

IRS**News Release**

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

www.irs.gov/newsroom

Public Contact: 800.829.1040

**IRS Delays Launch of Key Technology Program Until 2004 Filing Season,
Agency Selects Outside Firm to Review Program**

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WASHINGTON — The Internal Revenue Service announced today the delay of the first phase of the program to modernize its taxpayer master files, the Customer Account Data Engine (CADE), until the 2004 filing season. The first group of taxpayers, approximately 6 million 1040 EZ filers, was originally scheduled to move to the new system in 2001.

“This most recent setback is a serious matter,” said IRS Commissioner Mark W. Everson.

Everson also announced today the IRS has launched an independent review of the program to evaluate its progress and determine whether any changes are needed. Following up on a commitment he made when becoming Commissioner in May, Everson announced the selection of the Software Engineering Institute of Carnegie Mellon University to conduct the study and report back to the IRS in 60-90 days.

When fully operational, CADE will be a modern database that will house tax information for more than 200 million individual and business taxpayers. It replaces the antiquated, magnetic tape-based system that came into use four decades ago. The system, called the Master File, takes a week to update its records, creating delays in providing accurate account information for taxpayers. When completed, CADE will provide a variety of benefits to taxpayers, such as faster refunds along with daily postings of transactions and updating of accounts.

The IRS recently learned from its PRIME Contractor, the consortium of private sector companies that coordinates the modernization effort, that there would be an additional delay in CADE, forcing the launch of the new system too close to the agency’s timeframe this fall for programming 2004 filing season tax changes. Consequently, the IRS decided to implement CADE during the 2004 filing season, thereby minimizing the risk of any potential disruptions to another smooth filing season for taxpayers.

This is not the first time the PRIME has reported a delay in CADE’s implementation. The IRS originally expected to be able to move the first group of 1040 EZ filers to the new system in December of 2001. Several delays caused that date to be pushed back to August 2003. As a result of these delays, the IRS addressed performance issues and renegotiated the cost-plus contract with the PRIME alliance to a firm-fixed price contract.

“The CADE project has had a number of delays over the past several years – too many delays,” Everson said. “These delays are particularly disturbing, especially since the General

Accounting Office continues to view modernization as a 'high risk area.' ”

While the review is conducted by outside experts, work on CADE will continue.

“The review will evaluate its progress and determine whether any mid-course corrections are needed,” Everson said. He said he will also ask the IRS Oversight Board to assess CADE and the future of the project.

The review will also look at the performance of the contractor and the agency’s management of the contract since its beginning 4½ years ago.

In Fiscal Year 2003, the IRS has budgeted \$33 million on the CADE project out of the total \$422 million for all modernization efforts. In FY 2004, the agency currently plans to allocate \$84 million on CADE out of a total of \$458 million.

Everson has identified delivering modernization as one of three areas of emphasis, along with improving customer service and enhanced enforcement activities. The selection of the outside firm and the decision to begin CADE after the first of the year reflect the agency’s commitment to managing the program effectively.

The modernization program has delivered a number of projects that have improved or expanded service to taxpayers and resulted in significant business efficiencies. The Customer Communications Project, which improved the routing of taxpayer phone calls, was delivered in time to help the IRS handle millions of phone calls associated with the 2001 tax rebate. Fifteen million taxpayers have used the Internet based, “Where’s My Refund” application, which was launched in May 2002. The program has been so successful that the agency duplicated it for use this month in the new “Where’s My Advance Child Tax Credit?” web page at *irs.gov*.

In addition, taxpayers, practitioners and financial institutions can now apply for and obtain an Employee Identification Number online, and tax practitioners will soon be able to choose from a cafeteria of e-services, including disclosure authorization, transcript delivery within hours and account resolution. More projects benefiting tax practitioners, taxpayers and the IRS will be available in the next few months.

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