



*The Initial Implementation of the  
End User Access System Was Not  
Effectively Planned and the Continued  
Implementation Needs to Ensure the  
Efficient Use of Resources*

**September 2005**

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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

September 30, 2005

**MEMORANDUM FOR** COMMISSIONER, TAX EXEMPT AND GOVERNMENT ENTITIES  
DIVISION

*Pamela J. Gardiner*

**FROM:** Pamela J. Gardiner  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – The Initial Implementation of the End User  
Access System Was Not Effectively Planned and the Continued  
Implementation Needs to Ensure the Efficient Use of Resources  
(Audit # 200510004)

This report presents the results of our review of Tax Exempt and Government Entities (TE/GE) Division's process used to prepare for the planned implementation of the End User Access System (EUAS).<sup>1</sup> The TE/GE and Small Business/Self-Employed Divisions use information from this system to resolve unposted return transactions, determine whether penalty notices for late or incomplete returns should be issued, respond to customer's telephone calls regarding filed Annual Return/Reports of Employee Benefit Plan (Form 5500), provide employees original copies of Forms 5500 under examination, and obtain copies of Forms 5500 for the Employee Plans Classification Unit's Quarterly Quality Reviews. The overall objective of this review was to assess the impact the EUAS will have on Internal Revenue Service (IRS) operations and to evaluate IRS processes used to prepare for the planned implementation of the EUAS.

*Synopsis*

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<sup>1</sup> The EUAS is a subsystem of the ERISA Filing Acceptance System (EFAST) and is used to view, search, and print electronic images of Annual Return/Reports of Employee Benefit Plan (Form 5500). The ERISA is the Employee Retirement Income Security Act of 1974 (Pub. L. No. 93-406, 88 Stat. 829 (codified as amended in scattered sections of 5 U.S.C., 18 U.S.C., 26 U.S.C., 29 U.S.C., and 42 U.S.C.)). The EFAST system captures paper and electronic Forms 5500 return information in a format compatible with the Internal Revenue Service's Employee Plans Master File (a database that maintains account information for employee plans). It also produces electronic images of the paper Forms 5500.



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The Employee Retirement Income Security Act of 1974 (ERISA) requires plan administrators and sponsors of certain employee benefit plans to submit a Form 5500. Forms 5500 are filed with the Department of Labor (DOL), which has contracted with a private contractor to process the returns using the ERISA Filing Acceptance System. On June 15, 2000, the IRS and DOL established an Interagency Agreement<sup>2</sup> to receive services for the processing of Forms 5500. As part of this Interagency Agreement, the DOL was required to provide the IRS access to the EUAS, which contains digital images of the Forms 5500, attached schedules, and envelopes (showing the postmark date).

Based on our review of four judgmental samples within the TE/GE Division operations using the EUAS and the Small Business/Self-Employed Division site in Ogden, Utah, responsible for processing TE/GE Division return information and notices and discussions with TE/GE Division management, we believe the EUAS has been demonstrated to be a useful research tool in only two operations, the Ogden Accounts Management Center Employee Plans Accounts (EP Accounts) unit and the Employee Plans (EP) Examinations function Classification unit. For the EP Accounts unit, the EUAS provided additional information, such as the postmark date from the envelope, in 16 percent of our sampled cases, which allowed employees to determine whether a notice should be mailed. If IRS employees had not used the EUAS, these customers would have received erroneous notices, causing additional taxpayer burden, correspondence to the operation, and customer inquiries to the TE/GE Division Customer Account Services call site. In addition, TE/GE Division management advised us the EUAS has increased efficiency for the EP Examinations function Classification staff because they previously had to send individuals to the DOL contractor site to research the EUAS, but they can now access the EUAS online. The EP Examinations function Classification staff uses the EUAS to select their samples, which are used to verify the quality of data on the Return Inventory Classification System.<sup>3</sup> Finally, TE/GE Division management advised us the EUAS may be used in the future as a research tool for the EP function Taxpayer Delinquency Investigation initiative.<sup>4</sup>

For the remaining two operations<sup>5</sup> in our samples, employees were able to obtain the necessary information to complete their work through other IRS sources for 98 to 100 percent of our sampled cases. In addition, while the EUAS is a useful tool for the EP Examinations function Classification unit, it would have little impact on examinations based on our review of a sample of closed EP examinations. TE/GE Division management advised us the EUAS was intended to

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<sup>2</sup> A written agreement entered into between two Federal Government agencies that specifies the goods to be furnished or tasks to be accomplished by one agency in support of the other agency.

<sup>3</sup> This System provides users access to return and filer information related to the filing and processing of EP, Exempt Organizations, and Government Entities functions' forms.

<sup>4</sup> The TE/GE Division Customer Account Services call site may use the EUAS to determine whether a return has been filed if a customer calls after receiving a Taxpayer Delinquency Investigation notice.

<sup>5</sup> The remaining two operations include the Ogden Submission Processing Site EP Entities unit and the TE/GE Division Customer Account Services call site. Submission Processing Sites process paper and electronic submissions for analysis and posting to taxpayer accounts.



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be another research tool for their staff and was not intended to replace any current IRS sources as the primary research tool. TE/GE Division management's plan was to evaluate the use of the EUAS after several months to determine if the EUAS workstations and user accounts were in the correct locations. If this review of the EUAS confirms there is a limited need for it within the IRS, any future decisions regarding the EUAS should be made based on what would be the most efficient use of IRS resources.

Because TE/GE Division management did not formally assess the potential impact the EUAS would have on its operations prior to implementation, the IRS may have taken unnecessary actions to determine the best approach for implementing the EUAS. As a result, IRS resources within the TE/GE Division, the Mission Assurance and Security Services office, and the Modernization and Information Technology Services (MITS) organization may not have been effectively used during the period July 2000 through May 2005. The TE/GE Division cannot determine whether existing resources are being effectively used because it does not receive the cost and financial information for the EUAS from the DOL, the MITS organization, the Mission Assurance and Security Services office or from within the TE/GE Division offices.

### Recommendations

We recommended the Director, EP, prior to placing additional resources on the EUAS, monitor EUAS usage in each operation for both peak and nonpeak periods when determining the optimal placement and number of user accounts for the EUAS and assess the impact the system has had on each of the four IRS operations using it, as well as any anticipated needs of the EUAS. We also recommended the Director, Business Systems Planning, ensure cost and financial reporting information is maintained and monitored for operating and maintaining the EUAS, to determine whether IRS resources are effectively used.

### Response

TE/GE Division management agreed with the findings and recommendations in the report. Specifically, TE/GE Division management will assess the EUAS impact by monitoring EUAS usage quarterly and during peak and nonpeak periods, and will use the results to determine the optimal resource allocation for the EUAS. In addition, TE/GE Division management will finalize with the DOL a reporting cycle to receive copies of receipt and acceptance records of vendor-provided services related to the EUAS. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



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## *Background*

The Employee Retirement Income Security Act of 1974 (ERISA)<sup>1</sup> requires plan administrators and sponsors of certain employee benefit plans to submit an Annual Return/Report of Employee Benefit Plan (Form 5500). Forms 5500 are filed with the Department of Labor (DOL), which has contracted with a private contractor to process the returns using the ERISA Filing Acceptance System (EFAST)<sup>2</sup> and to electronically provide the Form 5500 data to the Internal Revenue Service (IRS) and three other Federal Government agencies.<sup>3</sup>

On June 15, 2000, the IRS and DOL established an Interagency Agreement<sup>4</sup> for the IRS Tax Exempt and Government Entities (TE/GE) Division to receive services for the processing of Forms 5500. As part of this Interagency Agreement, the DOL was required to provide the IRS access to a system containing digital images of the Forms 5500, attached schedules, and envelopes (showing the postmark date). This system, the End User Access System (EUAS),<sup>5</sup> was rolled out to IRS TE/GE Division operational areas and to selected areas within the Small Business/Self-Employed (SB/SE) Division site in Ogden, Utah, that assist in the resolution of return processing errors and in the management of accounts for TE/GE Division customers. The EUAS became operational in the IRS in December 2004 but did not become fully functional until mid-May 2005.

The TE/GE Division is responsible for ensuring employee benefit plans comply with applicable provisions of the Internal Revenue Code. Upon obtaining access to the EUAS, IRS employees can view, search, and print electronic images of the Forms 5500 needed by the Ogden Submission Processing Site<sup>6</sup> Employee Plans Entity (EP Entity) unit, the Ogden Accounts Management Center Employee Plans Accounts (EP Accounts) unit, the TE/GE Division Customer Account Services (CAS) call site, and the TE/GE Division Employee Plans (EP) Examinations function. Form 5500 images are intended to be used by the following operations:

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<sup>1</sup> Pub. L. No. 93-406, 88 Stat. 829 (codified as amended in scattered sections of 5 U.S.C., 18 U.S.C., 26 U.S.C., 29 U.S.C., and 42 U.S.C.).

<sup>2</sup> The EFAST system captures paper and electronic Form 5500 return information in a format compatible with the IRS' Employee Plans Master File (a database that maintains account information for employee plans). It also produces electronic images of the paper Forms 5500.

<sup>3</sup> The DOL, IRS, Social Security Administration, and Pension Benefit Guaranty Corporation.

<sup>4</sup> A written agreement entered into between two Federal Government agencies that specifies the goods to be furnished or tasks to be accomplished by one agency in support of the other agency.

<sup>5</sup> The EUAS is a subsystem of the EFAST and is used to view, search, and print electronic images of Forms 5500.

<sup>6</sup> Submission Processing Sites process paper and electronic submissions for analysis and posting to taxpayer accounts.



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- The EP Entity unit plans to use the EUAS to resolve unposted transactions for which return information could not be validated or authenticated with existing information on the IRS Employee Plans Master File and to process replies to Taxpayer Delinquency Investigation notices.
- The EP Accounts unit plans to use the EUAS to determine whether penalty notices for late or incomplete returns should be issued and to process correspondence received from filers concerning their Form 5500 accounts.
- The TE/GE Division CAS call site plans to use the EUAS to respond to customers' telephone calls regarding filed Forms 5500.
- The EP Examinations function plans to use the EUAS to provide its employees with original copies of Forms 5500 under examination for Forms 5500 involved in court cases, for Abusive Tax Avoidance Transaction cases, or when there are questions on the accuracy of return information on the Return Inventory Classification System.<sup>7</sup>

A prior Treasury Inspector General for Tax Administration (TIGTA) audit<sup>8</sup> found TE/GE Division employees did not have access to the EUAS as of February 2002 because telecommunication issues associated with the transmission of data from the DOL contractor's site were not resolved. In addition, the TE/GE Division had not conducted an analysis to determine the number of IRS employees that needed access to the imaged Forms 5500. Instead, the IRS and DOL met and assigned the IRS 30 EUAS user accounts without obtaining data on the number of user accounts that would ultimately be needed by the IRS. During that audit, we were advised the EP Entity and EP Accounts units alone needed access to the EUAS for about 30 users.

We recommended the Commissioner, TE/GE Division, determine the appropriate number of users needing access to the EUAS and take actions to obtain access for these additional users. TE/GE Division management's response was to not change the initial number and allocation of user accounts because they did not have any history on which to base a decision prior to the implementation of the EUAS.

This review was performed at the IRS National Headquarters Business Systems Planning and EP Program offices in Washington, D.C.; the TE/GE Division CAS call site in Cincinnati, Ohio; the EP Examinations function in Baltimore, Maryland; and the EP Entity and EP Accounts units operated by the SB/SE Division in Ogden, Utah. We also interviewed employees and obtained information regarding the EUAS at the IRS Modernization and Information Technology Services (MITS) organization and the Mission Assurance and Security Services office in

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<sup>7</sup> This System provides users access to return and filer information related to the filing and processing of EP, Exempt Organizations, and Government Entities functions' forms.

<sup>8</sup> *Improvements Are Needed to Ensure That Employee Plans Return Information Is Timely Received and That Returns Are Properly Processed and Adequately Safeguarded* (Reference Number 2002-10-098, dated June 2002).



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New Carrollton, Maryland. The audit work was conducted during the period December 2004 through June 2005. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, 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 Absence of a Planning Process Resulted in the Expenditure of Resources to Deliver a System That May Have Limited Operational Impact***

At the time of our review, TE/GE Division management was in the process of introducing the EUAS within four operational work units and encouraging employees to become familiar with it. Their plan was to evaluate the use of the EUAS after several months to determine if the EUAS workstations and user accounts were in the correct locations. However, based on our review of four judgmental samples within the TE/GE Division operations using the EUAS and the SB/SE Division site responsible for processing TE/GE Division return information and notices and discussions with TE/GE Division management, we believe the EUAS has been demonstrated to be a useful research tool in only two operations, the EP Accounts unit and the EP Examinations function Classification unit. In addition, TE/GE Division management advised us the EUAS may be used in the future as a research tool for the EP function Taxpayer Delinquency Investigation initiative. The TE/GE Division CAS call site may use the EUAS to determine whether a return has been filed if a customer calls after receiving a Taxpayer Delinquency Investigation notice.

For the remaining two operations<sup>9</sup> in our samples, employees were able to obtain the necessary information to complete their work through other IRS sources for 98 to 100 percent of our sampled cases. TE/GE Division management advised us the EUAS was intended to be another research tool for their staff and was not intended to replace any current IRS sources as the primary research tool. If TE/GE Division management's planned review of the EUAS confirms there is a limited need for it within the IRS, any future decisions regarding the EUAS should be made based on what would be the most efficient use of IRS resources.

Because TE/GE Division management did not formally assess the potential impact the EUAS would have on its operations prior to implementation, the IRS may have taken unnecessary actions to determine the best approach for implementing the EUAS. As a result, IRS resources within the TE/GE Division, the Mission Assurance and Security Services office, and the MITS organization may not have been effectively used during the period July 2000 through May 2005.

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<sup>9</sup> The remaining two operations include the Ogden Submission Processing Site EP Entities unit and the TE/GE Division CAS call site. Submission Processing Sites process paper and electronic submissions for analysis and posting to taxpayer accounts.



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During the initial planning of the EUAS, TE/GE Division management should have:

- Assessed the EUAS' potential impact on the IRS operational areas in which it would be implemented.
- Determined the optimal number of IRS user accounts and allocation of the EUAS workstations for each operation.
- Determined the costs and resources associated with implementing and maintaining the EUAS for the TE/GE Division, the MITS organization, and the Mission Assurance and Security Services office to assure the best use of resources.

**Assess the EUAS' potential impact on IRS operations**

To determine the potential impact the EUAS has had or may have on the IRS, we selected four judgmental samples from the TE/GE Division operations using the EUAS and the SB/SE Division sites responsible for processing EP function return information and notices. The results of the four judgmental samples are shown below.

- The judgmental sample of 50 notices generated in connection with Forms 5500 processed in Fiscal Year (FY) 2005 by the EP Accounts unit showed the EUAS had a positive impact on determining whether to mail a notice to a customer. For 42 (84 percent) of the 50 notices, information was available on IRS systems for EP Accounts unit employees to determine whether a notice should be mailed to customers. For the remaining 8 (16 percent) notices, the EUAS provided additional information, such as the postmark date from the envelope, that allowed employees to determine whether a notice should be mailed. The results of our judgmental sample were similar to those of a much larger sample conducted by a TE/GE Division analyst. The TE/GE Division analyst tested 3,527 closed Computer Paragraph 213 Notices<sup>10</sup> generated from April 12 through June 27, 2005, and found the EUAS was needed to close 446 (12.6 percent) of the Notices. If IRS employees had not used the EUAS, these customers would have received erroneous notices, causing additional taxpayer burden, correspondence to the operation, and customer inquiries to the TE/GE Division CAS call site.
- The judgmental sample of 50 unposted Form 5500 transactions received in FY 2005 by the EP Entity unit showed the additional information from the EUAS assisted in resolving 1 more unposted Form 5500 transaction (2 percent). For this unposted transaction, information from the EUAS was needed to determine the correct Employer Identification Number.<sup>11</sup> The information needed to resolve the remaining 49 unposted Form 5500

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<sup>10</sup> This Notice is entitled Notification of Proposed Penalty for Late/Incomplete Return.

<sup>11</sup> A unique nine-digit number used to identify a taxpayer's business account.



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transactions (98 percent) was found on the Integrated Data Retrieval System.<sup>12</sup> While the EUAS was needed to resolve only one unposted transaction, TE/GE Division CAS management advised us they also use the EUAS as an additional research tool to verify information on the Integrated Data Retrieval System when resolving certain unpostable conditions.

- The judgmental sample of 50 examination cases processed in FY 2005 by the EP Examinations function showed the EUAS would not assist EP function agents in the processing of examination cases (0 percent). Our sample showed that, for a majority of the examination cases, copies of the Forms 5500 were obtained by requesting the Forms along with other documents requested from the taxpayers during the EP Examinations function process or through the Return Inventory Classification System. While the EUAS did not assist in the processing of examination cases, EP Examinations function management advised us the EUAS is used by the EP Examination function Classification unit to retrieve 50 copies of Forms 5500 for its Quarterly Quality Reviews. The EP Classification unit also uses the EUAS to obtain prior and subsequent year returns that are not on the Employee Plans Master File or Return Inventory Classification System but were filed with the DOL contractor by the taxpayers. Our review of the EP Examinations EUAS Usage Log showed that, from January 4 through March 29, 2005, the EP Examinations function requested 63 Form 5500 printouts from the EUAS.
- The judgmental sample of 100 customer inquiries received at the TE/GE Division CAS call site in FY 2005 showed the EUAS was not needed to resolve any customer inquiry (0 percent). Incoming customer inquiries relating to a filed Form 5500, general questions about Forms 5500, and questions relating to retirement plans are routed to Application 415 on the TE/GE Division CAS call site telephone system.<sup>13</sup> For our sample, most of the customer inquiries for Application 415 were related to general questions concerning Forms 5500 and other issues related to retirement plans. Our sample included only 10 customer inquiries regarding a filed Form 5500; the inquiries were resolved without the need to access the EUAS. In addition, the TE/GE Division CAS call site has not used the EUAS for any operational purposes and on May 11, 2005, gave the Ogden Submission Processing Site several of its user accounts for the EUAS.

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<sup>12</sup> The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

<sup>13</sup> This telephone system is operated by the SB/SE Division at the Cincinnati Campus located in Covington, Kentucky. It will automatically route calls based on a menu of topics callers can choose from. The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts. IRS Computing Centers support tax processing and information management through a data processing and telecommunications infrastructure.



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Instead of evaluating the potential impact of the EUAS on operations, TE/GE Division management concentrated on working with the Mission Assurance and Security Services office and the MITS organization to resolve the security issues preventing the IRS from accessing the EUAS and relying on the initial decision to allocate the EUAS workstations to certain locations.

In March 2002, the MITS organization submitted to the TE/GE Division a detailed study entitled, “IRS End-User Online Access to Form 5500 Series Filings.” The objective of the study was to provide a decision framework to identify the best available alternative to implement the EUAS in a manner that would meet the TE/GE Division EUAS requirements. This extensive study compared eight alternatives for implementing the EUAS requirements by evaluating each alternative using nine weighted evaluation criteria.

While TE/GE Division management did not have records on the resources used to complete the study, IRS resources from the Mission Assurance and Security Services office, the MITS organization, and the TE/GE Division were expended to determine the best alternative for implementing the EUAS requirements from a technical engineering perspective. Had TE/GE Division management performed an initial review to assess the potential impact the EUAS would have on its operations or whether its operations had an actual need for the EUAS, they would have had the information needed to appropriately assess the TE/GE Division’s priorities for expending resources in the Mission Assurance and Security Services office and the MITS organization.

**Determine the optimal number of IRS user accounts and allocation of the EUAS workstations**

In response to the prior TIGTA report, TE/GE Division management did not change their initial allocation and number of 30 user accounts and 10 EUAS workstations because the Division was beginning to “stand up” organizationally and no historical information existed as a basis for a different allocation of user accounts and workstations. TE/GE Division management advised us they had not reevaluated those allocations before the EUAS was implemented but discussions are currently ongoing among the various TE/GE Division operations regarding the reallocation of user accounts. They are attempting to determine whether they can operate efficiently with the number of user accounts that exist under the current terms of the DOL contract.

In addition, while an analysis has not been performed to determine whether the EUAS workstations are placed according to business needs, the TE/GE Division is monitoring the workload of existing workstations to assess whether EUAS workstations are placed in the correct locations.

An additional item for consideration involves the fluctuations in workload during the year for the different operations. TE/GE Division management should consider conducting periodic reviews



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to ensure the peak and nonpeak periods of workload fluctuations are included when determining the best placement of the EUAS workstations.

If IRS management determines that additional IRS user accounts are needed, the capacity of the EUAS would have to be increased. This will require submitting an Engineering Change Proposal to the DOL contractor requesting an increase in capacity. The change will also require that new and upgraded hardware be installed. If the IRS is the only agency requesting the upgrade, it will have to assume all of the costs associated with the upgrade.

**Determine the costs and resources associated with implementing and maintaining the EUAS**

The TE/GE Division does not receive the EUAS cost and financial information from the DOL, the MITS organization, the Mission Assurance and Security Services office, or the various TE/GE Division functions to allow it to identify the total costs for implementing and maintaining the EUAS. This information is needed to determine whether IRS resources are being effectively used.

Our review of the DOL contract modifications dated from October 22, 1998, through September 14, 2004, showed the contract had been modified to require the IRS to pay an additional \$1,045,785 in EFAST telecommunication infrastructure costs for both the EUAS and the DOL contractor's EFAST call center. However, since the DOL contract does not segregate these two costs, the IRS' portion of the infrastructure costs allocated to the EUAS is not known.

To determine the total costs for the EUAS, the TE/GE Division needs to consider the cost of IRS resources used by the Mission Assurance and Security Services office, the MITS organization, and the TE/GE Division, in addition to the EFAST telecommunication infrastructure costs. TE/GE Division management advised us they were not provided cost information by the Mission Assurance and Security Services office or the MITS organization for their efforts to resolve telecommunication issues and to determine the best approach to implement and maintain the EUAS. Further, the TE/GE Division did not separately track its resource costs when working to implement the EUAS. Although there is no cost information from the Mission Assurance and Security Services office or the MITS organization, the resource cost over 4 years was likely significant. This is an important consideration because these offices are also responsible for the IRS' high-priority systems modernization projects. It further highlights the need for TE/GE Division management to evaluate the potential impact and use of the EUAS in determining the best use of resources.

Since the separation of the EUAS infrastructure cost information was not specified within the Interagency Agreement with the DOL and the MITS organization, and neither the Mission Assurance and Security Services office nor the TE/GE Division separately track the costs for a particular system, the total costs associated with implementing and maintaining the EUAS are unknown.



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## **Recommendations**

**Recommendation 1:** Prior to placing additional IRS resources on the EUAS, the Director, EP, should assess the impact the EUAS has had on each of the four IRS operations using it, as well as any anticipated needs of the EUAS. The impact assessment should monitor use of the EUAS for a period long enough to ensure the peak and nonpeak use periods for each IRS operation is captured and should show how the EUAS can be used to 1) operate as a research tool for unposted Form 5500 transactions, 2) assist in closure of EP Examinations function cases, 3) operate as a research tool for the EP Classification unit, 4) answer customer inquiries, and 5) process penalty notices that cannot be completed using current IRS sources of information.

**Management's Response:** The Business Systems Planning and Employee Plans functions will assess the EUAS impact by monitoring EUAS usage quarterly and during peak and nonpeak periods. The results will aid in determining the optimal resource allocation for the EUAS.

**Recommendation 2:** The Director, Business Systems Planning, should ensure cost and financial reporting information is maintained and monitored for operating and maintaining the EUAS, to determine whether IRS resources are effectively used.

**Management's Response:** The Business Systems Planning function will finalize with the DOL a reporting cycle to receive copies of DOL receipt and acceptance records of vendor-provided services related to the EUAS and its costs.



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## Appendix I

### *Detailed Objective, Scope, and Methodology*

The overall objective of this audit was to assess the impact the End User Access System (EUAS)<sup>1</sup> will have on the Internal Revenue Service (IRS) operations and to evaluate IRS processes used to prepare for the planned implementation of the EUAS. To achieve this objective, we:

- I. Determined what impact the EUAS has had or may have on each Tax Exempt and Government Entities (TE/GE) Division and Small Business/Self-Employed Division operation.
  - A. Determined what impact the EUAS has had on the processing of unpostable Annual Return/Reports of Employee Benefit Plan (Form 5500) by the Ogden, Utah, Submission Processing Site<sup>2</sup> Employee Plans Entity unit by interviewing personnel and reviewing a judgmental sample of 50 unposted Forms 5500 from a population of 2,975 unposted Forms 5500 generated during the week of February 6 through February 12, 2005.
  - B. Determined what impact the EUAS has had on the TE/GE Division Employee Plans Examinations function by interviewing personnel and reviewing a judgmental sample of 50 examination cases from a population of 2,591 examinations closed between September 26, 2004, and January 22, 2005.
  - C. Determined what impact the EUAS has had on the TE/GE Division Customer Account Services call site operation by interviewing personnel and reviewing a judgmental sample of 100 Form 5500 customer telephone inquiries received between January 20 and March 24, 2005.
  - D. Determined whether there are additional TE/GE Division operations that need access to the EUAS.

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<sup>1</sup> The EUAS is a subsystem of the ERISA Filing Acceptance System (EFAST) and is used to view, search, and print electronic images of Annual Return/Reports of Employee Benefit Plan (Form 5500). The ERISA is the Employee Retirement Income Security Act of 1974 (Pub. L. No. 93-406, 88 Stat. 829 (codified as amended in scattered sections of 5 U.S.C., 18 U.S.C., 26 U.S.C., 29 U.S.C., and 42 U.S.C.)). The EFAST system captures paper and electronic Form 5500 return information in a format compatible with the Internal Revenue Service's Employee Plans Master File (a database that maintains account information for employee plans). It also produces electronic images of the paper Forms 5500.

<sup>2</sup> Submission Processing Sites process paper and electronic submissions for analysis and posting to taxpayer accounts.



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- E. Determined the impact the EUAS has had on the processing of notices by the Ogden Accounts Management Center Employee Plans Accounts (EP Accounts) unit by interviewing TE/GE Division analysts at the EP Accounts unit and reviewing a judgmental sample of 50 notices proposing a penalty for filing a late or incomplete Form 5500 from a population of 1,989 notices generated between February 6 and February 12, 2005.
- II. Evaluated the TE/GE Division process used to prepare for the planned implementation of the EUAS.
  - A. Interviewed TE/GE Division personnel to determine whether the process used to define the EUAS requirements was adequate to meet the needs of the TE/GE Division.
  - B. Interviewed TE/GE Division personnel to evaluate the basis of any analysis performed to determine the allocation and appropriate number of IRS users that need access to the EUAS and the actions taken to obtain access for any additional IRS users.
  - C. Interviewed TE/GE Division personnel and reviewed the TE/GE Division's current list and plan for the EUAS workstations to evaluate the basis of any analysis performed to determine the placement and appropriate number of EUAS workstations and the actions taken to obtain any additional workstations.
  - D. Interviewed IRS Modernization and Information Technology Services (MITS) organization and Mission Assurance and Security Services office personnel to determine whether alternative methods to obtain the needed Form 5500 information (other than use of the EUAS) were considered and reviewed the "IRS End-User Online Access to Form 5500 Filings" analysis that evaluated the different alternatives using the EUAS to determine whether the IRS could make a sound business decision based on the results of the analysis.
- III. Determined what issues have prevented the planned implementation of the EUAS.
  - A. Interviewed TE/GE Division and MITS organization personnel to determine whether any system requirement issues have prevented implementation of the EUAS.
  - B. Interviewed TE/GE Division and Mission Assurance and Security Services office personnel and reviewed the Employee Retirement Income Security Act of 1974 Filing Acceptance System Security Test and Evaluation Report to determine whether certification requirement issues have prevented implementation of the EUAS.
  - C. Interviewed TE/GE Division, MITS organization, and Mission Assurance and Security Services office personnel to determine to what extent the process used to coordinate, communicate, and resolve EUAS requirements and certification issues among these key IRS offices has caused a delay in implementing the EUAS.



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*The Initial Implementation of the End User Access System Was Not Effectively Planned and the Continued Implementation Needs to Ensure the Efficient Use of Resources*

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- D. Interviewed TE/GE Division and MITS organization personnel to determine to what extent the process used to coordinate, communicate, and resolve EUAS requirements and certification issues among the IRS, the Department of Labor (DOL), and the DOL contractor has caused a delay in implementing the EUAS.
- IV. Determined the costs needed to implement and maintain the EUAS and the planned benefits to the TE/GE Division by obtaining access to the imaged Forms 5500.
- A. Interviewed TE/GE Division, MITS organization, and Mission Assurance and Security Services office personnel and reviewed the DOL contract modifications to identify the costs incurred by the IRS and to determine the costs needed to implement and maintain the EUAS.
  - B. Interviewed TE/GE Division management to assess any added costs the IRS may incur should they decide to obtain additional IRS user accounts and/or EUAS workstations.
  - C. Interviewed TE/GE Division personnel to determine the planned benefits of providing TE/GE Division operations access to the imaged Forms 5500.



*The Initial Implementation of the End User Access System Was  
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## **Appendix II**

### *Major Contributors to This Report*

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*The Initial Implementation of the End User Access System Was  
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## **Appendix III**

### *Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Tax Exempt and Government Entities Division SE:T  
Director, Business Systems Planning, Tax Exempt and Government Entities Division SE:T:BSP  
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**Appendix IV**

*Management's Response to the Draft Report*



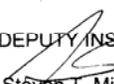
DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

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SEP 22 2005

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MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:   
Steven T. Miller  
Commissioner, Tax Exempt and Government Entities

SUBJECT: The Initial Implementation of the End User Access System  
Was Not Effectively Planned and the Continued Implementation  
Needs to Ensure the Effective Use of Resources  
(Audit # 200510004)

Thank you for the opportunity to respond to your draft report regarding the IRS End User Access System for the Form 5500. I agree that we need more time to monitor and review the impact of the End User Access System (EUAS) with the functions that use it. As mentioned in the report, "the EUAS became operational in the IRS in December 2004, but did not become fully functional until mid-May 2005". Therefore, use of the system was not optimal during the period of this audit, December 2004 through June 2005. However, I accept the recommendations and will take steps within the scope of our available resources to act upon them.

I look forward to your continued interest in ensuring that Form 5500 is processed and data from it is used in the most effective and efficient manner possible. If you have any questions, your staff may contact Carol Gold, Director, Employee Plans at (202) 283-9515 or Midori Morgan-Gaide, Acting Director, Business Systems Planning at (202) 283-8864.

Attachment



*The Initial Implementation of the End User Access System Was Not Effectively Planned and the Continued Implementation Needs to Ensure the Efficient Use of Resources*

Attachment

**RECOMMENDATION 1-1:**

The Director, Employee Plans should assess the impact the EUAS has had on each of the four IRS operations using it, as well as any anticipated needs of the EUAS. The impact assessment should monitor the use of EUAS for a period long enough to ensure the peak and non-peak use periods for each of the four IRS operations is captured and should show how the EUAS can be used to 1) operate as a research tool for un-posted Form 5500 transactions, 2) assist in closure of EP Examinations function cases 3) operate as a research tool for the EP Classification unit, 4) answer customer inquiries, and 5) process penalty notices that cannot be completed using current sources of information.

**CORRECTIVE ACTION 1-1-1:**

The Business Systems Planning and Employee Plans functions will assess the EUAS impact by monitoring EUAS usage quarterly, and during peak and non-peak periods. The results will aid in determining the optimal resource allocation for the EUAS.

**PROPOSED CORRECTIVE ACTION COMPLETION DATE:**

November 15, 2006, and as necessary thereafter

**RESPONSIBLE OFFICIAL:**

Director, Employee Plans (EP) and Acting Director, Business Systems Planning (BSP)

**CORRECTIVE ACTION MONITORING PLAN:**

The Directors, EP and BSP will review progress quarterly in status meetings.

**RECOMMENDATION 2 - 1**

The Director, Business Systems Planning (BSP) should ensure cost and financial reporting information is maintained and monitored for operating and maintaining the EUAS, to determine whether IRS resources are effectively used.

**CORRECTIVE ACTION 2-1-1:**

The Business Systems Planning function will finalize with DOL a reporting cycle to receive copies of DOL receipt and acceptance records of vendor-provided services related to EUAS and costs (pursuit to Section 9, General Provisions, of the Interagency Agreement taking into consideration available data and reports, and oversight resources available from IRS).

**PROPOSED CORRECTIVE ACTION COMPLETION DATE:**

November 15, 2006

**RESPONSIBLE OFFICIAL:**

Acting Director, BSP

**CORRECTIVE ACTION MONITORING PLAN:**

The Acting Director, BSP will review quarterly a summary of the DOL receipt and acceptance records and costs as they relate to the IRS.