



*Taxpayer Information Is at Risk
When Copies of Tax Returns
and Transcripts Are Ordered*

September 22, 2009

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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

September 22, 2009

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Taxpayer Information Is at Risk When Copies of
Tax Returns and Transcripts Are Ordered (Audit # 200940009)

This report presents the results of our review to determine if measures could be taken to strengthen the controls over requested tax returns and transcripts. The overall objective of this review was to determine whether controls over requests for copies of tax returns and transcripts are sufficient to reduce the risk of identity theft and/or unauthorized disclosure of taxpayer information. This audit was conducted as part of the Treasury Inspector General for Tax Administration Fiscal Year 2009 Annual Audit Plan and addresses the major management challenges of Providing Quality Taxpayer Service Operations and Taxpayer Protection and Rights.

Impact on the Taxpayer

In February 2009, the Federal Trade Commission reported that for the ninth year in a row identity theft was the number one consumer complaint nationwide.¹ Identity theft occurs when someone uses Personally Identifiable Information, such as an individual's name, Social Security Number, credit card numbers, or other account information, to commit fraud and other crimes. Taxpayers need to be assured that the Internal Revenue Service (IRS) is taking every precaution to protect their private information from inadvertent disclosure. This includes, but is not limited to, processing taxpayer Requests for Copy of a Tax Return (Form 4506) or Requests for Copy of a Tax Return Transcript (Form 4506-T).² Taxpayers who submit requests for copies of tax returns or transcripts are at risk of unauthorized disclosures of taxpayer information.

¹ *Consumer Sentinel Network Data Book for January–December 2008*, Federal Trade Commission, February 2009.

² Transcripts provide most of the information contained in a tax return.



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Synopsis

More than 130 million taxpayers entrust the IRS with sensitive financial and personal data, much of it on paper documents requiring protection. Internal Revenue Code Section 6103 states that tax returns and return information shall be confidential, except as authorized. Taxpayers request copies of their tax returns or tax return transcripts for many reasons—to verify income for child support or to obtain a loan to start a business, buy a home, or attend college. Taxpayers who submit requests for copies of tax returns or transcripts are at risk of unauthorized disclosure of taxpayer information.

The IRS Return and Income Verification Services (RAIVS) units in the IRS Submission Processing Centers are responsible for processing all written taxpayer requests for copies of tax returns or tax return transcripts. From a review of a judgmental sample of 120 Fiscal Year 2008 and 2009 taxpayer requests for copies of individual tax returns and transcripts from 3 RAIVS units, 51 requests (43 percent) were processed incorrectly or not in accordance with guidelines.

- 1 [REDACTED]
- 29 requests (24 percent) contained errors that increased the risk of unauthorized disclosures.
- 21 requests (18 percent) were not processed according to guidelines, but were not unauthorized disclosures. The errors included untimely processing and not properly forwarding a Power of Attorney and Declaration of Representative (Form 2848) to the appropriate IRS office.

Using their personal information, Treasury Inspector General for Tax Administration auditors submitted requests for 33 transcripts to 5 RAIVS units; 5 requests (15 percent) were incorrectly processed. All 5 requests increased the risk of unauthorized disclosures of taxpayer information either because the Social Security Numbers were incorrect or the Forms were not signed and dated. The IRS also did not respond to another 5 (15 percent) of the 33 requests.

These errors happened because employees did not always follow guidelines or the guidelines are unclear, inconsistent, and insufficient to protect taxpayer information. For example:

Errors happened because employees did not always follow guidelines or the guidelines are unclear, inconsistent, and insufficient to protect taxpayer information.

- Forms 4506 and 4506-T were not processed within the 60 days required by Treasury Regulations.
- Guidelines allow employees to process requests without an accurate or complete Social Security Number.



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- Employees were inappropriately processing requests even though the address provided on the Form 4506 or 4506-T was not the address of record.
- Although required, one RAIVS unit did not use the Transcript Delivery System automated process to mail transcripts. If this unit used the automated process to mail transcripts, the projected 2-year (Fiscal Years 2010 and 2011) productivity gain would equal 4.6 Full-Time Equivalents³ or approximately \$382,290 for the combined 5-year period by eliminating employees manually stuffing envelopes and mailing transcripts.

Additionally, RAIVS unit employees are not required to research taxpayer accounts for identity theft indicators before processing requests, and not all Forms 4506 and 4506-T were properly maintained.

The IRS currently charges \$57 for copies of tax returns, whether they are submitted on paper or electronically filed (*e-filed*). IRS officials stated that the difference in costs between providing a taxpayer a printout of an *e-filed* tax return and a copy of one submitted on paper is \$0.88. We were not able to validate the IRS' calculation of this user fee during this audit; however, we believe the cost associated with processing requests for printouts of *e-filed* tax returns may be significantly lower than the cost to process copies of tax returns submitted on paper. We estimate that taxpayer burden could be reduced for 83,910 taxpayers for a 5-year period by eliminating or reducing the \$57 fee for a printout of an *e-filed* tax return.

For Calendar Years 2006 through 2008, the RAIVS units processed approximately 17.8 million requests for printouts of transcripts, compared to approximately 1.4 million requested by taxpayers using the IRS' toll-free telephone automated system—the Integrated Customer Communications Environment (ICCE). The ICCE is an automated self-help system that allows taxpayers to use the telephone key pad to order transcripts. Increased use of the ICCE would reduce the volume of Forms 4506-T manually processed in the RAIVS units. If just 20 percent of the taxpayers who order transcripts using Form 4506-T were to switch to ordering them using the ICCE, the projected labor cost savings the IRS could realize over a 5-year period totals approximately \$31 million. Taxpayers would also obtain their transcripts faster and with less effort.

Increased use of the ICCE would reduce the volume of Forms 4506-T manually processed in the RAIVS units

³ 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 2009, 1 Full-Time Equivalent is equal to 2,080 staff hours. For Fiscal Year 2008, 1 Full-Time Equivalent was equal to 2,088 staff hours due to leap year.



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Recommendations

The Commissioner, Wage and Investment Division, should clarify guidelines to ensure an accurate name and Social Security Number be required before Forms 4506 and 4506-T can be processed. Internal controls should be developed and training provided to ensure that RAIVS units: 1) use the Transcript Delivery System's automated process to mail transcripts, 2) send copies of tax returns and transcripts only when the Form 4506 and 4506-T shows the address of record, and 3) properly maintain requests for copies of tax returns and transcripts.

The Commissioner should also develop guidelines on how to process requests for taxpayers who are victims of identity theft, reduce or eliminate the user fee for *e-filed* tax returns, and ensure IRS.gov and Form 4506-T are updated to prominently display the option and benefits of ordering a transcript using the ICCE.

Response

IRS management agreed with four recommendations and disagreed with one recommendation. Management will review and clarify guidelines on proper research requirements to ensure the accuracy of the taxpayers' names and Social Security Numbers. The IRS will make site visits to ensure all RAIVS units are adhering to established guidelines and maintaining required documentation. It will also develop Identify Theft procedures in the RAIVS unit and will more prominently display on IRS.gov the option and benefits of ordering a transcript through the IRS Toll Free telephone number using the automated self-assistance application. Additionally, Form 4506-T will also be similarly updated during the next scheduled revision. While the IRS agreed to prominently display the option and benefits of ordering a transcript using the ICCE, it did not agree to the outcome measure associated with this recommendation. IRS management stated they were unaware of the basis for our estimate of 20 percent of Form 4506-T users likely to use the ICCE. In addition, the availability of another channel to request transcripts will not necessarily result in a change in taxpayer behavior to such an extent.

Management disagreed with the recommendation to reduce or eliminate the user fee for *e-filed* tax returns and the associated outcome measure. However, they will perform a separate analysis for both paper and *e-filed* tax returns to validate current assumptions. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment

In relation to our outcome measure regarding using the ICCE, the IRS did not offer a better estimate for the 20 percent we estimated. Further, IRS studies suggest a significant opportunity to enhance stakeholder value by migrating willing taxpayers to the more convenient, cost-effective electronic channel. In recent years, the volume of self-assisted taxpayer contacts



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has increased, while assisted contacts have decreased. Research also suggests that many taxpayers would be willing and able to obtain certain services they need from the Internet or automated telephone channels. Most taxpayers prefer contacts with the IRS be by telephone.

In relation to the user fee for *e-filed* tax returns, we believe that the cost to process requests for a printout of an *e-filed* tax return is significantly lower than the cost to process copies of tax returns submitted on paper. The cost of providing printouts of *e-filed* tax returns is comparable to providing printouts of transcripts, which are free.

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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Abbreviations

<i>e-file(d), e-filing</i>	Electronically filed; electronic filing
ICCE	Integrated Customer Communications Environment
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
IVES	Income Verification Express Service
RAIVS	Return and Income Verification Services



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Background

In February 2009, the Federal Trade Commission reported that for the ninth year in a row identity theft was the number one consumer complaint nationwide.¹ Identity theft occurs when someone uses Personally Identifiable Information, such as an individual's name, Social Security Number, credit card numbers, or other account information, to commit fraud and other crimes. The Internal Revenue Service (IRS) Office of Privacy, Information Protection, and Data Security defines Personally Identifiable Information as any combination of information that can be used to uniquely identify, contact, or locate a person and could subsequently be used for identity theft.

Personally Identifiable Information includes an individual's:

- Name.
- Address.
- E-mail Address.
- Social Security Number.
- Telephone Number.
- Bank Account Number.
- Date and Place of Birth.
- Mother's Maiden Name.
- Biometric Data (i.e., height, weight, eye color, finger prints, etc.).

More than 130 million taxpayers entrust the IRS with sensitive financial and personal data, much of it on paper documents requiring protection. Internal Revenue Code Section 6103 states that tax returns and return information shall be confidential, except as authorized. The definition of tax return information includes a taxpayer's identity and the nature, source, or amount of income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, and tax withheld.

Taxpayers need to be assured that the IRS is taking every precaution to protect their private information from inadvertent disclosure. This includes, for example, processing taxpayer requests for copies of tax returns or tax return transcripts.² Taxpayers request copies of their tax returns or transcripts for many reasons—to verify income for child support or to obtain a loan to start a business, buy a home, or attend college. A third party, for example a financial institution, insurance company, or university, could also submit a request on behalf of a taxpayer to the IRS.

- Copies of tax returns currently cost taxpayers \$57. Taxpayers request copies of tax returns using the Request for Copy of a Tax Return (Form 4506) by mail or by visiting one of the 401 local IRS offices, called Taxpayer Assistance Centers. It generally takes 60 days to process copies of tax returns, less if the tax return is electronically filed (*e-filed*).

¹ *Consumer Sentinel Network Data Book for January–December 2008*, Federal Trade Commission, February 2009.

² Transcripts provide most of the information contained in a tax return.



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- Printouts of transcripts are provided free of charge. Taxpayers can submit requests for transcripts by calling the IRS toll-free telephone number (800) 829-1040 to speak with a Customer Service Representative or using prompts to reach the automated system, visiting Taxpayer Assistance Centers, or mailing/faxing a Request for Copy of a Tax Return Transcript (Form 4506-T) to the IRS. It generally takes 10 days to process printouts of transcripts, fewer if the taxpayer calls the toll-free number using the automated system.

Whether the request comes from the taxpayer or a third party, it must be signed and dated by the taxpayer who filed the tax return or someone who has the authority to sign under Internal Revenue Code Section 6103(e). The IRS Return and Income Verification Services (RAIVS)³ units in the IRS Submission Processing Centers are responsible for processing all written taxpayer requests for copies of tax returns or tax return transcripts.

The IRS uses three methods to process taxpayers' requests for copies of tax returns and tax return transcripts.

- **Integrated Data Retrieval System (IDRS).** The IDRS is used to process taxpayer requests for copies of tax returns. IRS employees access taxpayers' accounts on the IRS Master File⁴ and complete several steps to process the request. This system can also be used to process transcript requests when the Transcript Delivery System is not available for use.
- **Transcript Delivery System.** This system automates the validation, processing, and delivery of taxpayer information to taxpayers or authorized third parties. The Transcript Delivery System can be accessed by employees and includes self-service electronic communication, whereby the user can request and receive a transcript interactively through the e-services⁵ portal.
- **Income Verification Express Service (IVES).** The IVES automates bulk requests made by third parties. Employees use the IVES to process bulk requests for transcripts received from



³ At the beginning of Fiscal Year 2009, five RAIVS units that process requests for individual taxpayers who file a U.S. Individual Income Tax Return (Form 1040) were located in the Andover, Atlanta, Austin, Fresno, and Kansas City Submission Processing Centers. In Fiscal Year 2009, the IRS plans to transfer all RAIVS unit work in the Andover RAIVS unit to other RAIVS unit(s). We did not conduct testing at two other RAIVS units, in the Ogden and Cincinnati Submission Processing Centers, because they process only transcripts of business, partnership, estate, and trust returns.

⁴ The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

⁵ E-Services are a suite of web-based products that allows employees, tax professionals, and payers to conduct business with the IRS electronically. These services are available 24 hours a day, 7 days a week, via the Internet.



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businesses that routinely submit a high volume of requests as part of their business operations (e.g., a large mortgage company). The transcripts are generally delivered electronically within 2 business days. Customers log on to the IRS public Internet site, IRS.gov, to retrieve their transcripts from a secure mailbox. The IRS charges \$4.50 for each transcript and bills the business monthly.

Historically, taxpayers request copies of their tax returns less often than they request transcripts. Figure 1 shows the volume of requests for copies of tax returns and transcripts for Fiscal Years 2006–2008.

Figure 1: Volume of Requests for Copies of Tax Returns and Transcripts for Fiscal Years 2006–2008

Fiscal Year	Number of Forms 4506 Processed by RAIVS Units	Number of Forms 4506-T Processed by RAIVS Units
2006	361,603	6,864,101
2007	340,490	4,906,031
2008	282,075	6,032,436
Totals	984,168	17,802,568

Source: IRS Customer Account Services function.

This review was performed at five IRS Submission Processing Centers that process transcripts for individual taxpayers and included site visits to Andover, Massachusetts; Atlanta, Georgia; and Fresno, California, during the period February through July 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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Results of Review

Controls Over Requests for Copies of Tax Returns and Transcripts Need Strengthening to Prevent Unauthorized Disclosures of Taxpayer Information

Taxpayers who submit requests for copies of tax returns or transcripts are at risk of unauthorized disclosures of taxpayer information. From a review of a judgmental sample of 120 Fiscal Year 2008 and 2009 taxpayer requests for copies of individual tax returns and transcripts from 3 RAIVS units, 51 requests (43 percent) were processed incorrectly or not in accordance with guidelines.

- 1 [REDACTED]
- 29 requests (24 percent) contained errors that increased the risk of unauthorized disclosures.
- 21 requests (18 percent) were not processed according to guidelines, but were not unauthorized disclosures. This happened because of untimely processing and not properly forwarding a Power of Attorney and Declaration of Representative (Form 2848) to the appropriate IRS office. For example, the transcripts and tax returns were not provided to taxpayers within 10 and 60 days, respectively. The IRS states on IRS.gov that transcripts should be received within 10 days and on Form 4506 instructions that tax returns should be received within 60 days.

Additionally, using their personal information, Treasury Inspector General for Tax Administration auditors submitted requests for 33 transcripts to 5 RAIVS units; 5 requests (15 percent) were not processed according to IRS guidelines. All 5 requests increased the risk of unauthorized disclosures of taxpayer information either because the Social Security Numbers were incorrect or the forms were not signed and dated. The IRS also did not respond to another 5 (15 percent) of the 33 requests.

These errors happened because employees were not always following guidelines. Furthermore, current guidelines are unclear, inconsistent, and insufficient to protect taxpayer information.

Forms 4506 and 4506-T were not processed within the 60 days required by Treasury Regulations

Six requests were processed after the 60 days allowed by the disclosure authorization for processing. The number of days ranged from 1 [REDACTED] and averaged 222 days. The requests were processed after 60 days because employees, who manually computed the days, did not note



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that 60 days had passed. Treasury Regulations require a written request before tax return information can be disclosed to a third party and require that the request: 1) be signed and dated by the taxpayer who filed the tax return, 2) be signed within 60 days of the date it was received by the IRS, 3) pertain solely to the authorized disclosure, and 4) specify the type of tax return and the tax year covered.⁶

Figure 2 shows the actual number of calendar days between the dates the Forms 4506 and 4506-T were signed by taxpayers and the dates received by the IRS for the 6 requests that were processed after the 60-day requirement.

Figure 2: Number of Calendar Days Between the Dates the Forms 4506 and 4506-T Were Signed by Taxpayers and Received by the IRS

Calendar Days Between	Requests	Average
Dates the Forms 4506 and 4506-T were signed by the taxpayer and received by the IRS	1	222

Source: Auditors' case reviews of Forms 4506 and 4506-T requests.

The transcripts were processed after the 60-day period because employees manually computed the 60-day period when processing third-party requests for copies of tax returns.

Employees use two versions of the Transcript Delivery System to order transcripts.

- Guidelines state the short version may be used. The short version does not require that employees enter the date signed or received by the IRS.
- Guidelines state to use the long version to perform more detailed identification and authentication. If there is a power of attorney involved, the long version will determine if the IRS has a power of attorney on file for the taxpayer. The long version requires employees to input the date the taxpayer signed the Form 4506-T and the date it was received by the IRS. The system systemically validates these dates to ensure the 60-day period has not expired.

IRS officials stated that they have asked that the short version be updated to require that employees input the date the taxpayer signed the Form 4506-T and the date it was received by the IRS to ensure it is not processed outside the 60-day period.

The National Taxpayer Advocate's 2007 Annual Report to Congress⁷ listed mortgage verification as one of the most serious problems encountered by taxpayers. The report stated that

⁶ Treasury Regulation 301.6103(c)-1.

⁷ National Taxpayer Advocate's 2007 Annual Report to Congress.



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many lenders or closing agents often ask borrowers to sign a blank Form 4506-T at closing, without filling in the name of the party to whom the information will be disclosed or without dating the consent. This practice enables the lender to sell the loan in the secondary market, where a prospective buyer may verify the income of the mortgagee well outside the 60 days prescribed by the IRS. Of even greater concern is the potential to give unknown persons or entities access to confidential tax information that they could sell or misuse.

The National Taxpayer Advocate recommended that the IRS revise Form 4506, Form 4506-T, Tax Information Authorization (Form 8821), and their respective instructions to:

- State in clear and plain language that taxpayers should not sign a blank or incomplete form.
- Allow a taxpayer to specify the purpose for which the information he or she is consenting to disclose can be used by third parties.
- Advise taxpayers of their privacy rights and the importance of not signing blank forms.

The IRS agreed and added cautionary language to Forms 4506, 4506-T, and 8821, but had a different opinion on the sufficiency of existing cautionary language on Forms 4506 and 4506-T. The IRS did not agree to revise the Forms to allow taxpayers to specify the use of information.

Analyses of taxpayer accounts for January 2007 through March 2009 identified 5,106 requests for the same tax return information were submitted and processed by different RAIVS units for 2,044 taxpayers. For 2,011 (39 percent) of these requests, the time period exceeded 60 days.

Inconsistent and unclear guidelines increase the risk of unauthorized disclosures

Employees were not always following guidelines when processing the Forms 4506 and 4506-T, partly because the guidelines are not always clear on what is required for authenticating the taxpayer versus ensuring the Forms are complete. In fact, in various instances, employees were requiring more authentication than required by the guidelines.

Guidelines allow employees to process requests without a Social Security Number, but employees did not follow the guidelines and rejected all auditor requests that did not include a Social Security Number.

Internal Revenue Code Section 6103(b)(6) defines the term “taxpayer identity” as the name of a person with respect to whom a return is filed, his or her mailing address, his or her taxpayer identifying number, or a combination thereof. Treasury Regulations state that at the time the Form 4506 or 4506-T is signed and dated by the taxpayer, the written document must indicate the individual’s taxpayer identity information described in Section 6103(b)(6).⁸

⁸ Treasury Regulation 301.6103(c)-1.



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Figure 3 shows that only three items of Personally Identifiable Information are required on the Forms 4506 and 4506-T:⁹ (1) Social Security Number, (2) name, and (3) address (current or prior address of record).

Figure 3: Excerpt of Form 4506-T

Form 4506-T (Rev. January 2008) Department of the Treasury Internal Revenue Service		Request for Transcript of Tax Return ▶ Do not sign this form unless all applicable lines have been completed. Read the instructions on page 2. ▶ Request may be rejected if the form is incomplete, illegible, or any required line was blank at the time of signature.		OMB No. 1545-1872
Tip: Use Form 4506-T to order a transcript or other return information free of charge. See the product list below. You can also call 1-800-829-1040 to order a transcript. If you need a copy of your return, use Form 4506, Request for Copy of Tax Return. There is a fee to get a copy of your return.				
1a Name shown on tax return. If a joint return, enter the name shown first.		1b First social security number on tax return or employer identification number (see instructions)		
2a If a joint return, enter spouse's name shown on tax return		2b Second social security number if joint tax return		
3 Current name, address (including apt., room, or suite no.), city, state, and ZIP code				

Source: Form 4506-T.

Of the three items of Personally Identifiable Information required on the Forms 4506 and 4506-T

The request must contain the following items:

1. Sufficient information to identify the taxpayer. At least two of the following three items must be present.
 - a) Correct taxpayer name.
 - b) Correct Taxpayer Identification Number (the Social Security Number).
 - c) Correct taxpayer address (either current or prior address is the address of record).
2. Separate requests must be submitted for each third party.
3. Applicable tax form numbers (business forms only).
4. Tax year(s) or period(s) requested.
5. Signature of taxpayer or authorized person.
6. Signature date must be present and be within 60 calendar days of the IRS received date.
7. Correct payment, if applicable.

(the name, address, and Social Security Number of the taxpayer), IRS guidelines require that *only two of the three* items be correct to ensure the request is complete and ensure the recipient is authorized to receive taxpayer tax return information.

If the Social Security Number on a request is not correct, but all other taxpayer identifying information matches the IDRS, employees are to research the IDRS for the correct information. If the error is a simple transposition of two digits, or one digit is missing, employees may correct the Social Security Number and continue processing. Employees are not to reject a request based on an incorrect Social Security Number if these conditions are met. If the Social Security Number error is larger than just described, the employee should reject the request.

⁹ Personally Identifiable Information line items are identical on both Forms 4506 and 4506-T.



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Employees were processing requests even though the address provided on the Form 4506 or 4506-T was not the address of record.

Eighteen of the 120 sampled requests were processed without the employee having information to authenticate the taxpayers' correct address of record. Guidelines state that the employee should research the taxpayer's address on the IDRS to confirm it matches the current address on the Form. If it does not match and the taxpayer has provided the previous address shown on the last return filed, the employee should then confirm it matches the IDRS. If neither address can be verified, the employee is to contact the taxpayer for additional identification. If the taxpayer cannot be reached, the employee should reject the request.

Guidelines continue by stating that if the current address or the address shown on the last return matches the IRS address of record, and the remainder of the request is complete, continue to process the request. If the current address or the address shown on the last return is not the address of record and there is a discrepancy between the name and Social Security Number, then reject the request.

However, from discussions with employees, we found that they are mailing copies of tax returns and transcripts to the address that the taxpayer specifies on the Forms 4506 and 4506-T, even if it is not the address in the IRS systems and the taxpayer did not provide the previous address shown on the last tax return filed. There was no documentation in the case histories to indicate that the employee contacted the taxpayer to confirm the correct address. Employees explained that if two of the three required items (name, Social Security Number, and/or address) are correct, they process the requests for copies of a tax return or transcript. Employees stated that taxpayers move and do not always put in a change of address.

When taxpayers call the IRS toll-free telephone number for account information or to order a transcript, they must provide the correct name and Social Security Number before phone assistants *continue* with authentication.

Additional telephone authentication probes include the taxpayer's current address of record, filing status, and date of birth. If still in doubt of the taxpayer's identity, telephone assistants can request additional taxpayer authentication probes of items from the taxpayer's tax return or account that are verifiable on the IDRS.

The Forms and guidelines should be updated and clarified to reduce the risk of unauthorized disclosures. At a minimum, a taxpayer's name and Social Security Number should be complete and accurate on the Forms 4506 and 4506-T before requests for copies of tax returns and transcripts are processed. Other Personally Identifiable Information items are needed to authenticate taxpayers when the address is incorrect.



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One RAIVS unit did not follow guidelines that requires it to use the Transcript Delivery System automated process to mail transcripts

The Transcript Delivery System has an automated feature that will process requests, including printing the name and address of the requestor, stuffing the envelope, and applying postage. This process was developed to reduce manual labor and save resources. Additionally, using the Transcript Delivery System provides a permanent record of where the transcript was mailed.

One of the five RAIVS units does not use the Transcript Delivery System automated mailing feature to process the requests. Instead, employees input taxpayers' names and addresses into a separate program that prints mailing labels. The envelopes are then manually stuffed and routed to the mail room for delivery. This happens because the RAIVS unit chooses to complete quality reviews of requests prior to their being mailed to taxpayers. When the automated feature is used, quality reviews can only be completed after the request has been mailed. The other four RAIVS units complete the quality reviews after the requests are mailed. It is less expensive for the IRS when employees use the Transcript Delivery System's automated mailing feature.

The Transcript Delivery System has an automated feature that processes requests and saves resources.

Using the Transcript Delivery System also reduces the risk of human error and saves the time required to process each request. We estimate that the inefficient use of resources for the actual 3-year period (Fiscal Years 2007 through 2009) was equal to 7 Full-Time Equivalents.¹⁰ The projected 2-year (Fiscal Years 2010 and 2011) productivity gain from using the automated process would equal 4.6 Full-Time Equivalents or approximately \$382,290 for the combined 5-year period by eliminating employees manually stuffing envelopes and mailing transcripts.

RAIVS unit employees are not required to research taxpayer accounts for identity theft indicators before processing requests

When the IRS determines a taxpayer has been a victim of identify theft, it places an indicator on the taxpayer's account. During Calendar Year 2008, the IRS placed a total of 69,803 identity theft indicators on the accounts of 57,459 taxpayers. For 9,291 of these taxpayers, requests were made for 35,853 copies of tax returns or transcripts.¹¹

RAIVS unit guidelines do not have procedures requiring employees to research the IRS computer system for identity theft indicators nor do the procedures provide instructions on what should be done if the taxpayer is a victim of identity theft. For example, before a request for a

¹⁰ 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 2009, 1 Full-Time Equivalent is equal to 2,080 staff hours. For Fiscal Year 2008, 1 Full-Time Equivalent was equal to 2,088 staff hours due to leap year.

¹¹ This total includes all Transcript Delivery System users, i.e., IRS employees from various units and tax practitioners, because data were not readily available to identify only RAIVS unit employees.



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copy of a taxpayer's tax return or transcript from a third party is processed, should the IRS contact the taxpayer to confirm the legitimacy of the request?

IVES guidelines increase the risk of unauthorized disclosure of tax information

1 Employees are required to confirm receipt of all IVES participant requests by faxing a confirmation back to the requestor's office. The confirmation contains the original cover sheet and attachments, which include the Social Security Number and the names of all taxpayer accounts requested.

After IRS employees brought this to our attention, we recommended changes to procedures and the IRS agreed. In response, the IRS took steps to revise guidelines to require that employees confirm receipt of IVES requests by verifying batch numbers instead of using a list of taxpayers. This process should eliminate the need to include taxpayer names and Social Security Numbers in the confirmation fax. New and proposed legislation¹² requires that mortgage lenders and others within the financial community use IRS tax transcripts to confirm the income of a borrower during the processing of a loan application. This recent requirement caused the IRS to increase the projected number of Fiscal Year 2009 IVES requests from 1.6 to 5.1 million.

Properly maintaining taxpayer requests for tax returns helps identify potential unauthorized accesses

A sample of 75 taxpayer accounts in 3 RAIVS units showed that 10 (13 percent) of the accesses were not supported by taxpayer requests for tax returns or transcripts. Guidelines require that all RAIVS units retain all Forms 4506 and Forms 4506-T and correspondence received for copies of tax forms or return information. Guidelines require the following:

- Requests of tax returns are to be stored for 6 years and 3 months after the processing years. The documentation should be readily available for review and maintained in accordance with IRS guidelines.
- Requests for transcripts are to be destroyed 45 calendar days after requests are closed.

Records are to be kept by closed date, by order of taxpayer identification number. Multiple closed dates can be combined into batches, in taxpayer identification number order, as long as they are easily researchable.

RAIVS units were not properly filing and/or maintaining all the requests. Without properly maintaining documentation, the IRS cannot be assured that only authorized disclosure of tax return or return information is made.

¹² *Mortgage Reform and Anti-Predatory Lending Act*, H.R. 1728 for the 111th Congress.



Taxpayer Information Is at Risk When Copies of Tax Returns and Transcripts Are Ordered

We obtained a copy of the Transcript Delivery System electronic files for Calendar Years 2006 through 2009¹³ for data analysis to evaluate whether the electronic data files are complete, accurate, and contain adequate data to monitor transactions processed through the Transcript Delivery System and to help identify potential integrity patterns. We will complete this data analysis separately and will refer any integrity issues if any are identified.

Transcripts are mailed with taxpayers' Social Security Numbers

A transcript or a copy of a tax return includes at least four items of Personally Identifiable Information—name, address, Social Security Number, and tax income information. If transcripts were inadvertently delivered to the wrong address or stolen, someone would have all the information needed to steal the identity and file a fraudulent amended return.

In May 2007 the Office of Management and Budget required that all Federal agencies:

- Develop a plan to eliminate or reduce the unnecessary use of a Social Security Number within 4 months of the date of the Memorandum.
- Take necessary action to eliminate or reduce the unnecessary use of a Social Security Number within 18 months of the plan date.¹⁴

In response, the IRS began a Social Security Number Elimination and Reduction strategy. To date, 470 management information systems, 155 notices, and 6,000 forms have been reviewed to identify opportunities to eliminate or reduce Social Security Number use and Servicewide reliance on Social Security Numbers as a primary identifier.

Forms 4506 and 4506-T are to be included in a review of documents to identify the unnecessary use of Social Security Numbers, but the elimination of them on these Forms is years in the future.

The IRS identified the Transcript Delivery System and 997 forms that will require a detailed review to identify the use of a Social Security Number and if that use should be considered for Social Security Number elimination or reduction. The Forms 4506 and 4506-T are to be included as part of this review. The elimination of the Social Security Number on these Forms is years in the future. Until redacted, the risk of unauthorized disclosure of taxpayer information will remain high for these documents.

Management Actions

During the course of the audit, we recommended changes to procedures and the IRS agreed. The IRS took steps to revise guidelines to require that employees confirm receipt of IVES requests by

¹³ Through June 9, 2009.

¹⁴ OMB M-07-16.



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verifying batch numbers instead of using a list of taxpayers. This process should eliminate the need to include taxpayer name and Social Security Number in the confirmation fax.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Clarify guidelines to ensure an accurate name and Social Security Number be required before Forms 4506 and 4506-T can be processed.

Management's Response: The IRS agreed with this recommendation. The Internal Revenue Manual will be reviewed to examine the clarity of the relevant sections. All necessary changes will be made to provide clear guidance on proper research requirements to ensure the accuracy of the taxpayers' names and Social Security Numbers.

Recommendation 2: Develop internal controls and provide training to ensure that RAIVS units: 1) use the Transcript Delivery System's automated process to mail transcripts, 2) send copies of tax returns and transcripts only when the Form 4506 and 4506-T shows the address of record, and 3) properly maintain requests for copies of tax returns and transcripts.

Management's Response: The IRS agreed with this recommendation. Submission Processing Specialty Branch analysts will conduct site visits to review adherence to established RAIVS and IVES units guidelines. During site visits, the analysts will also conduct reviews to ensure the units are processing Forms 4506 and 4506-T accurately and maintaining required documentation. In addition, training will be provided to RAIVS unit management.

Recommendation 3: Develop guidelines to process requests for taxpayers who are victims of identity theft.

Management's Response: The IRS agreed with this recommendation. The Internal Revenue Manual will be updated with guidelines to include the following information:

- Listing of identify theft indicators and the meaning for each.
- Directions on researching taxpayer accounts for identity theft indicators.
- Rejection and close-out procedures for requests showing identity theft indicators without proper address of record information.



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Charges for Copies of Tax Returns Filed Electronically Should Be Reduced or Eliminated

The IRS currently charges a user fee of \$57 for copies of tax returns, whether the tax returns were submitted on paper or *e-filed*.¹⁵ IRS officials stated that the difference in costs between providing taxpayers a printout of an *e-filed* tax return and a copy of one submitted on paper is \$0.88. We were not able to validate the IRS' calculation of this user fee during this audit; however, we believe the cost to process requests for printouts of *e-filed* tax returns may be significantly lower than the cost to process copies of tax returns submitted on paper.

- A request for a copy of a tax return submitted on paper must be ordered from a Federal Records Center or IRS Submission Processing Center where tax returns are stored. The RAIVS unit employee inputs the request to the IDRS. It is sent to the Center where an employee must manually search for the tax return in the files, copy it, forward it to the RAIVS unit for mailing, and return it to the files.
- A request for a printout of an *e-filed* tax return requires an employee to input the request to the IDRS, whereby a copy of the tax return is electronically generated and printed. An IRS employee forwards the printout to the RAIVS unit for mailing.

The IRS currently charges a user fee of \$57 for copies of tax returns, whether the tax returns are submitted on paper or e-filed.

Nevertheless, even if there were a significant difference, IRS officials stated it would not be feasible to charge one fee for a copy of a paper tax return and a lesser fee or no fee for a printout of an *e-filed* tax return. They stated that taxpayers may not remember whether they submitted their tax returns on paper or electronically and would not know how much money to send to the IRS. Additionally, if they were incorrect, the IRS would have to refund fees or contact the taxpayer requesting additional fees.

Office of Management and Budget Circular A-25 provides Federal policy on preparation of cost estimates for user fees and establishes requirements for documenting that process. Cost estimates should be based on the best available records and represents the full cost of providing a service or benefit. Benefits are defined as when a service (or privilege) provides special benefits to an identifiable recipient beyond those that accrue to the general public. A special benefit, for example, enables the beneficiary to obtain more immediate or substantial gains or values (which may or may not be measurable in monetary terms) than those that accrue to the general public or is performed at the request of or for the convenience of the recipient, and is beyond the services regularly received by other members of the same industry or group or by the general public.

¹⁵ In November 2008, the IRS increased the cost taxpayers pay for a copy of a tax return from \$39 to \$57.



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The IRS does not charge taxpayers for printouts of transcripts. It states that this is to encourage taxpayers to order transcripts rather than copies of tax returns since processing transcripts is less labor intensive. We believe the cost of providing printouts of *e-filed* tax returns is comparable to providing printouts of transcripts. We estimate that taxpayer burden can be reduced for 83,910 taxpayers for a 5-year period by reducing or eliminating the requirement for taxpayers to pay a \$57 fee for a copy of an *e-filed* tax return.

Recommendation

Recommendation 4: The Commissioner, Wage and Investment Division, should reduce or eliminate the user fee for *e-filed* tax returns to clearly reflect the cost of providing a printout of *e-filed* tax returns.

Management's Response: The IRS disagreed with this recommendation. The IRS provided an analysis of the costs associated with the processing of requests for copies of tax returns. As pointed out in our report, the IRS analysis found that the difference in costs between providing taxpayers a printout of an *e-filed* tax return and a copy of one submitted on paper was minimal. In addition, the IRS estimates that the administrative cost to implement and administer different fees for copies of paper and *e-filed* returns would offset any minor reduction in the fee for copies of *e-filed* returns, thus potentially resulting in a higher user fee for all taxpayers. As the IRS begins the bi-annual requirement to conduct User Fee costing analysis for Fiscal Year 2010, it will perform a separate analysis for both paper and *e-filed* returns to validate their current assumptions.

Office of Audit Comment: We believe that the cost to process requests for a printout of an *e-filed* tax return is significantly lower than the cost to process copies of tax returns submitted on paper. The cost of providing printouts of *e-filed* tax returns is comparable to providing printouts of transcripts, which are free.

Increased Taxpayer Awareness of the Automated System to Order Transcripts Would Reduce Taxpayer Burden and Internal Revenue Service Costs

The costs associated with processing requests for transcripts using the IRS' toll-free telephone automated system, called the Integrated Customer Communications Environment (ICCE), are significantly lower than the cost to process a Form 4506-T submitted on paper in the RAIVS unit. Furthermore, taxpayers generally receive their transcripts quicker.

For Calendar Years 2006 through 2008, the RAIVS units processed approximately 17.8 million requests for transcripts, compared to approximately 1.4 million requested by taxpayers using the ICCE. The ICCE is an automated self-help system that allows taxpayers to use the telephone key pad to enter the following information and order transcripts: 1) Social Security Number,



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2) numbers in street address, and 3) the tax year requested. If correctly entered, the transcript request will be accepted for processing and transcripts will be mailed to the taxpayer generally within 10 to 15 days. A test of the ICCE resulted in an auditor receiving a transcript within 3 days.

IRS.gov and the Form 4506-T advise taxpayers that they can obtain a transcript by calling (800) 829-1040. It is not clear that this is an automated system—that taxpayers do not have to speak with an assistor. Additionally, taxpayers may be confused by the telephone instructions and instead choose to speak to an assistor.

The instructions on the following page provide what taxpayers hear and the actions they must take when calling the 1040 telephone number to request a transcript.

Call Begins.

- Welcome to the Internal Revenue Service. Your call may be monitored or recorded for quality purposes. (This is repeated in Spanish.)
- For any information about the new economic stimulus, **press 7**.
- For questions about preparing or filing your individual tax return or tax related rules and regulations, **press 1**.
- For questions about your refund, payment, or account, or to get your prior year AGI or PIN to file electronically, **press 2**.
- **Taxpayer presses 2.**
- For questions about your refund, **press 1**.
- For questions about your tax account, **press 2**.
- **Taxpayer presses 2.**
- To access your account information, please enter the Social Security Number or the Employer Identification Number that you are calling about.
- **Taxpayer enters Social Security Number.**
- If you entered a Social Security Number, **Press 1** now.
- Recording repeats Social Security Number.
- If Social Security Number is correct, **press 1**.
- Please listen to the following 7 topics and choose the one that best fits your needs:
 1. If you have a notice or letter or bill, and would like to set up a payment plan, **press 1**.
 2. Amount needed to pay your account in full, **press 2**.
 3. To request a transcript or photocopy of your tax return or transcript of your account, **press 3**.
- **Taxpayer presses 3.**
- Verify your address by entering the numbers in your street address; do not enter any letters or fractions.
- You may order up to 10 transcripts during this call. Tax Return transcripts include most lines from your original tax return and do not include any adjustments after the filing of the return. There are no fees for a transcript, and most financial institutions will accept the tax transcripts



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as verification of income. Your transcript will arrive within 10 to 15 days.

- If you do not think this information will meet your needs, you may request a photocopy of your tax return. There is a charge of \$57.00. It will take up to 60 days to receive the photocopy. To request a copy of your tax return, complete and submit Form 4506 along with the fee for each year that you order.
- To order a copy of your tax transcript, **press 1**.
- Enter the tax year that you are requesting.

The call ends.

Taxpayer requests processed through the ICCE will only be mailed to the taxpayer's address of record and cannot be mailed to a third party. If any automated question is incorrectly answered, the taxpayer is automatically routed to a telephone assistor, who will ask additional probing questions to authenticate the taxpayer before processing the request.

Increased use of this automated option would reduce the volume of Forms 4506-T manually processed in the RAIVS units. One of the IRS' planned 2009 – 2013 strategic objectives is to seek innovative ways to simplify or eliminate processes that unnecessarily burden taxpayers or resources. This is especially important because the new legislation is expected to increase the demand for transcripts. Using current statistics, if just 20 percent of the taxpayers who order transcripts using Form 4506-T were to switch to using the ICCE, the projected labor cost savings the IRS could realize total \$30,683,165 over a 5-year period. Taxpayers would also obtain their transcripts faster, with less effort and risk of unauthorized disclosure or identity theft.

However, the IRS needs to make taxpayers aware of the ICCE so they will know to use this self-assistance service rather than making a request using the Form 4506-T. The IRS also needs to make the ICCE easier to use so that when taxpayers call the 1040 line, they do not get confused and decide to hang up or choose to talk to an assistor. It should also monitor ICCE activity to determine if/when a separate dedicated phone line would be feasible to allow taxpayers to order transcripts without having to use the 1040 line and follow the current script.

Recommendation

Recommendation 5: The Commissioner, Wage and Investment Division, should ensure IRS.gov is updated to prominently display the option and benefits of ordering a transcript using the ICCE—that it is a self-assistance option that will allow the taxpayer to receive the transcript faster. Forms 4506-T should also be similarly updated during the next scheduled revision.

Management's Response: The IRS agreed with this recommendation. The Accounts Management function will review the current verbiage regarding transcripts on IRS.gov and more prominently display the option and benefits of ordering a transcript through the IRS Toll Free telephone number using the automated self-assistance application. Form 4506-T will also be similarly updated during the next scheduled revision.



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While the IRS agreed to prominently display the option and benefits of ordering a transcript using the ICCE, it did not agree to the outcome measure associated with this recommendation. IRS management stated they were unaware of the basis for our estimate of 20 percent of Form 4506-T users likely to use the ICCE. In addition, the availability of another channel to request transcripts will not necessarily result in a change in taxpayer behavior to such an extent.

Office of Audit Comment: The IRS did not offer a better estimate for the 20 percent we estimated. Further, IRS studies suggest a significant opportunity to enhance stakeholder value by migrating willing taxpayers to the more convenient, cost-effective electronic channel. In recent years, the volume of self-assisted taxpayer contacts has increased, while assisted contacts have decreased. Research also suggests that many taxpayers would be willing and able to obtain certain services they need from the Internet or automated telephone channels. Most taxpayers prefer contacts with the IRS be by telephone.



Taxpayer Information Is at Risk When Copies of Tax Returns and Transcripts Are Ordered

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether controls over requests for copies of tax returns and transcripts (Forms 4506 and 4506-T) are sufficient to reduce the risk of identity theft and/or unauthorized disclosure of taxpayer information.

- I. Reviewed the 2007 National Taxpayer Advocate report to determine if the IRS had taken corrective actions to address concerns that current controls do not prevent the IRS from releasing tax return information to third parties after the taxpayer authorization to release information has expired.
- II. To determine whether IRS policies and controls for processing and maintaining taxpayer requests for copies of tax returns and transcripts were sufficient, we:
 - A. Evaluated the internal control environment and identified risks related to responding to taxpayers' requests for tax return information.
 - B. Reviewed the quality review process and determined how RAIVS units evaluate performance against existing balanced measures.
 - C. Identified Transcript Delivery System procedures and controls for processing taxpayers' requests for tax return transcripts.
 - D. Identified and evaluated IVES procedures and controls for processing taxpayers' requests for tax return transcripts.
 - E. Reviewed the user fee policy to evaluate the cost/benefit that requires taxpayers to pay a user fee for printouts of *e-filed* tax returns.
- III. To evaluate whether employees adhered to authentication guidelines, we reviewed closed taxpayer requests:
 - A. Selected and reviewed a judgmental sample of 120 requests from 3 of the 7 RAIVS units.¹ The offices were selected in order to evaluate the internal control environment in three geographic regions of the country (i.e., northeast, southeast, and west). We chose a judgmental sample because we were not going to project our results. The

¹ At the beginning of Fiscal Year 2009, five RAIVS units that process requests for individual taxpayers who file a U.S. Individual Income Tax Return (Form 1040) were located in the Andover, Atlanta, Austin, Fresno, and Kansas City Submission Processing Centers. We did not conduct testing at two other RAIVS units, in the Ogden and Cincinnati Submission Processing Centers, because they only process transcripts of business, partnership, estate, and trust returns.



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- sampled requests were pulled from the requests stored at each center at the time of our visits. The total population of requests was unknown.
- B. Selected and reviewed a random sample of 75 taxpayers where a RAIVS unit employee accessed the account and used the IDRS to authorize the release of taxpayer information. We chose a random sample of this size because we did not intend to project our results. From a population of 2,420 Fiscal Year 2009 accounts from the IDRS audit trail, we selected 30 taxpayer requests for transcripts. From a population of 46,037 Fiscal Year 2009 accounts from the IDRS audit trail, we selected 45 taxpayer requests for copies of tax returns.
 - C. Validated the data extracted to fill our electronic data processing requests. We conducted run-to-run balancing and ensured that the entire file was used with no gaps in the access or extraction of the data.
- IV. To test whether employees are preventing improper disclosure and appropriately processing requests for tax returns and transcripts, we submitted anonymous requests for transcripts based on pre-developed auditor scenarios to all Submission Processing Centers.



*Taxpayer Information Is at Risk When Copies of Tax
Returns and Transcripts Are Ordered*

Appendix II

Major Contributors to This Report

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

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Returns and Transcripts Are Ordered*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
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
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PRA:PEI
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division
SE:W:S:PRA:PEI



Taxpayer Information Is at Risk When Copies of Tax Returns and Transcripts Are Ordered

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$382,290 (see page 4). The outcome includes actual inefficient use of resources equal to 7 Full-Time Equivalents¹ for Fiscal Years 2007 through 2009. It also includes projected increased productivity equal to 4.6 Full-Time Equivalents for Fiscal Years 2010 and 2011 by eliminating employees' manual labor costs to stuff envelopes and mail transcripts.

Methodology Used to Measure the Reported Benefit:

Our test results showed one of five RAIVS units does not use the Transcript Delivery System's automated mailing feature to process taxpayer requests for printouts of tax return transcripts. Instead, employees input taxpayers' names and addresses into a separate system that prints mailing labels. The envelopes are then manually stuffed and routed to the mail room for delivery. The following factors were used to calculate potential savings:

- Total volume of Forms 4506-T processed by one RAIVS Unit for Fiscal Years 2007–2008 = 579,313.
- Average yearly volume of Forms 4506-T processed by one RAIVS Unit for individuals² (Form 1040 series and Form W-2) for Fiscal Years 2007 and 2008 = 289,657.³

¹ 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 2009, 1 Full-Time Equivalent is equal to 2,080 staff hours. For Fiscal Year 2008, 1 Full-Time Equivalent was equal to 2,088 staff hours due to leap year.

² At the beginning of Fiscal Year 2009, five RAIVS units that process requests for individual taxpayers who file a U.S. Individual Income Tax Return (Form 1040) were located in the Andover, Atlanta, Austin, Fresno, and Kansas City Submission Processing Centers. We did not conduct testing at two other RAIVS units, in the Ogden and Cincinnati Submission Processing Centers, because they only process transcripts of business, partnership, estate, and trust returns.

³ To obtain this average we divided the total volume of Forms 4506-T processed by one RAIVS Unit for Fiscal Years 2007–2008 by 2 years (579,313 / 2 = 289,657).



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- Estimated average processing time to manually mail each transcript by RAIVS unit employees = 1 minute per request.⁴
- Estimated average salary for RAIVS employees for Fiscal Years 2007 and 2008 = \$32,956.⁵

We calculated the IRS could eliminate the inefficient use of resources of 11.6 Full-Time Equivalents, approximately \$382,290, if the RAIVS unit eliminated the practice of employees manually stuffing and mailing transcripts as follows:

- Total hours spent manually mailing transcripts per year:
289,657 total minutes spent manually mailing transcripts per year / 60 minutes = 4,828 total hours per year.
- Total Full Time Equivalents spent manually mailing transcripts per year:
4,828 total hours spent manually mailing transcripts per year / 2,080 Full-Time Equivalent hours per year = 2.32 Full-Time Equivalents.

Actual and projected inefficient use of Full-Time Equivalents over 5 years

2.32 Full-Time Equivalents per year x 5 years = 11.6 Full-Time Equivalents.

Projected inefficient labor costs from Full-Time Equivalents over 5 years

11.6 Full-Time Equivalents x \$32,956 average salary per Full-Time Equivalent = \$382,290.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 83,910 taxpayers (see page 13). The outcome includes reduced taxpayer burden for Fiscal Years 2010 through 2015 by eliminating or reducing the requirement for taxpayers to pay a \$57 fee for a copy of an *e-filed* tax return.

Methodology Used to Measure the Reported Benefit:

Our test results showed the IRS currently charges \$57 for copies of tax returns, whether they are submitted on paper or *e-filed*.⁶ The IRS established this fee disregarding the difference in costs between generating a copy of a tax return that was submitted on paper versus one submitted

⁴ According to one processing center, RAIVS employees process about 26 transcript requests in 1 hour (60 minutes/26 transcripts = 2.31 minutes, or approximately 151 seconds). From this total we subtracted 91 seconds of processing time it takes this unit to process a transcript without mailing each transcript (151 – 91 = 60 seconds or one minute which represents the average processing time to mail transcripts).

⁵ To obtain this average, we identified the Fiscal Years 2007 and 2008 yearly salary for the one RAIVS unit that manually mailed transcripts.

⁶ In November 2008, the IRS increased the cost taxpayers pay for a copy of a tax return from \$39 to \$57.



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electronically. However, the costs associated with processing printouts of *e-filed* tax returns are significantly less than the cost to process tax returns submitted on paper.

We calculated the reduced burden for taxpayers who submit requests for a copy of their tax returns if the IRS reduces or eliminates the requirement for taxpayers to pay a \$57 fee for a copy of an *e-filed* tax return. The following factor was used to calculate potential taxpayer burden reduction:

- Average number of taxpayers who submitted a request for a copy of an *e-filed* tax return:
 $50,347^7 \text{ taxpayers} / 3 \text{ years} = 16,782.$

Projected reduction in taxpayer burden over 5 years

Projected taxpayer burden reduction by eliminating or reducing the requirement for taxpayers to pay a \$57 fee for a copy of an *e-filed* tax return = $16,782 \times 5 = 83,910.$

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$30,683,165 (see page 14). The outcome includes increased productivity for Fiscal Years 2010 through 2015 by reducing the volume of Form 4506-T manually processed by RAIVS unit employees.

Methodology Used to Measure the Reported Benefit:

Our test results showed for Calendar Years 2006 through 2008, the RAIVS units processed approximately 17.8 million requests for printouts of transcripts, compared to approximately 1.4 million requested by taxpayers using the IRS' toll-free telephone automated system (ICCE). Increased use of this automated option would reduce the labor required to manually process the Forms 4506-T in the RAIVS units. The following factors were used to calculate potential savings:

- Total volume of Forms 4506-T processed by RAIVS units for individuals (Form 1040 series and Form W-2) (Fiscal Years 2006–2008) = 5,760,281.⁸

⁷ These data were obtained from auditor's research of the Individual Return Transaction File. This file is an IRS database containing personal, tax account, and other information that has been transcribed from tax returns and most related schedules filed by individual taxpayers.

⁸ To obtain this total we deducted from the total volume of Forms 4506-T processed in Fiscal Years 2006–2008 (17,802,568) the total Forms 4506-T processed in Ogden (3,017,297) and Cincinnati (4,709,800), which process requests for other than individual taxpayers and the total IVES volumes (4,315,190); $(17,802,568 - 3,017,297 - 4,709,800 - 4,315,190 = 5,760,281).$



Taxpayer Information Is at Risk When Copies of Tax Returns and Transcripts Are Ordered

- Average yearly volume of Forms 4506-T processed by RAIVS units for individuals (Form 1040 series and W-2) for Fiscal Years 2006–2008 = 1,920,094.⁹
- Estimated percentage (20 percent) of Form 4506-T individual users likely to use the ICCE = 384,019.¹⁰
- Estimated labor cost to process each Form 4506-T in the Transcript Delivery System by RAIVS unit employees = \$25.48 per request.¹¹
- Estimated percentage (50 percent) of taxpayers likely to use the ICCE but who also may choose to speak to a Toll-Free Customer Service Representative = 192,009.¹²

We calculated the inefficient use of resources (i.e., labor costs) the IRS could realize if 20 percent of taxpayers who order transcripts using Form 4506-T were to switch to ordering them using the ICCE to be approximately \$30,683,165 as follows:

- Total labor costs required to process 20 percent of Form 4506-T requests per year:
 $384,019 \times \$25.48 = 9,784,804.$
- Estimated costs to answer taxpayer calls to a Toll-Free Customer Service Representative after using the ICCE: $192,009 \times \$19 \text{ cost per call}^{13} = 3,648,171.$
- Total net estimated labor cost savings from increased taxpayer use of the ICCE:
 $9,784,804 \text{ labor cost to process 20 percent of requests via Form 4506-T} - 3,648,171 \text{ labor costs from Toll-Free calls} = \$6,136,633.$

Projected inefficient use of resources over 5 years (Fiscal Years 2010 through 2015)

$\$6,136,633 \text{ labor cost savings per year} \times 5 \text{ years} = \$30,683,165.$

⁹ To obtain this average we divided the total volume of Forms 4506-T processed by RAIVS units for individuals (Form 1040 series and Form W-2) for Fiscal Years 2006–2008 by 3 years ($5,760,281 / 3 = 1,920,094$).

¹⁰ $1,920,094 \times .20 = 384,019.$

¹¹ According to calculations based on IRS documents, the labor costs to process a Form 4506-T is approximately \$25.48. We calculated this cost by taking the cost to process a Form 4506 (\$30.32, which excluded the costs to print, and stuff and mail envelopes) and subtracting the cost to research and photocopy a tax return ($\$4.84$) = \$25.48.

¹² $384,019 \times .50 = 192,009.$

¹³ *The 2007 Taxpayer Assistance Blueprint, Phase 2*, IRS, Publication 4579, April 2007.



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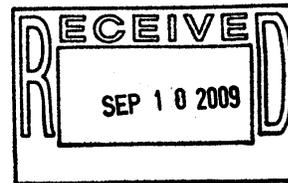
Appendix V

Management's Response to the Draft Report

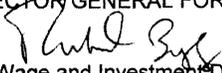


DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

SEP 10 2009



MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Taxpayer Information Is At Risk When
Ordering Copies of Tax Returns and Tax Return Transcripts
(Audit #200940009)

I have reviewed your draft report and agree that measures could be taken to strengthen the controls over requests for copies of tax returns and transcripts. As a result of your review we have ensured all Return and Income Verification Services (RAIVS) sites are using the Transcript Delivery System (TDS) to mail transcripts. We have also developed and implemented Identity Theft procedures in the RAIVS units. In addition, we developed a new process to fax Batch Numbers instead of Social Security Numbers (SSNs) as confirmation the IRS received the request.

I appreciate your recognition of the IRS SSN Elimination and Reduction Strategy and agree that transcripts should be added to the SSN masking initiative at a future date. Until that time, every effort will be used to prevent unauthorized disclosure in this program.

The growth in the program has been extraordinary, as has the ability of the RAIVS employees to maintain a timely and efficient program. In the Income Verification Express Server (IVES) the growth in revenue from July 2008 (\$6.5 million) to July 2009 (\$24.7 million) was almost 400 percent. The volume has increased from 1.4 million to 5.5 million over this same period. In 2009, Austin Submission Processing Center was added as an IVES site due to increased volume and the rampdown of the Andover Submission Processing Center. The IVES participants have increased from 922 to 1,319 and we have managed to keep up with the increase in demand. Staffing in all RAIVS/IVES sites has increased and Submission Processing Specialty Programs Branch has added an additional analyst.



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The Internal Revenue Manual (IRM) 3.5.20, Processing Requests for Tax Returns/Return Information, will be revised to provide clearer guidance on proper research requirements to ensure the accuracy of the taxpayers' names and SSNs. Specialty Programs Branch analysts will visit RAIVS sites to review adherence to IRM guidelines. A training class for RAIVS management will be held in Fiscal Year (FY) 2010 to extensively review all aspects of IRM 3.5.20.

We agree with the first outcome measure provided in Appendix IV for Inefficient Use of Resources. We have ensured all RAIVS sites are using the TDS to mail transcripts.

We disagree with your recommendation to reduce or eliminate the user fee for e-filed returns. Our costing calculations validate the current charge of \$57 for copies of tax returns, whether the tax returns were submitted on paper or e-filed. As a result, we also cannot agree with the outcome measure reported for this recommendation in Appendix IV. However, as we begin the bi-annual requirement to conduct a User Fee costing analysis for FY 2010, we will perform a separate analysis for both paper and e-filed returns to revalidate our current assumptions.

We agree that increased taxpayer awareness of the automated system, Integrated Customer Communications Environment (ICCE), to order transcripts would reduce taxpayer burden and costs. The Form 4506-T, *Request for Transcript of Tax Return*, will be revised to inform taxpayers of the ICCE option. The IRS.gov website will also be revised to prominently display the option and benefits of using ICCE to order transcripts. We do not agree with the outcome measure you reported for this recommendation in Appendix IV. We are unaware of the basis for your estimate of 20 percent for Form 4506-T individual users likely to use the ICCE. The availability of another channel to request transcripts will not necessarily result in a change in taxpayer behavior to such an extent.

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

Attachment



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Attachment

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1

Clarify guidelines to ensure an accurate name and SSN be required before Forms 4506 and 4506-T can be processed.

CORRECTIVE ACTION

We agree with this recommendation. The Internal Revenue Manual (IRM) 3.5.20, Processing Requests for Tax Return/Return Information, will be reviewed to examine the clarity of sections 3.5.20.6.2, Reviewing Request for Completeness, and 3.5.20.8, Identification and Authentication for Requests During Processing. All necessary changes will be made to provide clear guidance on proper research requirements to ensure the accuracy of the taxpayers' names and Social Security Numbers (SSNs).

IMPLEMENTATION DATE

October 15, 2009

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 2

Develop internal controls and provide training to ensure that RAIVS units: 1) use the Transcript Delivery System's automated process to mail transcripts, 2) send copies of tax returns and transcripts only when the Form 4506 and 4506-T shows the address of record, and 3) properly maintain requests for copies of tax returns and transcripts.

CORRECTIVE ACTION

We agree with this recommendation. Submission Processing Specialty Branch analysts will conduct site visits to review adherence to established Return and Income Verification Services (RAIVS) and Income Verification Express Server (IVES) guidelines. During site visits, the analyst will also conduct reviews to ensure the units are processing Form 4506, *Request for Copy of Tax Return*, and 4506-T, *Request for Transcript of Tax Return*, accurately, and maintaining required documentation. In addition, training will be provided to RAIVS management. Aspects of IRM 3.5.20 will be covered extensively during the class.

IMPLEMENTATION DATE

October 15, 2010



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RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 3

Develop guidelines to process requests for taxpayers who are victims of identity theft.

CORRECTIVE ACTION

We agree with this recommendation. The Internal Revenue Manual 3.5.20 will be updated with guidelines to include the following information:

- Listing of identity theft indicators and the meaning for each;
- Directions on researching taxpayer accounts for identity theft indicators; and,
- Rejection and close-out procedures for requests showing identity theft indicators without proper address of record information.

IMPLEMENTATION DATE

October 15, 2009

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 4

The Commissioner, Wage and Investment Division, should reduce or eliminate the user fee for e-filed tax returns to clearly reflect the cost of providing a printout of e-filed tax returns.

CORRECTIVE ACTION

We disagree with this recommendation. The IRS provided an analysis of the costs associated with the processing of requests for copies of tax returns. As pointed out in your report, that IRS analysis found that the difference in costs between providing taxpayers a printout of an e-filed tax return and a copy of one submitted on paper



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was minimal. In addition, the IRS estimates that the administrative cost to implement and administer different fees for copies of paper and e-filed returns would more than offset any minor reduction in the fee for copies of e-filed returns, thus potentially resulting in a higher user fee for all taxpayers. As we begin the bi-annual requirement to conduct a User Fee costing analysis for Fiscal Year 2010, we will perform a separate analysis for both paper and e-filed returns to validate our current assumptions.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 5

The Commissioner, Wage and Investment Division, should ensure IRS.gov is updated to prominently display the option and benefits of ordering a transcript using the ICCE—that it is a self-assistance option that will allow the taxpayer to receive the transcript faster. Forms 4506-T should also be similarly updated during the next scheduled revision.

CORRECTIVE ACTION

We agree with this recommendation. The Accounts Management function will review the current verbiage regarding transcripts on IRS.gov and more prominently display the option and benefits of ordering a transcript through the IRS Toll Free telephone number using our automated self-assistance application. Form 4506-T will also be similarly updated during the next scheduled revision.

IMPLEMENTATION DATE

March 15, 2010

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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