



*Inadequate Management Information  
Has Adversely Affected the  
Acceptance Agent Program*

**June 19, 2009**

**Reference Number: 2009-40-087**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

**Redaction Legend:**

1 = Tax Return/Return Information



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 19, 2009

**MEMORANDUM FOR** COMMISSIONER, WAGE AND INVESTMENT DIVISION

**FROM:**

*Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Inadequate Management Information  
Has Adversely Affected the Acceptance Agent Program  
(Audit # 200840016)

This report presents the results of our review to determine whether the Internal Revenue Service's (IRS) screening and monitoring of Acceptance Agents<sup>1</sup> is effective. This audit was part of the Treasury Inspector General for Tax Administration's Fiscal Year 2008 Annual Audit Plan. This audit is a followup to a prior Treasury Inspector General for Tax Administration audit<sup>2</sup> and addresses the major management challenge of Providing Quality Taxpayer Service Operations.

*Impact on the Taxpayer*

The purpose of the Individual Taxpayer Identification Number (ITIN) is to provide alien individuals, whether or not they reside in the United States, an identifying number for use in connection with United States tax return filing requirements. One way taxpayers obtain ITINs is through IRS approved Acceptance Agents or Certifying Acceptance Agents.<sup>3</sup> The primary means the IRS has to regulate Agents are the application screening process and the monitoring program. The volume of ITINs is growing, increasing the risk of fraudulent tax returns using

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<sup>1</sup> An Acceptance Agent is a person (an individual or an entity) who is authorized to assist alien individuals and other foreign persons (who are ineligible to receive Social Security Numbers) in obtaining an Individual Taxpayer Identification Number from the IRS. A Certifying Acceptance Agent is authorized to certify whether the documented proof is adequate.

<sup>2</sup> *Management Oversight of the Acceptance Agent Program Is Needed to Assure that Individual Taxpayer Identification Numbers Are Properly Issued* (Reference Number 2003-30-020, dated November 6, 2002).

<sup>3</sup> Hereafter both Acceptance Agents and Certifying Acceptance Agents will be referred to as Agents unless otherwise stipulated.



## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

ITINs. Inadequate screening and monitoring increase the risk to both the taxpaying public and the Federal Government for potential losses associated with unscrupulous Agents.

### *Synopsis*

Management information is insufficient to effectively oversee the Acceptance Agent Program. The ITIN Program's management information system, the Real-Time System, only allows queries to individual records and does not generate ad hoc reports or provide regular or periodic reports that can be used to oversee the Acceptance Agent Program. As a result, the ITIN Program Office is unable to monitor Agents or their activity and/or measure their compliance with rules and regulations.

The application screening process also does not always ensure the integrity of the individuals applying for participation in the Acceptance Agent Program. Our testing of a sample of 92 Agents' application files showed required copies of green cards<sup>4</sup> were not in the files for 10 (83 percent) of the 12 United States Resident Aliens in the sample.<sup>5</sup> Seventy (95 percent) of 74 applicants did not have the required criminal background checks performed.

In addition, compliance checks are manual. The IRS does not use a system for Agents such as its Automated *e-file* Application Processing System that automates the process of checking and monitoring tax compliance and ensures that applicants are current with their tax return filings and tax payments. Automating this process would alleviate the time it takes to process Agents' applications.

Finally, monitoring visits to Agents are not being conducted. The ITIN Program Office stated that as of August 18, 2008, it will no longer attempt to conduct compliance reviews of Agents. The ITIN Program Office has only three analysts dedicated to the Acceptance Agent Program and there are limited travel funds. The ITIN Program Office also believes it should not be responsible for compliance work and it has contacted the IRS Examination function to see if it can conduct compliance reviews of Agents.

### *Recommendations*

We recommended that the Commissioner, Wage and Investment Division, and the Deputy Commissioner for Operations Support, ensure that the Real-Time System is modified to generate periodic and regular reports, followed by the development of procedures and internal controls to monitor the Acceptance Agent Program. The Commissioner, Wage and Investment Division,

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<sup>4</sup> A green card, or permanent residence card, gives an individual official immigration status (Lawful Permanent Residency) in the United States.

<sup>5</sup> One of the 10 applications was still in process.



## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

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should ensure that resources are sufficient to make certain all validations are completed and checks passed before an application is accepted. Compliance checks should be automated.

In addition, the Commissioner, Wage and Investment Division, should provide sufficient staffing to review the documents that support the Application for IRS Individual Taxpayer Identification Number (Form W-7) submitted by Certifying Acceptance Agents. Finally, once the Real-Time System is improved, the Agent information should be validated to ensure that the ITIN Program Office has accurate and reliable data to make business decisions.

### Response

IRS management agreed with all of our recommendations in the report. The IRS will modify the Real-Time System to generate periodic and regular reports, including ad hoc reports. Once the ITIN Real-Time System has been modified, the ITIN Program Office will develop procedures and internal controls to effectively monitor the Acceptance Agent Program. Further, 10 additional assistants will be trained to process ITIN applications. This will ensure that resources are sufficient and available as backup to the current resources. Meetings are also underway to determine the feasibility of automating compliance checks.

The ITIN Program Office is currently working with the Small Business/Self-Employed Division Examination Policy function to develop a compliance review process. Finally, the IRS agreed to validate the Acceptance Agent information to ensure that accurate data are stored in the system. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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*Table of Contents*

**Background** .....Page 1

**Results of Review** .....Page 5

    The Internal Revenue Service Has Insufficient Management  
    Information to Effectively Oversee the Acceptance Agent Program .....Page 5

Recommendations 1 and 2: .....Page 10

    The Application Screening Process Does Not Always Ensure the  
    Integrity of the Individuals Applying for Participation in the  
    Acceptance Agent Program .....Page 10

Recommendations 3 and 4: .....Page 13

    Monitoring Visits to Agents Are Not Being Conducted.....Page 14

Recommendations 5 and 6: .....Page 17

**Appendices**

    Appendix I – Detailed Objective, Scope, and Methodology .....Page 18

    Appendix II – Major Contributors to This Report .....Page 20

    Appendix III – Report Distribution List .....Page 21

    Appendix IV – Management’s Response to the Draft Report .....Page 22



*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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*Abbreviations*

IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
MITS	Modernization and Information Technology Services
U.S.	United States



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## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

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### *Background*

The Internal Revenue Code provides that any person required to file a tax return, statement, or other document shall include an identifying number for securing proper identification of that person. The Social Security Number shall be used as the identifying number for an individual for this purpose, except as otherwise specified under regulations.<sup>1</sup> A United States (U.S.) Individual Income Tax Return (Form 1040) is the primary tax return filed by individuals.

In general, the Social Security Administration limits its assignment of Social Security Numbers to individuals who are U.S. citizens and alien individuals legally admitted to the U.S. for permanent residence or under other immigration categories authorizing U.S. employment. Consequently, individuals who do not meet these criteria cannot obtain Social Security Numbers.

In past years, alien individuals who could not obtain Social Security Numbers, and who had income that was taxable by the U.S., would file tax returns without identifying numbers. To help these taxpayers comply with the identification requirements of the Internal Revenue Code, Treasury Regulations<sup>2</sup> were issued in 1996 to provide for an Internal Revenue Service (IRS) Individual Taxpayer Identification Number (ITIN). The purpose of the ITIN was to provide alien individuals, whether or not they reside in the U.S., an identifying number for use in connection with U.S. tax return filing requirements.

**Only U.S. citizens and alien individuals legally admitted to the U.S. for permanent residence are allowed to obtain Social Security Numbers.**



Also, Treasury Regulations provide that the IRS assign ITINs to resident aliens who cannot obtain a Social Security Number. The ITIN is intended for tax purposes only and creates no inference regarding an alien individual's right to be legally employed in the U.S. and that individual's immigration status<sup>3</sup> (i.e., the ITIN does not authorize a foreign individual to work or live in the U.S.).

Individuals apply for an ITIN using the Application for IRS Individual Taxpayer Identification Number (Form W-7). The IRS began processing Forms W-7 in July 1996 and estimates that as of October 2008 it has issued almost 14 million ITINs.

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<sup>1</sup> 26 U.S.C. § 6109 (2003).

<sup>2</sup> Treas. Reg. § 301.6109.

<sup>3</sup> Treas. Reg. § 301.6109-1. 26 U.S.C. § 7701 (2003) defines a *resident alien* as a resident of the U.S. for any calendar year if that individual was lawfully admitted for permanent residence. A resident alien is also a foreign person in the U.S. who meets the "substantial presence" test, which is based on the number of days that person resides in the U.S. A *nonresident alien* is neither a citizen of the U.S. nor a resident of the U.S.



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## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

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Individuals apply for ITINs using the following three methods:

1. **IRS.** An individual submits the Form W-7, documentation to substantiate information reported on the Form W-7, and a completed tax return directly to the IRS. An applicant may submit the documents at an IRS local office called a Taxpayer Assistance Center or mail the application to the IRS' Austin, Texas, processing center.
2. **Acceptance Agent.** An Acceptance Agent is a person (an individual or an entity) who, pursuant to a written agreement with the IRS, is authorized to assist alien individuals and other foreign persons (who are ineligible to receive a Social Security Number) in obtaining an ITIN from the IRS. The Acceptance Agent facilitates the application process by reviewing the necessary documents and forwarding the completed Form W-7 and supporting documents to the IRS. Acceptance Agents may charge a fee for this service.
3. **Certifying Acceptance Agent.** A Certifying Acceptance Agent is authorized to certify whether the documented proof is adequate and is not required to send the supporting documentation to the IRS unless requested. The Certifying Acceptance Agent reviews the applicant's documentation, completes a certificate of accuracy, and forwards the certificate and Form W-7 to the IRS for processing. The Certifying Acceptance Agent is required to keep copies of the documents for 3 years after making an appropriate notation on the Form W-7 and forwarding it to the IRS.

***The IRS provides multiple avenues to apply for an ITIN – an applicant can mail Form W-7 and supporting documents to the IRS, apply at an IRS Taxpayer Assistance Center, or use the services of an IRS-approved Acceptance Agent or Certifying Acceptance Agent.***

An individual applies to become an Acceptance Agent or Certifying Acceptance Agent<sup>4</sup> by submitting to the IRS the paper Application to Participate in the IRS Acceptance Agent Program (Form 13551). Figure 1 provides an excerpt of Form 13551.

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<sup>4</sup> Hereafter both Acceptance Agents and Certifying Acceptance Agents will be referred to as Agents unless otherwise stipulated.



## Inadequate Management Information Has Adversely Affected the Acceptance Agent Program

Figure 1: Excerpt From Form 13551

Form <b>13551</b> (Rev. January 2008) Department of the Treasury Internal Revenue Service		<b>Application to Participate in the IRS Acceptance Agent Program</b> (Please read the instructions carefully before completing this Form.)		For Official Use Only Control Number:  OMB Number 1545-1896	
Please check the type of acceptance agent for which you are applying: <input type="checkbox"/> New <input type="checkbox"/> Renewal <input type="checkbox"/> Amended					
<input type="checkbox"/> Acceptance Agent <input type="checkbox"/> Certifying Acceptance Agent					
<b>1</b> Please check the box that best describes the applicant's professional status:			Organization status:		
<input type="checkbox"/> Financial Institution <input type="checkbox"/> Educational Institution <input type="checkbox"/> Government Agency or Military Organization <input type="checkbox"/> Casino <input type="checkbox"/> Tax Preparer			<input type="checkbox"/> Partnership <input type="checkbox"/> Corporation <input type="checkbox"/> LLC <input type="checkbox"/> Sole Proprietorship <input type="checkbox"/> Other _____ (Specify)		
<input type="checkbox"/> Attorney* <input type="checkbox"/> CPA* <input type="checkbox"/> Enrolled Agent: Enter No. _____ <input type="checkbox"/> ERO <input type="checkbox"/> Other _____ * See instructions for proof requirements					
<b>2</b> Applicant's legal name (If an entity, also enter location where organized or created.)		<b>3</b> EFIN:	<b>4</b> Applicant's Employer Identification Number (EIN)		
<b>5</b> Name and email of Authorized Representative of the Business (first, middle, last)		<b>6</b> Date of birth (month, day, year)	<b>7</b> Social Security Number (SSN) Individual Taxpayer Identification Number (ITIN)		
<b>8</b> Home address (street, city/county, state/country, and ZIP code/foreign postal code)		<b>9</b> Check the appropriate box <input type="checkbox"/> U.S. Citizen <input type="checkbox"/> U.S. Resident Alien (green card holder)* <input type="checkbox"/> Nonresident Alien* *Attach copy of green card or visa if residing in the U.S.	<b>10</b> Have you ever been assessed any preparer penalties, been convicted of a crime, failed to file personal tax returns, or pay tax liabilities, or been convicted of any criminal offense under the U.S. Internal Revenue laws? <input type="checkbox"/> Yes <input type="checkbox"/> No (Please attach an explanation for a "Yes" response.) See instructions for fingerprinting requirements.		

Source: The IRS' Public Internet site, IRS.gov.

Once the IRS determines that the applicant qualifies to be an Agent, an agreement is entered into between the IRS and the individual or entity authorized by the agreement to act as an Agent on behalf of an alien individual or other foreign person. The agreement stipulates the terms and procedures to be followed by the IRS and the Agent to ensure proper administration of the process by which the IRS issues ITINs to alien individuals and foreign persons. The agreement is in effect until December 31st of the fourth full calendar year after the year in which the agreement went into effect. All existing agreements expired December 31, 2006, and all Agents had to reapply to retain their status.

As of November 6, 2008, there were 4,790 active Agents in the Acceptance Agent Program. Approximately 91 percent of the Agents are Certifying Acceptance Agents. Approximately 78 percent of all Agents are also preparers.<sup>5</sup>

In Fiscal Year 2003, the IRS established the ITIN Project Office, operating with a Director and two analysts. By Fiscal Year 2004, the ITIN Project Office evolved into the ITIN Program Office (hereafter referred to as the Program Office) adding six additional analysts to administer oversight for both the processing of the Forms W-7 and administering the Acceptance Agent Program. The Acceptance Agent Program is responsible for processing applications, initiating agreements, and monitoring the applicants in the Program to ensure that they are in compliance with rules and regulations.

<sup>5</sup> Agents supplied an Employer Identification Number on the Agent application that matched the Employer Identification Number of a preparer on the IRS' preparer file for Processing Year 2008.



*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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This review was performed at the Wage and Investment Division Program Office in Atlanta, Georgia, and the IRS Campus<sup>6</sup> in Austin, Texas, during the period May 2008 through February 2009. We conducted this performance audit 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>6</sup> The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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*Results of Review*

***The Internal Revenue Service Has Insufficient Management  
Information to Effectively Oversee the Acceptance Agent Program***

In a Fiscal Year 2003 audit report, we reported that the IRS needed more management oversight of the Acceptance Agent Program.<sup>7</sup> Since our report was issued, the IRS has made improvements. It has, for example:

- Established the Program Office to oversee the Acceptance Agent Program.
- Developed the Form 13551, which includes certification statements about tax compliance.
- Developed procedures to check for Agent suitability and conduct background checks.
- Implemented a process requiring Agents to reapply to the Acceptance Agent Program and go through suitability testing every 4 years.
- Conducted seminars and forums to educate Agents and tax practitioners about the Acceptance Agent Program.

In addition, in July 2006, the IRS deployed the ITIN Real-Time System to control Agents and ITIN information. The IRS stated that the Real-Time System provides a one-stop service for processing Forms 13551 and W-7 and issuing ITINs.

Nevertheless, the IRS had not developed detailed management information that is vital to making decisions concerning the oversight of the Acceptance Agent Program. The ITIN Program Office can query individual records on the Real-Time System but the System has limitations. It does not generate ad hoc reports to obtain the data needed to analyze and monitor the Acceptance Agent Program. The System also does not generate automated reports or provide regular or periodic reports that can be used to oversee the Acceptance Agent Program. As a result, the Program Office is unable to monitor Agents or their activity and/or measure their compliance with rules and regulations.

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<sup>7</sup> *Management Oversight of the Acceptance Agent Program Is Needed to Assure that Individual Taxpayer Identification Numbers Are Properly Issued* (Reference Number 2003-30-020, dated November 6, 2002).



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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**The total number of Agents, which Agents are active, and the number of Forms W-7 the Agents submitted cannot be determined**

Because the Real-Time System does not have report capabilities, the Program Office cannot readily determine the number of current Agents or the number of Forms W-7 submitted by each.

***Real-Time System Statuses:***

1. Approved/Active.
2. Expired Agreement.
3. Failed IRS Tax Compliance Check.
4. Failed FBI\* Criminal Background Check.
5. Failed FBI/IRS Tax Compliance Check.
6. In-Process IRS Check.
7. Incomplete/Invalid Application.
8. Passed ERO\* Status.
9. Passed Suitability Checks.
10. Pending.
11. Rejected.
12. In-Process FBI Check.
13. Suspended from the Acceptance Agent Program.
14. Terminated.
15. Passed FBI Check.

\* FBI = Federal Bureau of Investigation.  
ERO = Electronic Return Originator.

In July 2008, we requested two data extracts<sup>8</sup> from the Real-Time System, the Agent files, and the ITIN files. The extracts would allow us to determine the status of the ITIN Program; e.g., the status of Forms 13551, the number of active and inactive Agents, and the number of Forms W-7 that have been submitted by each Agent. The Program Office stated that it did not have the ability to provide extracts and the information had to be requested from the IRS' Modernization and Information Technology Services (MITS) organization.<sup>9</sup> The extracts were not provided until November 2008.

Agents are entered into the Real-Time System using their Employer Identification Numbers<sup>10</sup> and their type – Acceptance Agent or Certifying Acceptance Agent. A status is used to determine if they are, for example, Active, Expired, Pending, or Terminated.

There were 7,126 Agents with unique Employee Identification Numbers in the Real-Time System. Of the 7,126:

- 4,790 were active Agents.
  - 4,336 (90.5 percent) were Certifying Acceptance Agents.
  - 265 (5.5 percent) were Acceptance Agents.
  - 189 (4 percent) did not show an Agent type.
- 2,336 were in the other 14 statuses, including terminated.

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<sup>8</sup> IRS data were included in Figures 2 and 4. The data included in these figures were provided for perspective only and were not audited.

<sup>9</sup> The MITS organization delivers information technology services for the IRS.

<sup>10</sup> Employer Identification Numbers are nine-digit numbers assigned by the IRS to sole proprietors, corporations, partnerships, estates, trusts, and other nonindividual entities for tax filing and reporting purposes.



*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

**Agents needing to reapply to the Program had not been identified**

To perform complete suitability and background checks, regulations required that all Agents in the Acceptance Agent Program prior to January 9, 2006, reapply to the Program by December 31, 2006. In addition, they are to reapply every fourth year. The next application period is December 31, 2010. The Real-Time System showed 742 (15 percent) active Agent agreements were signed prior to January 2006, but the Agents have not reapplied to the Acceptance Agent Program. In addition, 68 (1 percent) had no agreement dates.

The Real-Time System does not allow the Program Office to query for a list of Agents who have not reapplied; therefore, it does not know which Agents or the number of Agents who have not reapplied. If the Agents do not reapply, suitability and background checks are not performed.

**Agents submitting fewer than 50 applications per year had not been identified**

The IRS requires that Agents submit at least 50 Forms W-7 a year to remain active. However, 41 percent (1,968 of 4,790) of active Agents<sup>11</sup> did not submit any Forms W-7 from October 1, 2007, through November 26, 2008, and 24 percent<sup>12</sup> (624 of 2,627) of the active Certifying Acceptance Agents submitted fewer than 50 Forms W-7. Figure 2 shows the number of Agents submitting Forms W-7.

**Figure 2: The Number of Agents Submitting Forms W-7**

	Number of Agents Submitting Forms W-7	Number of Agents Who Submitted No Forms W-7	Total Agents
Acceptance Agents	145	120	265
Certifying Acceptance Agents	2,627	1,709	4,336
No Type	50	139	189
<b>Total Agents</b>	<b>2,822</b> <b>(59%)</b>	<b>1,968</b> <b>(41%)</b>	<b>4,790</b>

Source: IRS' Real-Time System.

In a Fiscal Year 2003 Treasury Inspector General for Tax Administration audit report, we recommended that the IRS terminate the agreement with Agents who do not submit a predetermined number of Forms W-7. This would also ensure that the IRS rejects Form 13551

<sup>11</sup> For the agents who signed agreements after October 1, 2007, 473 of the 1,968 active Agents did not submit any Forms W-7 from October 1, 2007, through November 26, 2008.

<sup>12</sup> These only include Certifying Agents who had agreements signed prior to October 1, 2007.



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## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

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for any Agent who does not precertify that he or she plans to annually submit a certain number of Forms W-7. The IRS determined that it would require Agents to submit at least 50 Forms W-7 to be accepted into the Program. Agents are asked on Forms 13551 how many Forms W-7 they plan to submit in a calendar year.

The Program Office has been unable to monitor the processing patterns of Agents through the Real-Time System to determine if Agent agreements have become void because they submitted an insufficient number of Forms W-7. The reports were to be functional in the Real-Time System no later than September 30, 2008. However, as of February 2009, the reports were still unavailable for the IRS to monitor the number of ITIN applications submitted by each Agent.

In addition, Agents can request that they be listed on IRS.gov. A statistical sample of active Agents who requested to be on IRS.gov showed that 13 (15 percent) of the 88 Certifying Acceptance Agents who had submitted fewer than 50 Forms W-7 were not listed on IRS.gov and 22 (81 percent) of the 27 Acceptance Agents were not on IRS.gov.

### **Agents having a high number of Forms W-7 rejected were not identified**

Fifteen percent of active Agents who submitted Forms W-7 from Fiscal Year 1996 to 2008 had at least 25 percent of their Forms rejected. This resulted in more than 5,400 rejected Forms (out of approximately 14,000).

Being able to identify Agents who have a high volume of rejected Forms W-7 would allow the Program Office to identify problem areas and problem Agents and know where to focus compliance and/or education activities. This would also help reduce the rejection rate and save limited IRS resources required to rework applications.

### **Suspended or terminated Agents had not been identified**

From January 1, 2007, to September 17, 2008, the IRS Criminal Investigation Division requested that 267 *e-file* Providers be terminated from the *e-file* Program. We found that 2 of the 267 were active Agents. There is no process to notify the Program Office when an *e-file* Provider, who is also an Agent, is suspended or terminated from the *e-file* Program. Seventy-nine percent of Agents are also *e-file* Providers.<sup>13</sup>

Moreover, hundreds of other *e-file* Providers have been suspended or terminated from the *e-file* Program for other reasons, such as, failing to file individual or business tax returns, having balance-due tax returns, or being suspended or disbarred from practice.

After bringing this to the attention of the Program Office, it worked with other IRS offices and now has set up a notification process to ensure that it knows when an *e-file* Provider is

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<sup>13</sup> The Agent supplied an Electronic Filing Identification Number on the Agent application.



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## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

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terminated from the *e-file* Program so that it can determine if that termination would affect the Agent's status in the Acceptance Agent Program.

### **The list of Agents on the IRS' public Internet site is not current and lists inactive Agents**

The ITIN Program provides a list of Agents on IRS.gov. The Program Office performs an annual check to ensure that all the information contained on IRS.gov is accurate. The annual check was recently conducted and certified in November 2008. However, a statistical sample of 95 inactive Agents showed that 9 (10 percent) of the 95 were still listed on IRS.gov. Listing inactive Agents on IRS.gov could cause taxpayer burden because these Agents are no longer in the Program. In addition, in situations where the Agent is inactive because they were not complying with the Program rules and regulations, the IRS would be promoting noncompliant Agents to the taxpayer, which could increase the chances of inaccurate ITIN applications being filed. Program Office officials stated this happened because of the challenges they faced with the significant increase in the number of Acceptance Agents who requested to be on IRS.gov.

### **The Program Office is working with the IRS' MITS organization to obtain Real-Time System reports**

Requests are outstanding with the MITS organization to have programming performed to allow the generation of the Real-Time System reports. Reports are needed to provide Program oversight and guidance and to allow monitoring of Agent activities. The Program Office has continuously requested that the Real-Time System functionality include Acceptance Agent Program reports since the system was implemented in July 2006. The Program Office continues to work with the MITS organization in an effort to obtain the reports. However, the MITS organization estimates that adding query and report functionality, along with other functionality requested by the Program Office, to the \$3.9 million ITIN Real-Time System would cost another \$1 million. The Program Office currently does not have the funding to accomplish this. Without this functionality, the Real-Time System is unusable for oversight.

Notwithstanding, we were able to obtain downloads of the data and perform queries and generate reports using off-the-shelf software applications. Though funding may be required to alter the System, other options should be made available to obtain the information needed by the Program Office.

The Government Accountability Office *Standards for Internal Control in the Federal Government* states that relevant, reliable, and timely information is needed in order to achieve program objectives. The IRS needs to improve its Real-Time System and its management controls to effectively manage the Acceptance Agent Program. The IRS does not have sufficient management information concerning the characteristics of the Agents or the ITIN documents submitted by the Agents. Consequently, the IRS has not determined whether the Program is



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## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

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functioning as intended. It is also unable to identify and manage any risks associated with the Acceptance Agent Program.

### ***Recommendations***

The Commissioner, Wage and Investment Division, and the Deputy Commissioner for Operations Support, should:

**Recommendation 1:** Ensure that the Real-Time System is modified to generate periodic and regular reports, including ad hoc reports that can be timely generated when necessary.

**Management's Response:** The IRS agreed with this recommendation. The MITS organization has agreed to modify the Real-Time System to generate periodic and regular reports, including ad hoc reports.

**Recommendation 2:** Once the ITIN Real-Time System has been modified, develop procedures and internal controls to monitor the Acceptance Agent Program to ensure that all rules and regulations are being followed and the Acceptance Agent Program is operating as intended.

**Management's Response:** The IRS agreed with this recommendation. Once the ITIN Real-Time System has been modified, the ITIN Program Office will develop procedures and internal controls to effectively monitor the Acceptance Agent Program.

### ***The Application Screening Process Does Not Always Ensure the Integrity of the Individuals Applying for Participation in the Acceptance Agent Program***

All Forms 13551 are submitted on paper and are manually processed. IRS employees manually screen all Forms 13551 and enter the results into the Real-Time System. Employees are to verify if new applicants are at least 21 years of age and if the applicants are indeed Electronic Return Originators if they state they are.<sup>14</sup> They also research IRS computer systems to verify the Employer Identification Numbers and Social Security Numbers and if a green card<sup>15</sup> is required and is submitted with the Form 13551.

An analysis of a sample of 92 Agents' application files showed the required copies of green cards were not in the files for 10 (83 percent) of the 12 U.S. Resident Aliens in the sample. One

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<sup>14</sup> Electronic Return Originators originate the electronic submission of income tax returns to the IRS. An Electronic Return Originator electronically submits income tax returns that are either prepared by the Electronic Return Originator firm or collected from a taxpayer.

<sup>15</sup> A green card, or permanent residence card, gives an individual official immigration status (Lawful Permanent Residency) in the U.S.



## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

of the 10 applications was still in process. The IRS has since requested the green cards for the other nine applicants. Also, there was no fingerprint card in the file for one applicant who should have submitted a fingerprint card.

An analysis of the Real-Time System also showed that 70 (95 percent) of 74 applicants who checked “Yes” in Box 10 on Form 13551 did not have the required criminal background check performed. Of the 70, 35 were listed in active status. Box 10 asks the applicant the following:

**10** Have you ever been assessed any preparer penalties, been convicted of a crime, failed to file personal tax returns, or pay tax liabilities, or been convicted of any criminal offense under the U.S. Internal Revenue laws?

Yes  No  (Please attach an explanation for a “Yes” response.)

Further, of the 70 applicants who checked “Yes,” 32 (46 percent) did not provide the required explanation.

There is no requirement to check applicants’ credit histories and only every fourth fingerprint card is submitted to the Federal Bureau of Investigation.

Acceptance Agents must meet the following requirements and suitability checks to be accepted into the Program:

- Be 21 years of age.
- Be a U.S. citizen, a U.S. Resident Alien, or a Nonresident Alien. If not a U.S. citizen but residing in the U.S., a copy of the applicant’s green card or visa is required,
- Submit fingerprints, if not an attorney, Certified Public Accountant, enrolled agent, or Electronic Return Originator.
- Pass suitability checks that include: IRS tax compliance check.
  - A credit history check.
  - A Federal Bureau of Investigation background check.

In a Fiscal Year 2002 audit report,<sup>16</sup> we reported that the application screening process for *e-file* Providers<sup>17</sup> did not ensure the integrity of the individuals applying for participation in the *e-file* Program. We reported that the IRS also does not conduct credit history checks on *e-file* Program applicants and criminal background checks on *e-file* Provider applicants are generally limited to random selections of every fourth applicant who submits a fingerprint card.

In response to the report, IRS management stated that credit history checks were not performed because the checks were ineffective. Management previously indicated that additional criminal background checks are not necessary and cited an IRS business case study, which showed that, while 10 percent of the investigations revealed

information, it was usually not significant enough to deny participation in the *e-file* Program. Credit checks have not been performed on *e-file* Providers since 1998, but management is currently determining their options. The IRS is also considering performing criminal

<sup>16</sup> *E-File Providers Are Not Adequately Screened* (Reference Number 2002-40-111, dated June 27, 2002).

<sup>17</sup> The *e-file* Program enables tax returns to be sent to the IRS in an electronic format via an authorized IRS *e-file* Provider.



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## ***Inadequate Management Information Has Adversely Affected the Acceptance Agent Program***

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background checks on 100 percent of *e-file* Provider applicants, but funding is currently not available.

The Program Office stated that when a Form 13551 goes for final approval, the Program Office analysts should check to ensure that the information on the Real-Time System is accurate and complete. If information is missing, it is because it was overlooked when the Form 13551 was reviewed by the Program Office and the analyst performing the suitability check. Because of limited resources, high volumes of applications and processing time periods, the Program Office cannot always perform reviews.

The Program Office explained that since its inception, it has been focusing on the issuance of the Forms W-7. The Program Office's staff consists of nine Full-Time Equivalents.<sup>18</sup> This staff is responsible for overseeing the processing of all Forms 13551 and W-7, issuing ITINs, as well as providing oversight for the ITIN Program.

### **Compliance checks could be automated**

Since Fiscal Year 2004, the IRS developed a system, the Automated *e-file* Application Processing System, to automate the process of checking and monitoring tax compliance and ensuring applicants and approved *e-file* Providers are current with their tax return filings and tax payments. In addition, this process ensures that individuals and businesses have not been assessed fraud and/or preparer penalties.<sup>19</sup>

The IRS does not use this system for Agents nor has it developed a similar system to screen applicants for tax compliance. Automating this process would alleviate the time it takes to process Agents' applications.

Tax compliance verifications were performed for the 108 Social Security Numbers (authorized representatives) and 93 Employer Identification Numbers<sup>20</sup> on the 92 Agent applications in our sample. 1 of the 108 authorized representatives 1

In November 2008, the Program Office began working with the IRS Electronic Tax Administration office to determine if the Forms 13551 can be incorporated into the Automated *e-file* Application Processing System. This would allow the Program Office to use the same automated suitability and background check system and management information system the

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<sup>18</sup> A measure of labor hours in which 1 Full-Time Equivalent is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2008, 1 Full-Time Equivalent was equal to 2,080 staff hours. For Fiscal Year 2009, 1 Full-Time Equivalent is equal to 2,083 staff hours.

<sup>19</sup> Some of the preparer penalties include penalties for failure to exercise due diligence in determining eligibility and/or the amount of the earned income credit, aiding and abetting an understatement of tax liability, and failure to sign a return or claim for refund. Fraud penalties result from violations of the Internal Revenue Code with the intent to evade income taxes.

<sup>20</sup> More than one Employer Identification Number can be on an application.



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## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

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IRS uses for *e-file* Providers. The Electronic Tax Administration office recently compared the Application to Participate in the IRS *e-file* Program (Form 8633) to the Form 13551 and found that there was only one entry on the application that differed. An analysis of the Real-Time System showed that 3,781 (79 percent) of the 4,790 active Agents are *e-file* Providers.<sup>21</sup>

### ***Recommendations***

The Commissioner, Wage and Investment Division, should:

**Recommendation 3:** Ensure that resources are sufficient to make certain all validations are completed and checks passed before an application is accepted and the IRS enters into agreements with Agents.

**Management's Response:** IRS management agreed with this recommendation. Ten additional assistors will be trained to process the Form 13551. This will ensure that resources are sufficient and available as backup to the current resources, if needed, to make certain that validations are completed and checks passed before the application is sent to the ITIN Program Office for final approval.

**Recommendation 4:** Automate the compliance checks for the ITIN Program much like the process followed in the *e-file* Provider Program.

**Management's Response:** IRS management agreed with this recommendation. The Wage and Investment Division Electronic Products and Services Support Senior Technical Advisor is currently facilitating meetings between the owners of the IRS *e-file* Application and the owners of the Form 13551 to determine if a combined application process is feasible. During a meeting the week of March 23, 2009, the ITIN Program Office reviewed all *e-file* Application suitability and background checks, and agreed with applying these same automated processes to the Acceptance Agent Program. This will allow the ITIN Program Office to use the same automated suitability and background check system and management information system that the IRS uses for *e-file* Providers.

The Electronic Product and Services Support Office will complete its feasibility assessment and coordinate with the Electronic Tax Administration and Refundable Credits' *e-file* Application and Participation Framework Study, which is currently underway. This Study is looking for ways to improve current *e-file* Application processes and criteria. The design, development, and implementation of a combined Acceptance Agent and *e-file* Provider suitability and background check system is contingent on the outcome of the Study and the availability of necessary funding.

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<sup>21</sup> The Agent supplied an Electronic Filing Identification Number on the Agent application.



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## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

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### ***Monitoring Visits to Agents Are Not Being Conducted***

In Fiscal Year 2003, the Treasury Inspector General for Tax Administration reported that since the inception of the Acceptance Agent Program, the IRS had not performed any objective compliance reviews or monitoring visits to ensure that Agents were complying with all laws and regulations when submitting Forms W-7. In response to the Fiscal Year 2003 report, IRS officials stated they had neither sufficient management information on the number of applications certified by each Agent nor the necessary resources to properly assess the Agents' compliance with documentation requirements.

***In Fiscal Year 2002, an ITIN Task Force recommended performing compliance check visits for at least 20 percent of the Agents.***

According to Revenue Procedure 2006-10, the Certifying Acceptance Agent agreement will specify the manner in which IRS compliance checks will take place (i.e., either onsite or through correspondence). The procedures must enable the IRS to verify that the Acceptance Agent has adequate procedures in effect to assist applicants properly. The procedures also must enable the IRS to verify that the Acceptance Agent is complying with any record retention requirements relating to the issuance of ITINs.

The Program Office stated that as of August 18, 2008, it would no longer attempt to conduct compliance reviews of Agents. The Program Office has only three analysts dedicated to the Acceptance Agent Program and there are limited travel funds. Therefore, it is not possible for the Program Office to make onsite monitoring visits to 20 percent of the Agents.

In addition, the ITIN Program Office also believes it should not be responsible for compliance work and it has contacted the IRS Examination function to see if it can conduct compliance reviews of Agents. The Examination function currently conducts compliance reviews for *e-file* Providers. Eighty percent of Certifying Acceptance Agents are *e-file* Providers.<sup>22</sup>

### ***The volume of ITINs is growing, increasing the risk that fraudulent tax returns could be submitted using ITINs***

Per the IRS, as of October 18, 2008, 13.9 million ITINs have been issued by the IRS since Fiscal Year 1996. Figure 3 shows a 246 percent increase in the number of individual income tax returns filed reporting wages and using ITINs from Tax Year 2001 to Tax Year 2007.

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<sup>22</sup> The Certifying Agent supplied an Electronic Filing Identification Number on the Agent application.



*Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

**Figure 3: ITIN Tax Return Statistics**

	<b>Tax Year 2001</b>	<b>Tax Year 2007</b>	<b>Percentage Change</b>
<b>Total Individual Income Tax Returns</b>	530,000	1,835,000	<b>246%</b>
<b>Paper Filed Tax Returns</b>	444,000	950,000	<b>114%</b>
<b>E-filed Tax Returns</b>	86,000	885,000	<b>929%</b>

Source: Treasury Inspector General for Tax Administration Final Report.<sup>23</sup>

There were 2.4 million tax returns filed using the Forms 1040<sup>24</sup> during Processing Year 2008. For these tax returns, \$240 million in taxes were paid with \$3.7 billion in refunds.

Nonresident aliens are eligible for the Child Tax Credit and the Additional Child Tax Credit. The credits are for taxpayers who have a qualifying child, who both lived with the taxpayer for more than one-half of the year and is a U.S. citizen, a U.S. national, or a U.S. resident alien.

The maximum amount that can be claimed for the Child Tax Credit is \$1,000 for each qualifying child. The Additional Child Tax Credit is a refundable tax credit and is for certain individuals who get less than the full amount of the Child Tax Credit. The Additional Child Tax Credit provides the taxpayer a refund when no tax is owed. The IRS provides this example on IRS.gov:

The taxpayers have two qualifying children, income of \$86,000, and a tax liability of \$500. Because their tax liability is less than the initial child tax credit (\$2,000) they may be able to take the refundable Additional Child Tax Credit of \$1,500 (\$2,000-\$500).

Since Fiscal Year 2005, the Program Office has been monitoring the usage of the Credits on tax returns submitted with Forms W-7. The Program Office, in conjunction with the IRS Examination function, has initiated a review of approximately 93,000 of these tax returns. The Examination function subsequently initiated audits and has included this initiative in its strategic plan. During Fiscal Year 2007, the Examination function audited and closed 3,161 cases changing almost 50 percent of these cases with assessments averaging \$2,156 per case.

**During Fiscal Year 2007, the Examination function audited and closed 3,161 cases changing almost 50 percent of ITIN cases with assessments averaging \$2,156 per case.**

<sup>23</sup> *Actions Are Needed to Ensure Proper Use of Individual Taxpayer Identification Numbers and to Verify or Limit Refundable Credit Claims* (Reference Number 2009-40-057, dated March 31, 2009).

<sup>24</sup> Included tax returns filed with only ITINs as a primary or secondary and does not include tax returns with ITINs used to file U.S. Nonresident Alien Income Tax Return (Form 1040-NR) and U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents (Form 1040-NR-EZ). These forms are to be used by nonresident aliens. Any individual who is not a citizen or resident of the U.S. is a nonresident alien individual. An alien individual meeting either the “green card test” or the “substantial presence test” for the calendar year is a resident alien. Any alien individual not meeting either test is a nonresident alien individual.



## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

The Program Office is also working with the IRS Criminal Investigation Division on several ITIN tax schemes. Processing Year 2008 schemes being worked by the Criminal Investigation Division involve 14,636 ITIN tax returns and \$42 million in refunds claimed. More than 1,000 (7 percent) of the 14,636 ITIN tax returns involved in schemes had ITINs issued with the assistance of Agents. These schemes involved \$3.1 million in refunds. One Certifying Acceptance Agent issued 353 (39 percent) of the 908 unique ITINs involved in tax return schemes.

Figure 4 shows that Certifying Acceptance Agents submit 95 percent of the Forms W-7 submitted by Agents.

**Figure 4: The Number of Forms W-7 Submitted by Agent Type From October 1, 2007, through November 26, 2008**

	<b>Number of Forms W-7 Submitted</b>	<b>Percentage of Forms W-7 Submitted</b>
Acceptance Agents	13,340	3 Percent
Certifying Acceptance Agents	394,153	95 Percent
No Type	8,369	2 Percent
<b>Total</b>	<b>415,862</b>	<b>100 Percent</b>

*Source: IRS' Real-Time System.*

Almost 1.7 million ITINs were generated from Forms W-7 submitted from October 1, 2007, through November 26, 2008. More than 400,000 (24 percent) of the almost 1.7 million ITINs that were issued were from Form W-7 applications that were submitted by Agents.

Certifying Acceptance Agents are not required to provide copies of supporting documents to the IRS. Compliance reviews could reduce the risk that ITINs are being issued inappropriately. Though the Program Office does not have the resources to conduct monitoring visits, the Agent agreement contains a statement that the information could be requested by mail. However, the Program Office has not conducted compliance reviews by correspondence.

Acceptance Agents submit copies of original documents with the Forms W-7 to the IRS. These have been reviewed by the IRS, thus significantly reducing risk. However, approximately 91 percent of the active agents in the Acceptance Agent Program are Certifying Acceptance Agents and, therefore, the IRS does not review the vast majority of documents submitted by Agents. Without proper oversight, there is an increased risk that fraudulent tax returns are being filed using ITINs.

Currently, the IRS does not have sufficient staff to implement an effective compliance program for the Acceptance Agent Program. However, automating the suitability process will free up resources and adding approximately one additional Full-Time Equivalent should provide



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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sufficient resources for an effective compliance program. Moreover, as management information becomes available to monitor and track Agents' activity, compliance activities will be able to become more focused and reduce the resources needed.

### ***Recommendations***

The Commissioner, Wage and Investment Division, should:

**Recommendation 5:** Implement a compliance review process to review the documents that support the Forms W-7 submitted by Certifying Acceptance Agents to reduce risks associated with the Acceptance Agent and ITIN Programs.

**Management's Response:** IRS management agreed with this recommendation. The ITIN Program Office is currently working with the Small Business/Self Employed Division Examination Policy function to develop a compliance review process. A Memorandum of Understanding is being completed between the ITIN Program Office and the Small Business/Self-Employed Division Examination Policy function to conduct compliance reviews.

**Recommendation 6:** Once the Real-Time System is improved, validate the Agent information to ensure that the Program has accurate and reliable data to make business decisions.

**Management's Response:** IRS management agreed with this recommendation and will validate the Acceptance Agent information to ensure that accurate data are stored in the System. The validation will be completed by performing a quarterly review based on a valid sample size of approved Agents.



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether the IRS' screening and monitoring of Acceptance Agents<sup>1</sup> is effective. To accomplish this objective, we:

- I. Determined if the initial screening process is effectively identifying those Acceptance Agents that are not in compliance with Program requirements.
  - A. Assessed actions taken by the IRS in response to prior Treasury Inspector General for Tax Administration recommendations.
  - B. Determined if applicants met Acceptance Agent requirements prior to acceptance in the Program.
    1. Randomly selected a statistically valid sample of 92 active Acceptance Agents (out of 4,790) to assess compliance with Acceptance Agent requirements. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 90 percent confidence level.
    2. Obtained extracts from the Real-Time System of the Agent and ITIN files. The extracts were provided by the IRS Modernization and Information Technology organization. The IRS did not perform validations of the data. These IRS data were included in Figures 2 and 4. The data included in these Figures were provided for perspective only and were not audited.
  - C. Completed data analysis of ITIN data for Application for IRS Individual Taxpayer Identification Number (Form W-7) applicants to determine the taxes owed and refunds obtained.
- II. Determined if the IRS Acceptance Agent monitoring process is effectively identifying those Acceptance Agents that are not in compliance with Acceptance Agent Program requirements.
  - A. Assessed actions taken by the IRS in response to prior Treasury Inspector General for Tax Administration recommendations.

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<sup>1</sup> An Acceptance Agent is a person (an individual or an entity) who is authorized to assist alien individuals and other foreign persons (who are ineligible to receive Social Security Numbers) in obtaining an Individual Taxpayer Identification Number from the IRS. A Certifying Acceptance Agent is authorized to certify whether the documented proof is adequate.



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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- B. Interviewed IRS management to determine the process followed for selecting Acceptance Agents for quality review visits.
- C. Assessed the accuracy of information available to taxpayers through IRS.gov that identifies Acceptance Agents by State.
  - 1. Randomly selected a statistically valid sample of 95 inactive Acceptance Agents (out of 1,455 inactive agents) to determine if they were listed on IRS.gov. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 90 percent confidence level.
  - 2. Randomly selected a statistically valid sample of 88 out of 881 Certifying Acceptance Agents and 27 out of 37 Acceptance Agents, who requested to be on IRS.gov and submitted less than 50 Forms W-7 from October 1, 2007, to November 26, 2008, to determine if they were on IRS.gov. Our sample size was selected based on a 10 percent error rate, a  $\pm 5$  percent precision rate, and a 90 percent confidence level.
- III. Identified the internal controls the IRS uses to monitor the Acceptance Agent agreement process and determined if they are sufficient to assess whether applicants meet the requirements of an Acceptance Agent.
  - A. Reviewed the internal guidelines, desk procedures, and other guidelines to determine the monitoring process of the Acceptance Agent agreement process.
  - B. Obtained copies of the quality reviews the IRS conducted in 2008.
  - C. Reviewed the documentation for the quality review visits to determine if the compliance reviews included all requirements per the Acceptance Agent agreements.
  - D. Determined the results of the reviews and how the IRS is using the results.



*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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**Appendix II**

*Major Contributors to This Report*

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

Augusta R. Cook, Director

Lena Dietles, Audit Manager

Pamela DeSimone, Lead Auditor

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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Customer Account Services, Wage and Investment Division SE:W:CAS  
Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Senior Operations Advisor, Wage and Investment Division SE:W:S  
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:RPA:PEI  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
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Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaison: Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI



*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

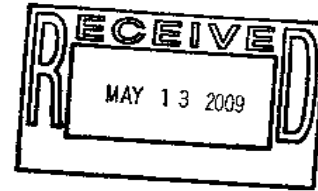
**Appendix IV**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30306

MAY 13 2009



MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. *Richard Byrd, Jr.*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Inadequate Management Information  
Has Adversely Affected the Acceptance Agent Program  
(Audit # 200840016)

I reviewed the subject draft report and appreciate your review of the Acceptance Agent Program. This audit is a follow up to a prior Treasury Inspector General for Tax Administration audit, *Management Oversight of the Acceptance Agent Program Is Needed to Assure that Individual Taxpayer Identification Numbers Are Properly Issued* (Reference Number 2003-30-020, dated November 6, 2002).

The Acceptance Agent Program was introduced in 1996 by the IRS to facilitate and expedite the issuance of IRS Individual Taxpayer Identification Numbers (ITINs) to alien individuals who are ineligible to obtain Social Security Numbers and Employer Identification Numbers to other foreign persons for Federal tax purposes. The Acceptance Agents are critical to the success of the ITIN program, primarily because of their close proximity and availability to those needing ITINs. They facilitate the ITIN application process by forwarding the completed Application for IRS ITINs, (Form W-7), together with the required supporting documentation to the IRS. The Certifying Acceptance Agent assumes a greater responsibility in that they certify the applicant's identity and alien status through review of documentation for authenticity, completeness, and accuracy, while maintaining a copy of the documentation for three years instead of forwarding the documentation to the IRS.

On January 9, 2006, Revenue Procedure 2006-10 was released with four major changes for becoming an acceptance agent:

- Acceptance Agent applicants may be required to submit to suitability checks
- Acceptance Agent agreement expires on December 31 of the fourth full calendar year after the year in which the agreement goes into effect.
- Existing Acceptance Agents agreements expired on December 31, 2006.
- Acceptance Agents may request to be included on the public list of Acceptance Agents published periodically by the IRS.



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## *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program*

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2

The intent of the new requirements was to ensure that ITIN applicants continue to receive assistance from credible and responsible Acceptance Agents. From the inception of the program until the release of the new revenue procedure, there were only 1,400 Acceptance Agents in the program. Since the release of the new revenue procedure, the IRS has processed over 8,000 applications and approved over 4,790 to be Acceptance Agents. Of the approved applications, 61 percent are tax practitioners and Electronic Return Originators (ERO) who are subject to the same suitability checks, prior to being approved as an Acceptance Agent.

The IRS continuously provides and participates in educational outreach activities, in an effort to address the needs and improve the skills of Acceptance Agents. These efforts include:

- Addressing the annual Acceptance Agent Nationwide Conference.
- Holding seminars at the IRS Nationwide Tax Forums.
- Participating as speakers at professional conferences.
- Participating in telephone forums with internal and external stakeholders.

Additionally, the ITIN Program office developed two Publications, Acceptance Agents Guide for Individual Taxpayer Identification Number (Publication 4520) (line by line instructions), and Enabling Participation in the Tax System (Publication 4327) in an attempt to eliminate errors in filing applications and provide clarification on the filing of Form W-7.

I would also like to address the statement in the report about criminal background checks for Acceptance Agents. The report states that "Seventy (95 percent) of 74 applicants did not have the required criminal background checks performed." We believe this is misleading because, in fact, criminal background checks were not required for all of the applicants. Valid exceptions for not conducting background checks include ERO's, financial institutions, colleges and universities, and Enrolled Agents.

Attached are our comments to your specific recommendations. If you have any questions regarding this response, please call me at (404) 338-7060, or a member of your staff may contact Peter J. Stipek, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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Attachment

The Commissioner, Wage and Investment Division, and Deputy Commissioner, Operations Support, should:

**RECOMMENDATION 1**

Ensure that the Real-Time System is modified to generate periodic and regular reports, including ad hoc reports that can be timely generated when necessary.

**CORRECTIVE ACTION**

We agree with this recommendation. Modernization and Information Technology Services (MITS) has agreed to modify the Real-Time System to generate periodic and regular reports, including ad hoc reports.

**IMPLEMENTATION DATE**

August 15, 2010

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services (CAS), Wage and Investment (W&I) Division

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal management control system.

**RECOMMENDATION 2**

Once the ITIN Real-Time System has been modified, develop procedures and internal controls to monitor the Acceptance Agent Program to ensure that all rules and regulations are being followed and the Acceptance Agent Program is operating as intended.

**CORRECTIVE ACTION**

We agree with this recommendation. Once the Individual Taxpayer Identification Number (ITIN) Real-Time System has been modified, the ITIN Program Office will develop procedures and internal controls to effectively monitor the Acceptance Agent Program.

**IMPLEMENTATION DATE**

December 15, 2010

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, CAS, W&I Division



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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2

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal management control system.

The Commissioner, Wage and Investment Division, should:

**RECOMMENDATION 3**

Ensure that resources are sufficient to make certain all validations are completed and checks passed before an application is accepted and the IRS enters into agreements with Agents.

**CORRECTIVE ACTION**

We agree with this recommendation. The e-help Desk processes the Application to Participate in the IRS Acceptance Agent Program (Form 13551) for the ITIN Program Office. The staff responsible for processing these applications currently consists of 1.5 Full-Time Equivalents or eight employees working part-time.

Working with the ITIN Program Office, the e-help Desk will train 10 additional assistants to process Forms 13551. This will ensure that resources are sufficient and available as back-up to the current resources, if needed, to make certain that validations are completed and checks passed before the application is sent to the ITIN Program Office for final approval.

**IMPLEMENTATION DATE**

September 30, 2009

**RESPONSIBLE OFFICIAL**

Director, Electronic Products and Services Support, CAS, W&I Division.

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal management control system.

**RECOMMENDATION 4**

Automate the compliance checks for the ITIN Program much like the process followed in the e-file Provider Program.

**CORRECTIVE ACTION**

We agree with this recommendation. The W&I Division, EPSS Senior Technical Advisor is currently facilitating meetings between the owners of the IRS e-file Application, and the owners of the Form 13551, to determine if a combined application process is feasible. During a meeting the week of March 23, 2009, the ITIN Program



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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3

Office reviewed all e-file Application suitability and background checks, and agreed with applying these same automated processes to the Acceptance Agent program. This will allow the ITIN Program Office to use the same automated suitability and background check system and management information system that the IRS uses for e-file providers. The EPSS office will complete its feasibility assessment and coordinate with Electronic Tax Administration and Refundable Credits' e-file Application and Participation Framework (EAPF) Study, which is currently underway. This study is looking for ways to improve current e-file Application processes and criteria.

The design, development, and implementation of a combined Acceptance Agent and e-file Provider suitability and background check system is contingent on the outcome of the EAPF Study and the availability of necessary funding.

**IMPLEMENTATION DATE**

September 30, 2009, to complete the feasibility determination

**RESPONSIBLE OFFICIAL**

Director, Electronic Products and Services Support, CAS, W&I Division

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal management control system.

The Commissioner, Wage and Investment Division, should:

**RECOMMENDATION 5**

Implement a compliance review process to review the documents that support the Forms W-7 submitted by Certifying Acceptance Agents to reduce risks associated with the Acceptance Agent and ITIN Programs.

**CORRECTIVE ACTION**

We agree with this recommendation. The ITIN Program Office is currently working with Small Business/Self Employed (SB/SE) Examination Policy to develop a compliance review process. A Memorandum of Understanding is being completed between the ITIN Program Office and SB/SE Examination Policy to conduct compliance reviews.

**IMPLEMENTATION DATE**

November 15, 2009



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*Inadequate Management Information Has Adversely Affected the  
Acceptance Agent Program*

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4

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, CAS, W&I Division

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal management control system.

**RECOMMENDATION 6**

Once the Real-Time System is improved, validate the Agent information to ensure that the Program has accurate and reliable data to make business decisions.

**CORRECTIVE ACTION**

We agree with this recommendation and will validate the Acceptance Agent information to ensure accurate data is stored in the system. The validation will be completed by performing a quarterly review based on a valid sample size of approved agents.

**IMPLEMENTATION DATE**

December 15, 2009

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, CAS, W&I Division

**CORRECTIVE ACTION MONITORING PLAN**

This corrective action will be monitored as part of our internal management control system.