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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

March 7, 2017

CHRIS CAMPBELL, STAFF DIRECTOR
JOSHUA SHEINMAN, DEMOCRATIC STAFF DIRECTOR

The Honorable John Koskinen
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Koskinen:

The United States Senate Committee on Finance is charged with ensuring that all federal agencies under its purview use taxpayer resources as efficiently as possible. In recent years, Congress has appropriated hundreds of millions of dollars to the Internal Revenue Service (“IRS”) for the procurement of new information technology (“IT”) systems, including those used to curb tax fraud. I consider this to be one of the most significant challenges facing the IRS, and as such, continue to monitor its IT modernization efforts very closely.

Of particular concern to this Committee is the IRS’s Return Review Program (“RRP”), which is intended to detect tax fraud. Undertaken in 2009 as a replacement system for the Electronic Fraud Detection System (“EFDS”)—which itself dates back to 1994—RRP was envisioned to provide “leading edge technology to advance IRS effectiveness in detecting, addressing, and preventing tax refund fraud and protecting United States Treasury revenue.”¹ However, both the Treasury Inspector General for Tax Administration (“TIGTA”) and the Government Accountability Office (“GAO”) have raised concerns regarding both the cost and effectiveness of this program. RRP was initially projected to take five years to complete; however, eight years later, RRP does not appear to be fully implemented for the 2017 tax season. Instead, the project completion date is currently estimated to be 2022. In an era where new technologies rapidly become outdated, taking 14 years to fully implement a major IT system is simply unacceptable. Furthermore, the IRS has paid far more than the initial \$57.5 million in estimated costs to date.

Given the continued issues surrounding RRP, the Committee has a number of questions regarding the current status of the program and any efforts made to correct these issues. To assist the Committee in better understanding RRP, please provide answers to the following questions no later than April 7, 2017:

1. Please provide an overview of the current state of RRP.
2. Please provide current as well as the initial RRP start and completion dates for each transition phase. Please provide both initial and current descriptions of planned functionality for each transition phase.

¹ Internal Revenue Service, *FY 2014 Capital Investment Plan*, available at <https://www.treasury.gov/about/budget-performance/C114/IRS%20CIP%20Final.pdf> (accessed on February 8, 2017).

- a. If a transition phase has been completed, please provide the actual start and completion dates as well as a description of the functionality that was actually achieved, broken out for each transition phase.
 - b. If an additional transition phase has been added or removed, please also note this and the date that the decision to do so was made.
3. Has RRP been re-baselined? If so, please describe any changes made to the initial project baseline, the reason(s) for these changes, and the dates on which these changes were made.
4. Does the IRS anticipate further changing the remaining transition phase completion dates or the final RRP completion date?
5. What is the current total cost of RRP to date? What further costs are anticipated between now and the completion of the RRP project?
6. When is EFDS anticipated to be taken offline?
7. Please provide a list of the prime contractor(s) and any subcontractors that were awarded the initial RRP contract.
8. Please provide any relevant contracting documents for RRP, including but not limited to all current contracts, requests for information, and requests for proposals.
9. The Federal Acquisition Regulation² requires agencies to conduct market research to determine whether commercial items can meet an agency's requirements and to acquire those items when available or to re-examine its requirements when such items are found to be unavailable. However, in 2013 TIGTA noted that "alternative commercial software products were not fully considered prior to selecting technology solutions for the RRP system."³
 - a. What market research did the IRS undertake upon creation of the program in 2009 that justified a custom development project in lieu of a commercial item?
 - b. Please provide any supporting documentation of the IRS's efforts to determine that a custom development project was needed in lieu of a commercial or modified commercial item.
 - c. Why was it determined that no commercial item solutions were feasible to help correct RRP's deficiencies?
10. Has this project or any aspect of it been up for a re-compete? If so, please provide any supporting documentation for the solicitation and final decision made. Please note if the contract re-awarded to the same contractor(s) and the reason(s) why.
11. GAO, in a recent report on major IRS IT investments, specifically singled out RRP as an example of an IT investment for which the Congressional cost and timeline reporting was grossly inaccurate. GAO stated that "if IRS implemented our prior recommendations relative to cumulative reporting of performance information, and reporting of quantitative scope information, as previously mentioned, the variances from

² FAR 12.101

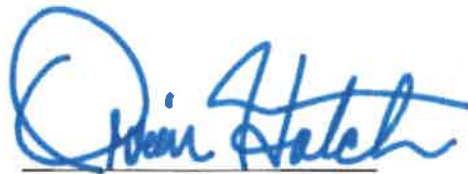
³ TIGTA, *Improvements Are Needed to Ensure Successful Development and System Integration for the Return Review Program*; Report No. 2013-20-063 (July 26, 2013).

cost, schedule, and scope plans identified for RRP would be more transparent in congressional reporting.”⁴

- a. What actions has the IRS taken to address these concerns?
 - b. In accordance with one of the new recommendations made in GAO’s report, does the IRS now disclose instances where cost and schedule performance information reported to Congress is not updated?
 - c. Does GAO now consider both the recommendation made in this report as well as prior reporting recommendations referenced in the report to be implemented?
 - d. Are these recommendation officially closed in your recommendation tracking system? If any remain open, please explain why.
12. How will RRP be utilized during the 2017 Filing Season?
13. What performance measures will the IRS use to assess RRP during the 2017 Filing Season?
14. The IRS has been quoted as describing EFDS as “too risky to maintain, upgrade, or operate beyond 2014.”⁵ IRS budget documents for FY 2017 note that the RRP program plans to spend \$80 million to incorporate existing EFDS functionality. Given the known concerns about EFDS’ performance, why is RRP still unable to perform functions the legacy system was already capable of?
- a. What percentage and dollar amount of total fraud does EFDS and other legacy systems catch that RRP does not catch?
 - b. What RRP capabilities remain to be developed or have been de-scoped from the program since its inception in 2009?
15. Recently, the IRS began receiving improved data elements and fraud flags shared by the private sector.
- a. What percentage of returns flagged 'highly suspicious' by e-filers is caught by RRP?
 - b. Will the new Identity Theft Tax Refund Fraud Information Sharing and Analysis Center use RRP to flag and investigate fraud?

I also ask that you provide your answers on a question-by-question basis, indicating which question you are answering. Thank you in advance for your assistance with this request. If you have any questions, please contact Christopher Armstrong at (202) 224-4515.

Sincerely,



Orrin G. Hatch
Chairman

⁴ GAO, *Information Technology: Management Needs to Address Reporting of IRS Investments’ Cost, Schedule, and Scope Information*, GAO-15-297 (February 2015).

⁵ Taxpayer Advocate Service, *Fiscal Year 2014 Objectives: Report to Congress* (June 30, 2013).