

D. Implementation of the IRS's Return Review Program Is at Extreme Risk, Which Could Cause Significant Harm and Cost

The Electronic Fraud Detection System (EFDS) is the IRS's primary frontline system for detecting fraudulent returns. Although it assisted the IRS in successfully preventing the release of over \$18 billion in fraudulent refunds,¹ TIGTA estimated the IRS may have paid \$5.2 billion in potentially fraudulent tax refunds on 1.5 million tax returns in tax year 2010.² Of the taxpayers who came to TAS in FY 2013 by March 31, 2013 because they had their refunds stopped for a closer review by the EFDS system and whose TAS cases were closed, almost 82 percent eventually received full or partial relief.³

The first attempt to replace EFDS failed and the IRS completed the 2006 filing season with no upfront fraud detection system in place. In 2009, the IRS began developing the Return Review Program (RRP) to replace EFDS. In 2010, the IRS declared EFDS "too risky to maintain, upgrade, or operate beyond 2014."⁴

The RRP system will automate many of the tasks that employees currently perform. For example, today when the IRS refers an EFDS case for audit, an employee inputs the taxpayer information on a spreadsheet and sends it to another office that opens and assigns the case. TAS has identified multiple instances where the case was lost because of this sort of manual action, which delays resolution and creates a significant burden on legitimate taxpayers caught up in these delays.

The potential benefits of RRP are widespread. In 2011 W&I stated:

(T)hat Congress has approved \$54M for IRS Modernization and Information Technology Services (MITS) to develop and implement RRP. RRP is expected to enhance revenue by \$28.8M per year when fully implemented, and its estimated five-year rate of return is 15.8K %.⁵

Despite this high level of return and significant monetary investment, the IRS is now forced to consider non-deployment or a limited deployment of RRP. On January 15, 2013, the Information Technology division reported that it did not have enough resources available to bring RRP online by the January 1, 2015 deadline.⁶ Even with additional resources, the IRS would still need another year (until January 1, 2016) to complete the system.

Not deploying the RRP as intended could impose significant harm and cost on both the IRS and the public. An unexpected failure of the EFDS system would force the IRS to decide

1 IRS, W&I Business Performance Review 8 (Nov. 14, 2012).

2 TIGTA, Ref. No. 2013-40-015, *Improper Payments Elimination and Recovery Act Risk Assessments of Revenue Programs Are Unreliable* (Jan. 2013).

3 Data from TAMIS (Apr. 1, 2013). Of the 7,193 taxpayers whose cases were closed by TAS from October 1, 2012 to March 31, 2013 4,632 received full relief, 211 received partial relief, and in 1,021 cases the IRS provided relief after the taxpayer contacted TAS for a total of 5,864/7,193= 81.52 percent.

4 PIA 250 October 2, 2012. http://www.irs.gov/pub/irs-utl/RRP_TS_pia.pdf.

5 Wage & Investment Division Summary of Proposed FY 2013 Budget Initiatives (as of Feb. 1, 2011).

6 Email from Supervisory Tax Analyst Wage & Investment, Business Modernization dated Jan. 15, 2013.

whether to stop issuing refunds until the system could be repaired, or issue billions of dollars in potentially fraudulent refunds without screening. In addition, as EFDS becomes harder to update and maintain, it could erroneously stop an increasing number of valid refunds. The lack of automation to handle administrative adjustments and actions is straining the IRS's limited resources as fraud and identity theft grow and staffing declines.

TAS has requested read-only access to the EFDS system for research and casework resolution purposes.⁷ This access would give TAS employees the ability to review EFDS before issuing a manual refund, potentially preventing the issuance of an erroneous refund. It would also increase transparency and allow TAS to effectively advocate for taxpayers. However Wage and Investment has denied TAS access, even if it is limited to a sole TAS employee.

TAS continues to advocate, through various channels, for the full development and deployment of RRP at the earliest possible date. These channels include:

- Participation on multiple RRP development teams;
- Continuing discussions with business owners;
- Including RRP development delays as a Most Serious Problem in the 2013 Annual Report to Congress; and
- Pursuing access to EFDS through meetings and the issuance of a proposed Taxpayer Advocate Directive if circumstances warrant.

⁷ Read-only access means TAS employees can only see the information contained within the system, but cannot edit or change the data in any way. As of June 21, 2013, W&I preliminarily agreed to grant TAS one read-only license to EFDS.