cost estimates by including all costs or providing a rationale for excluded costs, and adjusting costs for inflation. In its comments on a draft of this report, IRS agreed with GAO's recommendations.

View [GAO-11-168](#) or key components. For more information, contact David A. Powner at 202-512-9286 or [pownerd@gao.gov](mailto:pownerd@gao.gov) or James R. White at 202-512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

# TAXPAYER ACCOUNT STRATEGY

## IRS Should Finish Defining Benefits and Improve Cost Estimates

### What GAO Found

IRS has identified 20 service, compliance, and other benefits for the first phase of CADE 2, including increasing the percentage of refunds processed daily and reducing the number of erroneous notices due to better account information, and has set quantitative targets for most of these benefits. GAO has previously reported that quantitative targets can be useful for tracking program performance. While it may not always be possible to quantify targets, doing so helps to objectively measure the extent to which expected benefits have been realized. However, IRS has not yet finalized expected benefits for the second phase or set related quantitative targets, because, according to officials, these are contingent upon yet to be made design and funding decisions. Nevertheless, addressing the second phase's benefits and related targets as the design is being considered could influence design decisions and help identify early on how systems and processes might be affected.

IRS reported preliminary life cycle cost estimates for the first two phases of the CADE 2 program of about \$1.3 billion through 2024. This includes about \$377 million for development and \$922 million for operations and maintenance. IRS's process for developing the preliminary estimates was generally consistent with best practices. However, the agency did not follow three practices intended to improve the credibility of cost estimates. Specifically, IRS did not (1) consistently document excluded costs or provide a rationale for excluding them; (2) use inflation in calculating costs; and (3) perform an analysis to examine the effects of changing ground rules and assumptions. While IRS stated it would perform the analysis of changing ground rules and assumptions in revised estimates to be available by the completion of our audit, until the agency implements all these practices its estimates may not be credible.

IRS's process for managing the risks associated with CADE 2 is generally consistent with best practices. Through its process, IRS identified significant risks facing CADE 2, including that filing season and other top information technology investment priorities may result in contention for key resources, the delivery of the first phase of CADE 2 may be delayed if deficiencies identified in requirements are not corrected in a timely manner, and the risk that technical challenges and other risks to implementing the database identified as a result of prototyping efforts may not be addressed. To its credit, IRS has developed mitigation strategies for each identified risk. While IRS is working to ensure CADE 2 is successfully managed, the schedule for delivering the initial phase is nevertheless ambitious. IRS officials have acknowledged this and are taking actions to increase their chances of meeting it, including moving certain activities up, performing others concurrently, and adding checkpoints to monitor the program's status. While these actions may increase the likelihood of meeting the schedule, some of them, such as performing activities concurrently, could potentially introduce more risk to CADE 2's successful development and implementation.