# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

## Progress of Information Technology Modernization Efforts for Calendar Year 2024

August 13, 2025

Report Number: 2025-2S8-041

## Why TIGTA Did This Review

In August 2022, Congress enacted the Inflation Reduction Act (IRA) to improve the administration of the tax system and services provided to taxpayers.

The IRS initially received $79.4 billion from the IRA. However, as of March 2025, Congress subsequently reduced IRA funding to $37.6 billion. The funding is designated in the areas of operations support, enforcement, business systems modernization, taxpayer services and energy security.

We evaluated the progress of the IRS's information technology modernization efforts including transforming core account data and processing efforts funded by the IRA.

## Impact on Tax Administration

Information technology plays a critical role in enabling the IRS to carry out its mission and responsibilities. The modernization of its information technology and business systems is essential to fulfilling its mission of providing America's taxpayers with top-quality service, helping them understand and meet their tax responsibilities, and enforcing the law with integrity and fairness to all.

## What TIGTA Found

The IRS made progress advancing transformation efforts in Calendar Year (CY) 2024. These advancements include modernizing tax account processing, promoting agility across operations, implementing new technology solutions, empowering business growth, strengthening network communications, reinforcing enterprise security, and enhancing operations. During Fiscal Year (FY) 2024, the IRS spent approximately $2.1 billion of IRA funding on 37 of 38 key programs and projects.

In addition, the IRS continued to advance its modernization efforts in CY 2024. These modernization efforts focused on key areas to enhance overall efficiency and adaptability across the enterprise. The IRS reported that it completed four of the six modernization projects we selected for review.

| Project Name/Description | Completion Status |
|---|---|
| **Customer Account Data Engine 2 Tax Account Management – Individual -** Initiate development for pre-processing functionality. | ✓ |
| **Strategic Portfolio Management Approach and Tool (Phase 1) -** Implement the strategic management system tool. | ✓ |
| **Enterprise Data Platform** – Deploy foundational capabilities. | ✗ |
| **Network Modernization** – Expand network bandwidth. | ✓ |
| **Enhance Data-at-Rest Encryption** – Reduce the risk of data exposure. | ✓ |
| **Enhance Multifactor Authentication** – Implement multifactor authentication for four IRS mainframe platforms and seven high value assets. | ✗ |

We reviewed the project documentation for the six projects and agreed with the IRS's reported completion status for all six CY 2024 projects.

In May 2025, IRS management informed their employees about a new operating model for a "leaner, more focused IRS Information Technology organization" to guide its modernization efforts. The new operating model is centered on technical leadership, simplified structures, and mission-aligned delivery. As of June 2025, the IRS had nine key initiatives as part of its modernization efforts.

The IRS agreed with the draft report and did not provide a response.

**U.S. DEPARTMENT OF THE TREASURY**

WASHINGTON, D.C. 20024

**TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION**

August 13, 2025

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

**FROM:**  Diana M. Tengesdal
Acting Deputy Inspector General for Audit

**SUBJECT:**  Final Report – Progress of Information Technology Modernization Efforts for Calendar Year 2024 (Review No.: 20252S8001)

This report presents the results of our review to evaluate the progress of the IRS's information technology modernization efforts, including transforming core account data and processing efforts funded by the IRA. Specifically, we reviewed the status of the Calendar Year 2024 projects under the Foundational Technology outcome grouping, related to Objective Four in the IRS Inflation Reduction Act (IRA) Strategic Operating Plan. We performed this review during the period October 2023 through December 2024. We are issuing this report to document the actions taken by the IRS. This review is part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenges of *Managing IRA Transformation Efforts* and *Information Technology Modernization*.

If you have any questions, please contact me or Linna K. Hung, Acting Assistant Inspector General for Audit (Security and Information Technology Services).

# Background

Information technology plays a critical role in enabling the Internal Revenue Service (IRS) to carry out its mission and responsibilities. The modernization of its information technology and business systems is essential to fulfilling its mission of providing America's taxpayers with top-quality service, helping them understand and meet their tax responsibilities, and enforcing the law with integrity and fairness to all. It is also necessary to maintain the integrity of the nation's tax system, collect trillions of dollars, and keep up with economic and population growth.

In August 2022, Congress enacted the Inflation Reduction Act (IRA) of 2022 to improve the administration of the tax system and the services provided to taxpayers.[1] The IRS initially received $79.4 billion from the IRA. However, as of March 2025, Congress subsequently reduced IRA funding to $37.6 billion.[2] The IRA funding is designated in the areas of operations support, enforcement, business systems modernization, taxpayer services, and energy security.

In April 2023, the Department of the Treasury (Treasury Department) and the IRS developed the Strategic Operating Plan (SOP).[3] The SOP outlines how the IRS will deploy investments from the IRA to better serve taxpayers, tax professionals, and the broader tax ecosystem. In addition, the IRS created the Transformation and Strategy Office to work with the business units to deliver the objectives and initiatives outlined in the SOP and oversee the IRS's transformation efforts.

The IRS's IRA SOP defined five major objectives, each with a set of initiatives that needed to be completed to achieve the transformation efforts. In May 2024, the IRS issued a 2024 Annual Update to the IRA SOP and a 2024 IRA SOP Annual Update Supplement report that further refined the IRS's transformation and near-term priority efforts to achieve its vision.[4] A key component of this work was the development of outcomes which are aligned to the five objectives in the SOP. These documents also outlined the IRS's priority efforts and key results planned to be delivered over Fiscal Years (FY) 2024 and 2025. Figure 1 shows the updated SOP objectives and the related transformation priorities.[5]

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[1] Pub. L. No. 117-169, 136 Stat. 1818.

[2] The Fiscal Responsibility Act of 2023 (Pub. L. No. 118-5, 137 Stat. 10) rescinded $1.4 billion; the Further Consolidated Appropriations Act, 2024 (Pub. L. No. 118-47, 138 Stat. 460) rescinded $20.2 billion; and the Full-Year Continuing Appropriations and Extensions Act, 2025 (Pub. L. No. 119-4, 139 Stat. 9) rescinded another $20.2 billion.

[3] IRS Publication 3744, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan FY 2023 - 2031* (Rev. 4, April 2023).

[4] IRS Publication 3744-A, *IRS IRA Strategic Operating Plan Annual Update Supplement* (April 2024); IRS Publication 3744-B, *IRS IRA Strategic Operating Plan Annual Update* (April 2024).

[5] The IRS also refers to the transformation priorities as roadmap outcome groupings.

## Figure 1: SOP Objectives and Transformation Priorities

| Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible. | Quickly resolve taxpayer issues when they arise. | Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the Tax Gap. | Deliver cutting edge technology, data, and analytics to operate more effectively. | Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers. |
|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** |
| • Enhance Live Assistance<br>• Expand Online Services<br>• Accelerate Digitalization<br>• Improve Employee Tools | • Simplify Notices<br>• Disrupt Scams | • Ensure Fairness in Enforcement | • Modernize Foundational Information Technology | • Enhance Human Capital and Culture |

*Source: 2024 IRA SOP Annual Update Supplement.*

In February 2025, the IRS lost 450 employees from its Information Technology business unit because of its workforce reduction efforts. In March 2025, the IRS reported that it placed 48 senior Information Technology employees on administrative leave.[6] Of the 48 employees placed on leave, 27 were either in key management positions or were individuals recruited for their expertise related to the IRS's restructuring efforts. In addition, the IRS disbanded the Transformation and Strategy Office in March 2025 as part of its workforce reductions and restructuring efforts.

In May 2025, IRS management informed their employees about a new operating model for a "leaner, more focused IRS Information Technology organization" to guide its modernization efforts. The new operating model is centered on technical leadership, simplified structures, and mission-aligned delivery. As of June 2025, the IRS had nine key initiatives as part of its modernization efforts.

# Objective

The overall objective of this review was to evaluate the progress of the IRS's information technology modernization efforts, including transforming core account data and processing efforts funded by the IRA.

# Results of Review

The IRS made progress in advancing transformation efforts supported by IRA funding in Calendar Year (CY) 2024. These advancements include modernizing tax account processing, promoting agility across operations, implementing new technology solutions, empowering business growth, strengthening network communications, reinforcing enterprise security, and enhancing operations. The IRS spent approximately $2.1 billion of its IRA funding on 37 of the 38 key programs and projects during FY 2024.[7] No expenditures were recorded for the Payments

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[6] TIGTA, Report No. 2025-IE-R017, *Snapshot Report: IRS Workforce Reductions as of March 2025* (May 2025).

[7] The IRS reports on the completion status of its projects and programs on a calendar year basis, whereas it reports funding for these projects and programs on a fiscal year basis.

Modernization program during FY 2024.

**Figure 2: Key Programs Backed by IRA Funding by
SOP Objective and Transformation Priorities**

| SOP Objectives and Transformation Priorities | Key Programs | |
|---|---|---|
| **Objective 1**<br><br>Enhance Live Assistance<br><br>Expand Online Services<br><br>Accelerate Digitalization<br><br>Improve Employee Tools | Live Assistance<br><br>Multilingual<br><br>Digitalization<br><br>Taxpayer Accessibility<br><br>Taxpayer 360<br><br>Online Accounts | Customer Relationship Management Business Licenses<br><br>Direct File<br><br>Online Tools / Self Service<br><br>Payments Modernization<br><br>Authentication, Authorization, and Access |
| **Objective 2**<br><br>Simplify Notices<br><br>Disrupt Scams | Modernized Correspondence, Notices, and Letters | |
| **Objective 3**<br><br>Ensure Fairness in Enforcement | Digital Asset and Cryptocurrency Program<br><br>Enterprise Case Selection / Enterprise Anomaly Detection<br><br>Legacy Systems Changes for Unified Compliance Organization | |
| **Objective 4**<br><br>Modernize Foundational Information Technology | Individual Master File Modernization<br><br>Business Master File Modernization<br><br>Unified Intake Tax Processing<br><br>Integrated Data Retrieval System Modernization<br><br>Information Returns Modernization<br><br>Enterprise Case Management<br><br>Accelerated Technology Delivery<br><br>Modernized Accounting and Financial Systems<br><br>Common Enterprise Services<br><br>Information Technology Operations Transformation | Enterprise Service Management<br><br>Enterprise Tax Calculator Service Provider<br><br>Enterprise Data Platform<br><br>Advanced Analytics Platform<br><br>Network Modernization<br><br>Virtual Desktop Infrastructure<br><br>Robotic Process Automation<br><br>Event Driven Architecture<br><br>Cybersecurity and Data Protections<br><br>Customer Relationship Management Platform<br><br>IRA Modernization Portfolio Support |
| **Objective 5**<br><br>Enhance Human Capital and Culture | Human Capital<br><br>IRS Expansion | |

*Source: Analysis of IRA SOP documentation and IRA funded programs.*

## Foundational Technology Review: Status of Selected Projects for Calendar Year 2024

The IRS identified 49 projects scheduled for completion in CY 2024 that align with the key program areas in Objective Four: Modernize Foundational Information Technology. We selected a judgmental sample of six of these projects and evaluated their completion status because successful delivery of most of the initiatives in the SOP is dependent upon the IRS modernizing its core information technology infrastructure.[8] Figure 3 shows the projects selected for review and the completion status reported by the IRS. The IRS can close a project as incomplete and then reopen a new project the following calendar year to complete unfinished tasks from the previously closed project and add new tasks.

**Figure 3: CY 2024 Projects Selected for Review**

| Project Name/Description | Completion Status |
|---|---|
| **Customer Account Data Engine 2 Tax Account Management – Individual -** Initiate development for pre-processing functionality. | ⊘ |
| **Strategic Portfolio Management Approach and Tool (Phase 1) -** Implement the strategic management system tool. | ⊘ |
| **Enterprise Data Platform** – Deploy foundational capabilities. | ⊗ |
| **Network Modernization** – Expand network bandwidth. | ⊘ |
| **Enhance Data-at-Rest Encryption** – Reduce the risk of data exposure. | ⊘ |
| **Enhance Multifactor Authentication** – Implement multifactor authentication for four IRS mainframe platforms and seven high value assets. | ⊗ |

*Source: Analysis of IRA SOP and the Strategic Implementation Management System.*

## Enhancing Customer Account Data Engine 2 Tax Account Management – Individual for Efficient Processing

The Tax Account Management-Individual (TAM-I), which is a project under the Customer Account Data Engine 2 program, builds on the latest effort to modernize tax account processing. The TAM-I project leverages the Individual Tax Processing Engine to move the IRS from its current, sequential batch processing to real-time processing of individual taxpayer accounts.[9] The TAM-I project modernizes how the IRS receives, processes, and closes the accounting cycle (*e.g.*, posting, settlement, and analysis) for individual taxpayer accounts. The IRS initiated TAM-I Release 1 Wave 1, to develop the pre-processing functionality of TAM-I. Specifically, Release 1

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[8] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population. We selected a judgmental sample for this review because we wanted to narrow our focus to a specific subset of projects under the Foundational Technology outcome grouping based on the amount of IRA funding and strategic importance.

[9] See Appendix I for a glossary of terms.

Wave 1 focuses on initializing and updating the Event and Account Stores through the TAM-I components. Subsequent releases are planned to deliver the remaining functionality.

As of December 2024, the IRS reported the project milestone for initiating the development for pre-processing functionality, as closed and complete. We reviewed key information technology documents (*e.g.*, TAM-I Vision, Scope, and Architecture and Project Charters) associated with this project and its developmental activities and agree with the IRS's reported status.

## Optimizing the Strategic Portfolio Management Approach and Tool (Phase 1) for Oversight and Project Tracking

The IRS created the Strategic Portfolio Management Approach and Tool (Phase 1) project to manage the IRA portfolio of investments and implement the Strategic Implementation Management System (SIMS) tool. The SIMS tool was designed to provide information for all products and platforms by providing consolidated data collection, enhanced dashboards, and decision tracking.

As of December 2024, the IRS reported the Strategic Portfolio Management Approach and Tool (Phase 1) project is closed and complete. The IRS implemented the SIMS tool as the official source of record for monitoring and tracking the IRA portfolio in September 2023. We met with key Transformation and Strategy Office and Information Technology organization personnel, reviewed key information technology documents and accessed the SIMS tool. We agree with the IRS's reported status.

## Advancing the Enterprise Data Platform for Universal Access and Efficient Management

The Enterprise Data Platform (EDP) enables universal access to tax data, third-party data, metadata, and other data needed across the IRS. The EDP will serve as a foundational component for and will help accelerate other modernization initiatives, especially for data access, data management, reporting, and analytics to enable a data-driven culture. The foundational component consists of an application programming interface to enable data access and integration services; data fabric services to connect data from multiple sources; a universal data hub to store common enterprise data in different formats; and analytical tools and services.

In March 2025, the President signed an executive order aiming to remove barriers and promote inter-agency data sharing, which may increase the frequency and volume of data sharing between the IRS and other agencies.[10] In June 2025, we reported that the IRS implemented incorrect business requirements during the development of its application programming interface to share Federal Tax Information with the Department of Education.[11] It is imperative that the lessons learned from the IRS's inaccurate data exchange are used to inform similar future agreements and prevent the transfer of inaccurate taxpayer data. We plan to continue performing reviews in these areas because such data sharing agreements and application programming interfaces could have potentially profound consequences.

As of December 2024, the IRS reported that the EDP foundational capabilities were closed but incomplete. The IRS planned eight releases for this project in CY 2024; however, only six releases

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[10] Executive Order 14243, *Stopping Waste, Fraud, and Abuse by Eliminating Information Silos*, (March 20, 2025).

[11] TIGTA, Report No. 2025-2S0-029, *The IRS Transferred Incorrect Federal Tax Information to the Department of Education for Federal Student Aid* (June 2025).

were shown as closed and complete. For the remaining two releases: one was transferred to CY 2025, and the other was canceled. The IRS stated that the EDP is a multiyear project.

To confirm the status of this project, we reviewed system release documents and Prior to Production checklists for three of the six releases, as follows:

- Advanced Analytics Platform Release 3.3 – Provides a central location for managing, storing, and retrieving software packages and building artifacts as part of package management.

- Access Management Release 4.0 – Assists in the development of policies to protect and prevent disclosure of sensitive data that can be pushed to as many data stores as required.

- Graph Release 5.0 – Enhances the EDP platform with graph analysis capability supporting various graph analyses, such as data profiling, to possibly identify risks and fraud.

The remaining three releases have been transferred to CY 2025. We also reviewed key project documents (*e.g.*, Configuration Management Plan and Project Charter), and attended EDP demonstrations. We agree with the IRS's reported status of closed but incomplete for this project.

## Network Modernization Increase Network Bandwidth (383 Post of Duty Sites (Phase II)) for Enhanced Connectivity

The Network Modernization program provides critical support to the workforce and integrates modern technologies to enhance the end users' experience. The program focuses on expanding network bandwidth by implementing wireless technologies, proactive remediation and analysis, network resiliency, and trusted access and secure communications.

The Network Expansion project optimizes the IRS wide area network by reducing delays during transmission and increasing network speed. This should allow IRS staff to work more efficiently and deliver faster response times for IRS systems while enhancing the taxpayer's experience. The Network Expansion project ensures that the IRS's circuits can adequately handle network improvement projects that demand more bandwidth capacity.

As of December 2024, the IRS reported this project as closed and complete. The IRS increased the network bandwidth at 383 Post of Duty Sites. We met with key Enterprise Operations and Network Engineering function personnel and reviewed the Bandwidth Upgrade Spreadsheet to confirm that upgrades for 383 sites were completed. We agree with the IRS's reported status of closed and complete.

## Enhance Data-at-Rest Encryption to Minimize Unauthorized Access

The IRS defines data-at-rest as data that resides in databases, file systems, and other structured storage methods. Data-at-Rest Encryption (DARE) is implemented on IRS critical systems to strengthen data protections and prevent unauthorized access. DARE reduces the risk of data exposure in support of IRS business objectives, Cybersecurity initiatives, and the Office of Management and Budget Data-at-Rest mandate. Project success will be achieved by protecting IRS enterprise-wide data-at-rest by deploying the DARE solution to project scope by the end of CY 2024. The project scope includes Federal Information Security Modernization Act (FISMA)

applications, 13 Tier I and Tier II high-value assets (HVAs), and remaining Tier I and Tier II critical filing season and financial applications.

As of December 2024, the IRS reported the Tier-I FISMA encryption as closed and complete. The IRS implemented encryption on 169 DARE 1.0 applications. We interviewed the DARE program support team, reviewed project supporting documentation, and evaluated the evidence supporting the 169 FISMA applications as DARE compliant. We determined that the cloud applications are DARE compliant. We agree with the IRS's reported status of closed and complete for the Tier-I FISMA encryption.

## Enhance Multifactor Authentication for Secure Access

Multifactor Authentication (MFA) is defined as verifying the identity of a user, process, or device using two or more factors to achieve authentication, often as a prerequisite to allowing access to resources in an information system. The scope of this project was to implement the MFA to all mainframe platforms and seven additional HVAs.

As of December 2024, the IRS reported the Enhance MFA project as closed but incomplete. The IRS completed the MFA implementation on five HVAs and opened a Plan of Action and Milestones on the remaining two HVAs until technical issues can be addressed in CY 2025. We reviewed system documentation, including screen shots of the user login process. The IRS planned to implement the MFA on four mainframe platforms. However, we only confirmed the implementation of the MFA on two of the mainframes. For the remaining two mainframes, one contained sufficient documentation to verify that an MFA solution exists in a test environment. We received insufficient documentation for the other mainframe. As a result, we agree with the IRS's overall reported status of closed but incomplete.

# Conclusion

The IRS continued to advance its modernization efforts focused on key areas to enhance overall efficiency and adaptability across the enterprise. These advancements include modernizing tax account processing, promoting agility across operations, implementing new technology solutions, empowering business growth, strengthening network communications, reinforcing enterprise security, and enhancing operations. The foundational technology advancements enable the IRS to continue to improve the taxpayer experience and protect the integrity of the nation's tax system.

We examined a substantial amount of documentation and conducted multiple interviews to verify whether the IRS accurately reported CY 2024 completion status of those projects selected for review under the Foundational Technology outcome grouping. Our assessment aligns with the IRS's reported conclusions that the projects were either completed or closed but incomplete.

This report is a continuation of our reviews to assess the IRS's information technology modernization efforts and is provided for information only.

## Performance of This Review

We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General*. Those standards

require that the work adheres to the professional standards of independence, due professional care, and quality assurance, and follows procedures to ensure accuracy of the information presented. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on the objective of our review.

# Appendix I

# Glossary of Terms

| Term | Definition |
| --- | --- |
| Advanced Analytics Platform | A collection of sophisticated techniques and tools that are used to analyze large volumes of data from diverse data sources (*e.g.*, cloud platforms), uncover hidden patterns, and provide actionable insight. |
| Federal Tax Information | Consists of federal tax returns and return information (and information derived from it) that is in the agency's possession or control, which is covered by the confidentiality protections of the Internal Revenue Code and subject to Section 6103(p)(4) safeguarding requirements including IRS oversight. |
| Individual Tax Processing Engine | A modernization effort to convert two IMF programs written in an old programming language into a modern programming language with the intent of maintaining all current functionality and capabilities. |
| High Value Assets | HVAs refer to those assets, systems, facilities, data, and datasets that are of particular interest to potential adversaries. These assets, systems, and datasets may contain sensitive controls, instructions, or data used in critical federal operations or house unique collections of data (by size or content) making them of interest to criminal, politically motivated, or state-sponsored actors for either direct exploitation of the data or to cause a loss of confidence in the U.S. government. |
| Office of Management and Budget Data-at-Rest Mandate | Per Executive Order 14028, federal agencies shall adopt multi-factor authentication and encryption for data-at-rest and in transit. |
| Software Tool | A system that suitably interfaces a program with other programs or human users in its environment. The tasks performed by software tools cover a wide spectrum from mundane tasks such as interfacing to sophisticated tasks that improve the effectiveness of a user's activity. |
| Tier I | Supercomputers and mainframe hardware and software, including peripheral subsystems used in a mainframe system environment. |
| Tier II | Minicomputers (*i.e.*, computers usually containing multiple microprocessors) capable of executing multiple processes simultaneously. |

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**Appendix II**

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## Abbreviations

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|---|---|
| CY | Calendar Year |
| DARE | Data-at-Rest Encryption |
| EDP | Enterprise Data Platform |
| FISMA | Federal Information Security Modernization Act |
| FY | Fiscal Year |
| HVAs | High Value Assets |
| IRA | Inflation Reduction Act |
| IRS | Internal Revenue Service |
| MFA | Multifactor Authentication |
| SIMS | Strategic Implementation Management System |
| SOP | Strategic Operating Plan |
| TAM-I | Tax Account Management- Individual |
| TIGTA | Treasury Inspector General for Tax Administration |

**To report fraud, waste, or abuse,
contact our hotline on the web at
https://www.tigta.gov/reportcrime-misconduct.**


**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**


Information you provide is confidential, and you may remain anonymous.