

GAO

Report to the Subcommittee on
Oversight, Committee on Ways and
Means, House of Representatives

March 2012

INTERNAL REVENUE SERVICE

Interim Results of 2012 Tax Filing Season and Summary of the Fiscal Year 2013 Budget Request



G A O

Accountability * Integrity * Reliability

Contents

Letter		1
	Agency Comments and Our Evaluation	3
Appendix I	Briefing Slides	4
Appendix II	GAO Contact and Staff Acknowledgments	29

Abbreviations

ACA	Affordable Care Act
AMS	Account Management Services
BSM	Business Systems Modernization
CADE 2	Customer Account Data Engine 2
EFDS	Electronic Fraud Detection System
e-SVS	e-Services
EUSS	IRS End User Systems and Services
FATCA	Foreign Account Tax Compliance Act
FTE	full-time equivalents
HITCA	Health Insurance Tax Credit Administration
ICCE	Integrated Customer Communication Environment
IDRS	Integrated Data Retrieval System
IFS	Integrated Financial System/CORE Financial System
IMF	Individual Master File
IRDM	Information Reporting and Document Matching
ISRP	Integrated Submission and Remittance Processing System
IT	information technology
IRS	Internal Revenue Service
MeF	Modernized E-File
MSSS	IRS Main Frames and Servers Services and Support
ROI	Return on Investment
RRP	Return Review Program
SCRIPS	Service Center Recognition/Image Processing System
TIGTA	Treasury Inspector General for Tax Administration
TSS	IRS Telecommunications Systems and Support

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

March 20, 2012

The Honorable Charles W. Boustany, Jr.
Chairman
The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

This letter transmits several briefings we provided between March 7 and 19, 2012, as well as subsequent comments from the Internal Revenue Service (IRS). The briefings were based on our work to date from your requests for an assessment of IRS's 2012 tax filing season performance and a review of the fiscal year 2013 Congressional Budget Justification for IRS. See appendix I for the slides provided during the March 19, 2012, briefing.

On the basis of discussions with your office, our briefing objectives were to (1) provide an interim assessment of IRS's 2012 performance in processing tax returns and refunds and providing telephone service; and (2) describe how IRS plans to manage funding reductions in fiscal year 2012; the fiscal year 2013 budget request for IRS including dollar and staffing trends, new program initiatives, the cost of major information technology (IT) investments; and selected performance measures and goals. To conduct this work, we obtained and analyzed IRS performance data for processing tax returns and refunds and providing telephone service; interviewed IRS officials and representatives from tax preparation and tax software firms on various aspects of filing season performance and challenges faced; reviewed IRS plans to manage budget reductions; compared and analyzed budget documentation for fiscal year 2008 through 2013; reviewed and summarized IRS performance data, annual IRS databooks, and other reports including those from the IRS Oversight Board; and interviewed IRS officials in the offices of the Chief Financial Officer and Corporate Budgeting.

We conducted this performance audit in March 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on

our audit objectives. We interviewed IRS officials and determined that the data presented in this briefing were sufficiently reliable for our purposes.

In summary, so far this filing season, IRS

- experienced an increase in total call volume (mostly for automated calls about taxpayer's refunds), and a reduction in IRS's level of service resulted in wait times of about 17 minutes;
- has processed almost 68 million returns, and electronic filing continues to increase; and
- experienced problems, since resolved, that delayed refunds for about a week for millions of taxpayers, including one that involved a key electronic filing system, Modernized E-File (MeF).¹ As we finished our work in March, IRS provided us with an update to its contingency plan for MeF dated December 2011. Given MeF's importance, the problems it experienced this year, and IRS's plans to turn off its legacy e-file system in October, without timely review and update—as needed—of its contingency plan to take into account the lessons learned from the current filing season, IRS risks not being able to timely and reliably process tax returns.

In addition, the President's fiscal year 2013 budget request shows

- a \$944.5 million (8.0 percent) increase over fiscal year 2012, mainly for the Enforcement and Operations Support appropriations. This is an increase of 5.3 percent over fiscal year 2011. The Taxpayer Service appropriation request for 2013 is about the same as last year, and IRS expects to gain savings from more e-filed returns and other efficiencies;
- an increase of about 4,500 full-time equivalents (FTE)² (5.0 percent) over fiscal year 2012, primarily for enforcement initiatives;
- about \$2.5 billion for IT investments; and
- reduced annual goals for 2012 and 2013 for selected taxpayer service and enforcement activities from 2011.

¹The Modernized E-File system (MeF) is replacing IRS's legacy electronic filing system, which IRS has reported it plans to retire in October 2012. MeF provides taxpayers with faster acknowledgement that their returns have been accepted and better information if a return is rejected.

²A full-time equivalent is a measure of staff hours equal to those of an employee who works 40 hours per week in 1 year.

MeF is critical to e-filing and millions of Americans depend on timely refunds. Without a timely review and update to its contingency plan that considers lessons learned from this year's experiences with MeF, IRS could be introducing additional risk to next year's filing season. To mitigate this risk, we are recommending that the Commissioner of Internal Revenue ensure that IRS's IT contingency plan for MeF is reviewed and updated as appropriate in time for the beginning of the 2013 filing season.

Agency Comments and Our Evaluation

On March 16, 2012, IRS provided technical comments on our findings and recommendation. IRS said it agreed with the recommendation, in concept, saying that updating its contingency plans for MeF is part of its filing season preparations. Given the critical nature of MeF, timely updates are important because of the issues IRS encountered early this filing season that resulted in refund delays for millions of taxpayers.

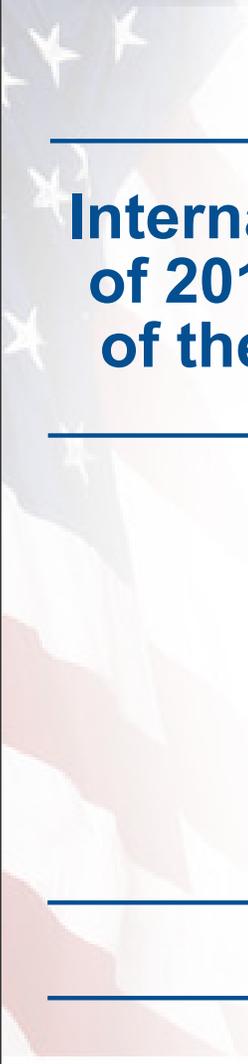
As arranged with your office, unless you publically announce the contents of this report earlier, we plan no further distribution until 2 days after the date of this report. At that time, we will send copies of this report to other Chairmen and Ranking Members of Senate and House committees and subcommittees that have appropriation and oversight responsibilities for IRS. We also will be sending copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, the Chairman of the IRS Oversight Board, and the Director of the Office of Management and Budget. Copies also are available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-9110 or whitej@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff members who made major contributions to this report are listed in appendix II.



James R. White
Director, Tax Issues
Strategic Issues

Appendix I: Briefing Slides



Internal Revenue Service: Interim Results of 2012 Tax Filing Season and Summary of the Fiscal Year 2013 Budget Request

**Prepared for the
Subcommittee on Oversight,
Committee on Ways and Means,
House of Representatives
March 19, 2012**

Objectives

On the basis of discussions with your office, our objectives are to

- provide an interim assessment of IRS's 2012 performance in processing tax returns and refunds and providing telephone service; and
- Describe how IRS plans to manage funding reductions in fiscal year 2012; the fiscal year 2013 budget request for IRS including dollar and staffing trends, new program initiatives, the cost of major information technology (IT) investments; and selected performance measures and goals.

Page 2

Results in Brief

- So far this filing season, IRS experienced
 - a substantial increase in total call volume (mostly for automated calls about taxpayer refunds), and a reduction in IRS's level of service resulted in wait times of about 17 minutes;
 - We have previously reported that the expense of providing live telephone assistance highlights the need for providing more automated services; and
 - processing problems that delayed refunds for about a week for millions of taxpayers, and that in one case involved Modernized E-file (MeF), a key electronic filing system;
 - As we finished our work in March, IRS provided us with an update to its contingency plan for MeF dated December 2011. Given MeF's importance, the problems it experienced this year, and IRS's plans to turn off its legacy e-file system in October, without timely review and update—as needed—of its contingency plan to take into account the lessons learned from the current filing season, IRS risks not being able to timely and reliably process tax returns.
- The fiscal year 2013 budget request shows
 - a \$944.5 million (8.0 percent) increase over fiscal year 2012, with the Enforcement and Operations Support appropriations accounting for the largest increases. This is an increase of 5.3 percent over fiscal year 2011. The Taxpayer Service appropriation request is about the same as last year, and IRS expects to gain savings and efficiencies including from more electronically filed returns and other program reductions;
 - an increase of about 4,500 (5.0 percent) full-time equivalents (FTE) over fiscal year 2012, primarily for enforcement initiatives;
 - about \$2.5 billion for IT investments—\$2.14 billion for IT investments in the Operations Support appropriation and \$330 million for Business Systems Modernization (BSM); and
 - a decline in actual performance for selected areas since the mid-2000's and mostly reduced goals for fiscal year 2012 and 2013 for taxpayer service and enforcement activities.

Page 3

Scope and Methodology

To conduct this work, we

- obtained and analyzed IRS performance and other data for processing tax returns and refunds and providing telephone service, and interviewed IRS officials and representatives of tax preparation and tax software firms on various aspects of filing season performance and challenges faced.
- reviewed IRS plans to manage budget reductions; compared and analyzed budget documentation from fiscal year 2008 through 2013; interviewed IRS officials in the offices of the Chief Financial Officer and Corporate Budgeting; and reviewed and summarized IRS performance data, annual IRS databooks, and other reports including those from the IRS Oversight Board.

We conducted this performance audit in March 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We interviewed IRS officials and determined that the data presented in this briefing were sufficiently reliable for our purposes.

Page 4

Background

- For 2012, IRS began processing tax returns on a daily, rather than a weekly basis, as part of its transition to a new processing system. With the switch to daily processing, both IRS and industry stakeholders had an expectation of faster refunds.
- IRS expected that refunds generally would be issued in 4 business days for direct deposits and 6 business days for paper checks after IRS processes the return and posts the return data to the taxpayer's account.
- In general, low-income taxpayers file early in order to receive their refund early. For some taxpayers, their refund may be the single largest payment they receive from any source during the year.
- IRS began using its Modernized E-file (MeF) system in 2010. MeF is replacing IRS's legacy electronic filing (e-file) system, which IRS reported it is retiring in October 2012. MeF provides taxpayers with faster acknowledgement that their returns have been accepted and better information on why returns are rejected. It also provides IRS with the ability to accept additional documentation electronically through portable document files. Further, states must be able to access MeF to obtain state tax return data.

Filing Season

Total Call Volume Substantially Increased and Service Decreased

Table 1: IRS Call Volume and Performance from January 1 through Late February

	2008	2009	2010	2011	2012	Percent change from 2011 to 2012	
Call volume (in millions)							
Total calls to IRS	20.5	35.0	31.0	34.2	46.0	34.5	
Automated calls answered	9.1	13.4	15.0	18.0	26.9	49.4	
Assistor answered calls	6.3	8.8	7.6	7.2	6.5	-9.7	
Abandoned, busies, and disconnects	5.1	12.7	8.4	9.0	12.7	41.1	
Performance							
Level of service – Percentage of callers seeking live assistance who receive it	Fiscal year goal ^a	82.0 ^b	77.0 ^c	71.0	71.0	61.0	... ^d
	Actual to date	78.6	58.4	73.5	70.3	65.1	... ^d
Average wait time (in minutes)	Fiscal year goal ^a	4.5	10.4	11.6	11.6	18.8	62.1
	Actual to date	5.7	10.0	10.1	11.2	16.6	48.2

Source: GAO analysis of IRS data.

Note: Data are cumulative for IRS from January 1 of each year to February 23, 2008; February 28, 2009; February 27, 2010; February 26, 2011; and February 25, 2012.

^aThe goal listed is for the entire fiscal year, not just the period from January 1 through late February.

^bIRS revised its original fiscal year goal of 82.0 percent down to 74.0 percent because of high call volume caused by economic stimulus-related calls.

^cIRS revised its original fiscal year goal of 77.0 percent down to 70.0 percent because of high call volume from taxpayers requesting electronic filing authentication information and asking stimulus-related questions.

^dThe difference is 10 percentage points between fiscal year 2011 and 2012 for the goal and 5.2 percentage points for actual performance between 2011 and 2012.

Filing Season

Costly Telephone Service Highlights the Need for Automated Tools

- In 2012 as with previous filing seasons, IRS officials attribute the lower level of service performance and goals to other funding priorities. IRS has also experienced an increase in call volume, driven in part by taxpayers calling for information on their refunds or requesting transcripts. These calls were mostly answered through automated services. Wait time to speak to an assistor is also increasing. We are still researching the causes of these declines in service.
- Providing live telephone assistance is expensive. We have previously reported that IRS can shift some assistor-answered calls to less-costly automated tools, and needs to have an Internet strategy to provide taxpayers with more online services.¹
- As part of our ongoing 2012 filing season work, we are researching options for IRS to reduce call volume and improve its online services.
- Through March 10, 2012, IRS is reporting 86.86 million visits to the “Where’s My Refund” web application, an 82.6 percent increase over last year. In addition, IRS continues to add automated tools to its website.

¹GAO, *2011 Tax Filing: Processing Gains, but Taxpayer Assistance Could Be Enhanced by More Self-Service Tools*, GAO-12-176 (Washington, D.C.: Dec. 15, 2011).

Filing Season

E-Filed Returns Continue to Increase

Table 2: Tax Returns Processed through the Second Week of March 2012

	2008	2009	2010	2011	2012	Percentage Change from 2011 to 2012
Number of Individual tax returns processed (in thousands)	66,656	67,595	64,284	66,159	68,074	2.9
Electronic (in thousands)	53,143	56,451	55,945	59,701	62,753	5.1
Paper (in thousands)	13,512	11,144	8,339	6,458	5,322	-17.6
Percentage electronically filed ^a	79.7	83.5	87.0	90.2	92.2	n/a
Number of refunds issued (millions)	59,199	61,042	57,779	59,005	59,239	0.4
Amount of refunds (dollars in millions)	\$149,621	\$169,114	\$175,415	\$178,356	\$174,403	-2.2
Average refund amount ^b	\$2,527	\$2,770	\$3,036	\$3,023	\$2,944	-2.6

Legend: n/a = not applicable.

Source: GAO analysis of IRS data.

Notes: Data are from January 1 of each year through March 14, 2008; March 13, 2009; March 12, 2010; March 11, 2011; and March 9, 2012. Numbers may not add due to rounding.

^aThe percentage of returns filed electronically early in the filing season is likely to decline before the filing season is over. Taxpayers filed about 78 percent of all individual returns electronically in 2011.

^bAverage refund amount is in actual dollars, not thousands.

Filing Season

A Programming Error Resulted in Refund Delays Early in the Filing Season

- Between January 17 and January 26, 2012, IRS delayed about 6 million returns because of a programming error. As a result, we estimated that approximately 5.5 million refunds were delayed for about 1 week over what had been planned, while IRS identified, isolated, and resolved the programming error.
 - To take advantage of benefits of daily processing, IRS automated some manual compliance checks—which are done before refunds are issued. However, a programming error caused IRS to hold a much higher than expected number of returns for additional review.
 - IRS expected about 12 percent of returns to be affected by this compliance check. However, during the first week of the filing season about 80 percent of returns filed that week were affected.
 - According to IRS officials, they did not detect this issue during pre-filing season testing, but it was identified when the filing season began.
 - IRS officials reported that they had solved the problem by the end of January.

Filing Season

Challenges Transmitting Data from MeF to Other Processing Systems Also Delayed Refunds

- From the start of the filing season through February 7, 2012, a component of MeF that allows it to transmit data to other information systems used to process returns did not operate properly.
 - As a result, IRS had to manually verify the data being provided to the other systems used to process returns, which resulted in delays in processing about 7.8 million tax returns, of which we estimated approximately 7.0 million were refunds.
 - IRS asked companies responsible for transmitting returns electronically and which had the ability to switch to the legacy e-file system to temporarily do so while IRS resolved the problem.
- According to IRS officials, they did not detect this issue during pre-filing season testing.
- At the start of the filing season, MeF began to process a high volume of returns, and the transmission problem became evident.
- According to IRS officials, the problem was resolved on February 7, and the backlog of returns had been processed by February 18, 2012.

Page 10

Filing Season

MeF Has Also Experienced Problems with Stability and Volume

- In the 2010 filing season, IRS accepted about 764,000 returns through MeF (less than 10 percent of IRS's projections). Companies submitting returns to IRS electronically said that MeF had "instability" issues in 2010 (e.g., downtime, timeouts, slow servers, and delayed acknowledgments).
- In 2011, IRS accepted over 10.2 million returns via MeF (less than one-third of projections). Although companies submitting returns to IRS electronically reported that it was more stable than in 2010, not all companies and states eligible to use MeF did so.
- Through March 12, 2012, IRS accepted about 70 percent (47 million) of e-filed returns via MeF. However, IRS experienced some data transmission problems. As noted above, in order to minimize disruptions and avoid further delays, IRS asked transmitters that could do so to temporarily stop using MeF.
- In January 2012, IRS officials reiterated their intention to turn off the legacy e-file system in October 2012 as planned. However, more recently, IRS processing officials have told us they would reevaluate the situation after the 2012 filing season. IRS reported it is taking additional steps to try to better identify and resolve problems with MeF this filing season.
- The Treasury Inspector General for Tax Administration (TIGTA) has also reported IRS has experienced problems with tracking risks and controlling security weaknesses with MeF.²

²TIGTA, The Modernized e-File Release Included Enhancements, but Improvements Are Needed for Tracking Performance Issues and Security Weaknesses, 2011-20-088 (Washington, D.C.:2011); and Modernized e-File Will Enhance Processing of Electronically Filed Individual Tax Returns, but System Development and Security Need Improvement, 2010-20-041 (Washington, D.C.: 2010).

Filing Season

IT Guidance Calls for Timely Review and Updates to Contingency Plans

- According to National Institute of Standards and Technology Guidelines and other guidance, federal agencies' IT contingency plan for key IT systems should be reviewed after major events but no less than annually and updated as needed.
- When we asked for the most recent MeF contingency plan, IRS provided us with a plan dated January 2011.
- In comments, IRS officials told us that the plan is reviewed annually in preparation for the next year's filing season.
- As we finished our work in March, IRS provided us with an updated contingency plan dated December 2011.
- Given MeF's importance, the problems it experienced this year, and IRS's plans to turn off its legacy e-file system in October, without timely review and update—as needed—to the contingency plan to take into account the lessons learned from the current filing seasons, IRS risks not being able to timely and reliably process tax returns.

Page 12

Budget

Fiscal Year 2012 Enacted Appropriations Reduced by \$305 Million (2.5 Percent) from Fiscal Year 2011

Table 3: Funding Reductions in IRS's Appropriations Accounts between Fiscal Year 2011 and Fiscal Year 2012 (dollars in millions)

	Fiscal year 2011 enacted	Fiscal year 2012 enacted	Dollar change (percent change) fiscal year 2011 to fiscal year 2012
Enforcement	\$5,493	\$5,299	-\$194 (-3.5%)
Operations support	4,057	3,947	-109 (-2.7%)
Taxpayer services	2,293	2,240	-54 (-2.3%)
BSM	263	330	67 (25.4%)
Health Insurance Tax Credit Administration (HITCA)	15	0 ^a	-15 (-100.0%)
Total appropriated resources	\$12,122	\$11,817	-\$305 (-2.5%)

Source: Fiscal year 2013 Congressional Justification for IRS.

^aIn fiscal year 2012, administrative resources for HITCA were moved to the Taxpayer Services appropriation under the Consolidated Appropriations Act, 2012 (Pub. L. No. 112-74).

Budget

Fiscal Year 2012 Budget Reductions Absorbed by Decreasing FTEs and Other Costs

IRS expects to absorb fiscal year 2012 reductions by decreasing

- FTEs by about 3.4 percent³ from fiscal year 2011 through
 - attrition and continuation of an agencywide hiring freeze in effect since fiscal year 2011, and
 - targeted buyouts of more than 900 support functions;
- other costs, such as
 - across-the-board reductions of 10 to 15 percent to program support such as travel, training, and consulting contractual services;
 - technology savings resulting from internal program changes such as extending IT refresh from 3 to 4 years;
 - savings associated with policy changes such as reductions to awards budgets and change in public transit subsidy payments;
 - other Operations Support savings including reducing real estate footprint through space optimization and increased telework; and
 - savings from employee suggestions such as eliminating single-sided printing, reducing use of laptop “aircards,” and increasing use of teleconferencing and videoconferencing equipment.

³Reduction in FTEs calculated from fiscal year 2011 actual and fiscal year 2012 enacted FTE levels.

Budget

Dollars by Appropriation Account, Fiscal Year 2008 through 2013

Table 4: Fiscal Year 2008 through Fiscal Year 2012 Enacted and Fiscal Year 2013 Budget Request for IRS by Appropriation (dollars in millions)

Appropriation	Fiscal year 2008 enacted	Fiscal year 2009 enacted	Fiscal year 2010 enacted	Fiscal year 2011 enacted	Fiscal year 2012 enacted	Fiscal year 2013 requested	Dollar change fiscal year 2012 enacted through fiscal year 2013 requested	Percent change fiscal year 2012 enacted through fiscal year 2013 requested
Enforcement	\$4,780	\$5,117	\$5,504	\$5,493	\$5,299	\$5,702	\$402	7.59
Operations support	3,841	3,867	4,084	4,057	3,947	4,476	529	13.40
Taxpayer services	2,191	2,293	2,279	2,293	2,240	2,253	13	0.60
BSM	267	230	264	263	330	330	0	0.00
HITCA	15	15	16	15	-- ^a	-- ^a	-- ^a	-- ^a
Subtotal	11,095	11,523	12,146	12,122	11,817	12,761	945	7.99
Other resources, such as user fees ^b	566	390	539	655	559	592	34	6.04
Total funding available for obligation	\$11,661	\$11,913	\$12,686	\$12,777	\$12,375	\$13,354	\$978	7.91

Source: Fiscal year 2010 through fiscal year 2013 Congressional Justifications for IRS.

Notes: Dollars are nominal and not adjusted for inflation, and numbers may not add due to rounding.

^a In fiscal year 2012, administrative resources for HITCA were moved to the Taxpayer Services appropriation under the Consolidated Appropriations Act, 2012 (Pub. L. No. 112-74).

^b Other resources available for obligation are estimated by IRS and not subject to the annual appropriations process.

Budget

Staffing by Appropriation Account, Fiscal Year 2008 through 2013

Table 5: Fiscal Year 2008 through Fiscal Year 2011 Actual, Fiscal Year 2012 Enacted, and Fiscal year 2013 Requested FTEs by Appropriation Account

Appropriation Account	Fiscal year 2008 actual	Fiscal year 2009 actual	Fiscal year 2010 actual	Fiscal year 2011 actual	Fiscal year 2012 enacted	Fiscal year 2013 requested	FTE change fiscal year 2012 enacted through fiscal year 2013 requested	Percent change fiscal year 2012 enacted through fiscal year 2013 requested
Enforcement	46,431	47,361	50,400	49,920	47,586	51,583	3,997	8.40
Operations support	12,079	12,101	12,262	12,103	11,985	12,609	624	5.21
Taxpayer services	31,487	32,422	31,607	31,574	30,535	30,570	35	0.11
BSM	347	322	337	309	605	495	-110	-18.18
HITCA ^a	10	10	12	0	0	0	0	0
Subtotal	90,354	92,216	94,618	93,906	90,711	95,257	4,546	5.01
Other resources, such as user fees ^b	1,331	1,153	752	1,003	939	939	0	0
Total FTEs	91,685	93,369	95,370	94,909	91,650	96,196	4,546	4.96

Source: Fiscal year 2008 through fiscal year 2013 Congressional Justifications for IRS.

^aThe administrative resources for HITCA were moved to the Taxpayer Services appropriation under the Consolidated Appropriations Act, 2012 (Pub. L. No. 112-74).

^bOther resources available for obligation are estimated by IRS and not subject to the annual appropriations process.

Budget

Appropriation Increase of \$945 Million Requested

Table 6: Funding Requested for Program Changes and New Initiatives (dollars in millions)

Description Of New Initiatives		Fiscal Year 2013 Funding Requested	Subtotal	Total
Total changes				\$1,015.3
New initiatives			906.9	
Enforcement initiatives	Restore audit and collection coverage to address individual tax compliance issues (Projected Return on Investment [ROI]: 6.8 to 1. IRS's ROI estimate is based on direct revenues collected and does not include revenue that may result from an increase in voluntary compliance)	200.5		
	Implement tax law changes for Information Reporting and Document Matching (IDRM) and Affordable Care Act (ACA) programs (Projected ROI 3.5 to 1)	128.9		
	Promote offshore compliance (Projected ROI 6.4 to 1)	110.7		
	Implement revenue protection strategy (Projected ROI 1.9 to 1)	88.9		
	Other (improve international compliance, build out return preparer program, address appeals workload, leverage digital evidence, and implement uncertain tax position reporting requirements) (Unable to provide ROI because not all initiatives are revenue generating)	102.9		
Infrastructure initiatives	To implement ACA-related IT and operational infrastructure to allow IRS to validate household income and determine the amount of advance payments of the tax credit	275.1		
Inflation adjustment and pay raises	Inflation adjustments for nonlabor expenses such as rent, postage, and health benefits, in order to maintain current levels and a proposed pay raise of 0.5 percent		108.4	
Savings and efficiencies	Savings resulting from increased use of e-filing of returns, reduced travel, and targeted program reductions (e.g., using more online tools and IT contractual services)			-70.9
Appropriation increase				\$944.5

Source: Fiscal year 2013 Congressional Justification for IRS.
 Note: Numbers may not add due to rounding.

Budget

IT is About 20 Percent of IRS's Fiscal Year 2013 Budget Request

- IRS requested about \$2.5 billion for IT for fiscal year 2013—\$2.14 billion for investments in the Operations Support appropriation and \$330 million for investments in the BSM appropriation.
- Of the \$2.5 billion requested,
 - \$1.6 billion is expected to fund 18 major investments⁴ and
 - \$900 million is expected to fund 123 nonmajor investments.

⁴ See app. I for a description of the major IT investments. Additionally, according to IRS, major investments are defined by Treasury as those that cost \$10 million in either current year or budget year , or \$50 million over the 5-year period extending from the prior year through budget year +2.

Budget

Major IT Investments' Planned Cost

Table 7: IRS's Major IT Investments' Cost Information¹

Investment Name	Enacted Funds for 2012	Requested Funds for 2013	Total Estimated Costs (fiscal year 2011 - fiscal year 2015)
Account Management Services (AMS)	\$20.9	\$21.0	\$103.2
Affordable Care Act (ACA) Administration	0.0	303.5	303.5 ²
Current CADE ³	0.7	0.0	50.1
Customer Account Data Engine 2 (CADE 2)	210.3	203.4	1,148.0
Electronic Fraud Detection System (EFDS)	15.6	15.8	77.7
e-Services (e-SVS)	13.9	0.0	82.5
Foreign Account Tax Compliance Act (FATCA)	0.0	11.4	42.3
Implement Return Review Program (RRP) (Replaces EFDS)	18.4	18.3	87.3
Individual Master File (IMF)	10.3	10.4	71.4
Information Reporting and Document Matching (IRDM)	20.0	20.4	110.8
Integrated Customer Communication Environment (ICCE)	16.0	16.1	89.3
Integrated Data Retrieval System (IDRS)	18.3	18.4	290.0
Integrated Financial System/CORE Financial System (IFS)	16.6	16.9	94.9
Integrated Submission and Remittance Processing System (ISRP)	20.9	13.7	80.3
IRS End User Systems and Services (EUSS)	201.0	183.0	1,477.3
IRS Main Frames and Servers Services and Support (MSSS)	449.3	446.5	4,033.7
IRS Telecommunications Systems and Support (TSS)	218.6	224.5	1,755.1
IRS.GOV - Portal Environment	31.2	31.7	1,128.0
Modernized e-File (MeF)	49.1	50.4	292.1
Service Center Recognition/Image Processing System (SCRIPS)	19.7	10.7	68.3
Total	\$1,350.4	\$1,616.3	\$11,385.8

1. Cost figures are represented in millions.
 2. IRS did not receive any funds for this investment for fiscal year 2011 and fiscal year 2012. At the time of our review, we did not receive the estimated costs for fiscal year 2014 to fiscal year 2015.
 3. According to the OMB IT Dashboard, the Current CADE Investment ended on December 31, 2011.

Source: GAO's analysis of IRS's Exhibit 53 data and Exhibit 300As.

Budget

Selected Measures Show Declines in Performance and Goals for Taxpayer Service and Enforcement Activities since 2007

Table 8: Selected Processing, Taxpayer Service, and Enforcement Measures for Fiscal Year 2007 through 2013

Performance measure (in percent)	Fiscal year 2007 (actual)	Fiscal year 2008 (actual)	Fiscal year 2009 (actual)	Fiscal year 2010 (actual)	Fiscal year 2011 (actual)	Fiscal year 2012 goal	Fiscal year 2013 goal
Assistor Calls –							
Level of service ^a	82.1	52.8	70.0	74.0	70.1	61.0	63.0
Tax law accuracy ^b	91.2	91.2	92.9	92.7	93.4	92.7	92.7
Account accuracy ^b	93.4	93.7	94.9	95.7	96.0	95.0	95.0
Examination coverage—individual ^c	1.0	1.0	1.0	1.1	1.1	1.0	1.0
Examination coverage—business ^d (assets > \$10 million)	6.8	6.1	5.6	5.7	6.2	5.6	5.4
Collection coverage ^e	54.0	55.2	54.2	50.1	50.0	47.8	46.8
Individual returns processed electronically	57.1	57.6	65.9	69.3	76.9	79.0	80.0

Source: Fiscal year 2013 Congressional Justification for IRS.

^aThe number of toll-free callers who speak to live IRS assistors divided by the total number of attempted calls.

^bCustomer accuracy measures how often customers receives the correct answer/solution to their inquiry from a live IRS assistor.

^cExamination coverage—individual indicates the number of individual income tax returns examined and closed by IRS during the current fiscal year divided by the number of return filings for the preceding year.

^dExamination coverage—business reflects the inventory of large and midsize business returns examined and closed by IRS during the current fiscal year divided by the number of return filings for the preceding year.

^eCollection coverage measures the volume of collection work disposed compared to the volume of collection work available.

Budget

Fiscal Year 2012 Performance Decreases Affect Taxpayers in Selected Areas

- Hours assistors are available to answer calls decreased 20 percent (to 12 hours per day from 15 hours in fiscal year 2011).
- Average wait time to talk with an assistor increased to about 17 minutes (from 11.2 minutes in fiscal year 2011).
- So far this filing season, the telephone level of service is down 5 percentage points from last year, and is currently at 65 percent. The planned goal for fiscal year 2012 is 61 percent, down from its original goal of 81 percent for fiscal year 2008.
- Abandoned, busies, and disconnected calls are up 41 percent since fiscal year 2011 and are up almost 150 percent since fiscal year 2008.
- Fiscal year 2012 planned service goals for examinations are also down, which could affect revenue from collections:
 - Individuals: 1.0 percent (reduced from 1.1 percent in fiscal year 2011).
 - Large and medium businesses: 5.6 percent (reduced from 6.2 percent in fiscal year 2011).

Page 21

Conclusion

IRS is processing tax returns in a rapidly changing environment. MeF is critical to e-filing and has been an important part of IRS's modernization efforts. It provides benefits to both IRS and taxpayers—millions of whom expect timely refunds, and for many of them, it is the single biggest payment they will receive during the year. Without a timely review and update to its contingency plan that considers lessons learned from this year's experiences with MeF, IRS could be introducing additional risk to next year's filing season.

Recommendation for Executive Action

- The Commissioner of Internal Revenue should ensure that IRS's IT contingency plan for MeF is reviewed and updated, as needed, in time for the beginning of the 2013 filing season.

Appendix I: Description of the Internal Revenue Service’s (IRS) Major Information Technology (IT) Investments

Table 9: IRS’s Major IT Investments

Investment name	Investment description
Account Management Services (AMS)	AMS is intended to enhance customer support by providing applications that enable IRS employees to access, validate, and update individual taxpayer accounts on demand.
Affordable Care Act (ACA) Administration	ACA Administration allows the IRS to continue the development of new systems and modification of existing systems required to support new tax credits as prescribed in the ACA.
Current CADE	Current CADE was intended to deploy a modernized database and application to provide faster return processing and refunds and realignment to CADE2. As of 12/31/2011, the transition to CADE 2 is complete.
Customer Account Data Engine 2 (CADE 2)	CADE 2 is intended to leverage CADE and the Individual Master File, which contain the repository of individual taxpayer information, to provide timely access to authoritative individual taxpayer account information and enhance IRS’s ability to address technology, security, financial material weaknesses, and long-term architectural planning and viability.
Electronic Fraud Detection System (EFDS)	EFDS is a steady state, automated system used to detect fraud at the time that tax returns are filed in order to eliminate the issuance of fraudulent tax refunds.
e-Services (e-SVS)	e-SVS is a suite of web-based, self-assisted services that is intended to allow authorized individuals to do business with the IRS electronically.
Foreign Account Tax Compliance Act (FATCA)	FATCA requires foreign financial institutions to report to the IRS information about financial accounts held by U.S. taxpayers, or foreign entities in which U.S. taxpayers hold a substantial ownership interest.
Implement Return Review Program (RRP) (Replaces EFDS)	RRP, currently under development, is intended to be an automated system designed to maximize fraud detection at the time that tax returns are filed to eliminate the issuing of questionable refunds.
Individual Master File (IMF)	IMF is the authoritative data source for individual tax account data. All other IRS information system applications that process IMF data depend on output from this source. IMF is a critical component of IRS’s ability to process tax returns.
Information Reporting and Document Matching (IRDM)	IRDM is intended to close the tax gap by increasing voluntary compliance and accurate reporting of income by establishing a new business information matching program.

Appendix I: Description of IRS's Major IT Investments (continued)

Table 9: IRS's Major IT Investments (continued)

Investment name	Investment description
Integrated Customer Communication Environment (ICCE)	ICCE is intended to make voluntary compliance easier. It includes multiple projects that use voice response, Internet, and other computer technology to provide service to taxpayers. It also includes, among other applications, the Modernized Internet Employee Identification Number (Mod IEIN), which allows third parties to act on the behalf of taxpayers.
Integrated Data Retrieval System (IDRS)	IDRS has been a mission-critical system, used by 60,000 IRS employees. It is intended to provide for systemic review, improve consistency in case control, alleviates staffing needs, issue notices to taxpayers, and allow taxpayers to see status of refunds.
Integrated Financial System/CORE Financial System (IFS)	Integrated Financial System is the CORE financial system used by IRS for budget, payroll, accounts payable/receivable, general ledger functions, and financial reporting. IRS uses IFS to report on the cost of operations and to manage budgets by fiscal year.
Integrated Submission and Remittance Processing System (ISRP)	ISRP is the legacy frontline tax processing system that processes paper tax returns from individuals and businesses. It also updates tax forms to comply with tax law changes.
IRS End User Systems and Services (EUSS)	The End User Equipment and Services (EUES) program is intended to support the IRS day-to-day end user products, services, and support for over 100,000 IRS employees at headquarters and field sites.
IRS Main Frames and Servers Services and Support (MSSS)	MSSS is intended to provide for the design, development and deployment of server, middleware and large systems, and enterprise storage infrastructures, including systems software products, databases, and operating systems for these platforms.
IRS Telecommunications Systems and Support (TSS)	This investment supports IRS's network infrastructure services. This includes WANs, LANs, servers, switches, etc., for voice, data, and video servicing of about 1,000 IRS sites.
IRS.GOV—Portal Environment	IRS portal will provide seamless one-stop web-based services to internal and external users, such as taxpayers, business partners, IRS employees, and other government agencies.
Modernized e-File (MeF)	MeF is intended to provide a secure web-based platform for electronic filing of individual and business tax and information returns by registered Electronic Return Originators.
Service Center Recognition/Image Processing System (SCRIPS)	SCRIPS is a data capture, management and image storage system that uses high-speed scanning and digital imaging to process the 940, 941, K-1, and Information Returns Processing paper returns and converts data to electronic format for processing downstream.

Source: GAO analysis of IRS data and Exhibit 53.

Appendix II: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

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