



Treasury Inspector General for Tax Administration Office of Audit

DESPITE STEPS TAKEN TO INCREASE ELECTRONIC RETURNS, UNRESOLVED MODERNIZED E-FILE SYSTEM RISKS WILL DELAY THE RETIREMENT OF THE LEGACY E-FILE SYSTEM AND IMPLEMENTATION OF BUSINESS FORMS

Issued on September 27, 2012

Highlights

Highlights of Report Number: 2012-20-121 to the Internal Revenue Service Chief Technology Officer.

IMPACT ON TAXPAYERS

The Modernized e-File (MeF) system, which will replace the existing electronic filing system (the Legacy e-File system), is a critical component of the IRS initiative to meet the needs of taxpayers, reduce taxpayer burden, and broaden the use of electronic interactions. Unresolved performance issues with MeF Release 7.0 and planned Calendar Year 2012 infrastructure changes have impaired the IRS's efforts to retire the existing Legacy e-File system and have delayed plans for receiving employment tax forms through MeF Release 8.0. Deferring the implementation of employment tax forms and schedules will further delay the ability to detect employment tax return errors on a real-time basis.

WHY TIGTA DID THE AUDIT

This review was part of our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Modernization. The overall audit objective was to evaluate the IRS's progress toward having transmitters fully participate in the MeF system and retiring the Legacy e-File system in October 2012.

WHAT TIGTA FOUND

The IRS took steps to increase the volume of returns transmitted to the MeF system and increased the number of vendors' software packages available to transmit electronic tax returns. However, our audit findings indicate that unresolved performance issues with MeF Release 7.0 existed as of its deployment. In addition, the IRS Information Technology organization is planning significant infrastructure changes in Calendar Year 2012 that will introduce uncertainty and may affect MeF system reliability. Further, the IRS has not developed a retirement plan for the Legacy e-File system that includes the conditions that will need to be met before the system can be shutdown. Lastly, the MeF

system has not yet fully demonstrated the ability to process all electronically filed returns for an entire filing season, projected to be over 121 million combined individual and business returns.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Technology Officer: 1) advise the Wage and Investment Division to defer retirement of the Legacy e-File system until the increased risk associated with retiring it can be addressed; 2) update the Internal Revenue Manual to include improved performance testing processes, ensure system performance test teams obtain approved waivers or deferrals when performance tests are not executed, and ensure performance test teams submit End of Test Status Reports for senior management review; and 3) advise the Wage and Investment Division to complete a retirement plan for the Legacy e-File system as well as communicate retirement milestones and timelines to key stakeholders.

In their response to the report, IRS officials partially agreed with the recommendations. The IRS is taking steps to build a contingency plan for the MeF system and updating Internal Revenue Manuals. However, IRS officials did not state they would develop a Legacy e-File system retirement plan, along with associated implementation dates and monitoring plans.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201220121fr.pdf>.