



Treasury Inspector General for Tax Administration

IMPROVEMENTS TO THE MODERNIZED E-FILE SYSTEM WILL HELP PROVIDE INTENDED BENEFITS TO THE INTERNAL REVENUE SERVICE AND TAXPAYERS

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Highlights

Highlights of Report Number: 2008-20-122 to the Deputy Commissioner for Operations Support and Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The Modernized e-File system is a replacement of the current Internal Revenue Service (IRS) tax return filing technology with a modernized, Internet-based electronic filing platform. The IRS can make improvements to the system to provide intended benefits that will help enhance and expedite service to taxpayers. These improvements will help ensure that taxpayers use appropriate tax returns and report accurate and complete tax return information.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of the Treasury Inspector General for Tax Administration's Fiscal Year 2007 audit plan for reviews of the IRS' modernization efforts. The overall objectives of this review were to assess the accuracy and completeness of data processed by the Modernized e-File system and determine whether the system provides the intended benefits to the IRS and taxpayers.

WHAT TIGTA FOUND

The Modernized e-File system has been successful in processing electronically filed tax returns for corporations, partnerships, and exempt organizations. The number of tax returns filed through the Modernized e-File system increased 127 percent in 2007 to approximately 2.23 million from 982,000 in 2006. This system facilitates taxpayer account processing and also allows electronically filed tax information to be accessed for use in tax administration compliance activities by the IRS business operating divisions.

The IRS does not have a formal process for identifying, reporting, and resolving issues related to tax returns processed by the Modernized e-File system, nor does it have a process for submitting and tracking issues requiring attention by the Wage and Investment Division's Submission Processing function and the

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Electronic Tax Administration office. In addition, available front-end tax return validation controls were not being used. These controls can prevent unnecessary tax return processing, error resolution activity by the Submission Processing function, and correspondence with taxpayers.

The Modernized e-File system makes electronically filed tax return data available to the business operating divisions and allows authorized users to access, print, and download tax return information. However, because of system limitations, the Large and Mid-Size Business Division and the Tax Exempt and Government Entities Division use their own applications to access Modernized e-File system filed tax return data. The Small Business/Self-Employed Division does not use the Modernized e-File system for tax return control, delivery, or examination processes, nor does it capture cost data for the printing, shipping, and handling of tax returns filed using the Modernized e-File system.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS (1) develop a formal process for identifying, reporting, and resolving Modernized e-File system application processing issues that require subsequent tax return and account adjustment activity; (2) perfect the validation controls in the Modernized e-File system to verify that taxpayers file the correct tax form based on their established filing election; and (3) coordinate the capabilities of the Enterprise Return Retrieval system and the Small Business/Self-Employed Division's Technology and Data Integration Plan into the Information Technology Modernization Vision and Strategy. The Information Technology Modernization Vision and Strategy is the IRS effort to determine the priorities for modernizing front-line tax administration.

In their response to the report, IRS officials agreed with our recommendations. Planned corrective actions include developing a formal process for identifying, reporting, and resolving Modernized e-File system application processing issues that require subsequent tax return and account adjustment activity. The IRS has also implemented validation controls to help ensure corporations and partnerships file appropriate tax forms through the Modernized e-File system. In addition, the Small Business/Self-Employed Division plans to submit future releases of the Enterprise Return Retrieval project as investment proposals for corresponding Information Technology Modernization Vision and Strategy cycles.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200820122fr.pdf>.

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