



## Treasury Inspector General for Tax Administration Office of Audit

### SYSTEM ERRORS AND LOWER THAN EXPECTED TAX RETURN VOLUMES AFFECTED THE IMPLEMENTATION OF THE MODERNIZED E-FILE SYSTEM FOR INDIVIDUAL TAX RETURN PROCESSING

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## Highlights

Highlights of Report Number: 2010-40-111 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) is in the process of replacing its existing electronic filing (*e-file*) platform, referred to as "the Legacy *e-File* system," with a modernized, Internet-based system, the Modernized *e-File* (MeF) system. The MeF system provides real-time processing of tax returns and extensions that will improve error detection, standardize business rules, and expedite acknowledgments. The MeF system also allows taxpayers to attach documents to their tax returns.

### WHY TIGTA DID THE AUDIT

This audit was initiated because the MeF system aims to increase *e-file* use through a system that is efficient and easy to access, use, and maintain. The overall objective of this review was to determine whether *e-filed* individual income tax returns transmitted through the MeF system are processed timely and accurately in a manner consistent with tax returns processed in the Legacy *e-File* system.

### WHAT TIGTA FOUND

Although the IRS has processed business tax returns through the MeF system since February 2004, the processing of individual tax returns presented a significant challenge. The migration of individual tax returns to the MeF system is a joint venture among the IRS, the tax return preparation industry, and the States. The IRS established a number of tools to share information and assist its stakeholders during the development and implementation of MeF Release 6.1.

Our review identified that tax returns were erroneously rejected from the MeF system. Of the 29 MeF system business rules we reviewed, 19 (66 percent) appeared to

either reject tax returns in error or reject tax returns without providing accurate explanation as to why the tax returns were rejected.

In addition, the IRS anticipated processing 9.3 million tax returns through its MeF system as of April 15, 2010. However, the IRS only received 752,320 tax returns (8.1 percent). Due to the low volume of tax returns received through the MeF system, the IRS was not able to assess its capability to handle large volumes of tax returns.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division:

- Establish processes to timely monitor the transmitting and processing of individual tax returns through the MeF system.
- Work with tax return transmitters and the States to identify and address issues that prevented them from using the MeF system and encourage them to use it during the 2011 Filing Season.

The IRS agreed with the recommendations. It employed several processes to validate the accuracy of individual tax return processing for the 2010 Filing Season. It also plans to use Business Objects for the 2011 Filing Season to identify trends that may indicate errors in the rejection or acceptance of tax returns and to ensure the explanations provided for rejected returns are correct. The IRS has also begun to work with tax return transmitters and the States to identify and address issues that prevented them from using the MeF system and encourage them to use it during the 2011 Filing Season. It plans to continue to leverage existing external venues for the MeF system to maximize its partnership, outreach, and customer service to external stakeholders. Finally, the IRS plans to identify and implement system performance enhancements.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201040111fr.pdf>

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