



## Treasury Inspector General for Tax Administration

### BETTER SCREENING AND MONITORING OF E-FILE PROVIDERS IS NEEDED TO MINIMIZE THE RISK OF UNSCRUPULOUS PROVIDERS PARTICIPATING IN THE E-FILE PROGRAM

Issued on September 19, 2007

## Highlights

Highlights of Report Number: 2007-40-176 to the Internal Revenue Service Commissioners for Small Business and Self-Employed Division and Wage and Investment Division.

### IMPACT ON TAXPAYERS

The primary means by which the Internal Revenue Service (IRS) regulates electronic filing (*e-file*) Providers are the application screening process and the monitoring program. Inadequate screening and monitoring increases the risk to both taxpayers and the Federal Government for potential losses associated with unscrupulous *e-file* Providers.

### WHY TIGTA DID THE AUDIT

There were 259,009 authorized electronic return originators as of May 22, 2007, who electronically filed (*e-filed*) about 55 million (71 percent) of the approximately 77.1 million *e-filed* tax returns accepted in Calendar Year 2007. The application screening process is used to ensure individuals applying for entry into the *e-file* Program have met required screening and verification checks before they are authorized to participate in the *e-file* Program. Monitoring visits are the primary means to verify compliance with many of the *e-file* Program requirements.

### WHAT TIGTA FOUND

The IRS has an effective process for ensuring applicants meet age requirements and *e-file* Providers meet certain suitability checks, such as tax compliance. However, the IRS does not have an independent verification process for applicants who claim they are a Not-for-Profit service. In addition, the IRS does not verify citizenship or perform credit checks, and criminal background checks are limited.

During a previous TIGTA audit, *E-File Providers Are Not Adequately Screened* (Reference Number 2002-40-111, dated June 2002), a test was performed to identify individuals whose citizenship indicator identified them as not being a citizen or legal resident alien. A total of

85 individuals were referred to the IRS for research. Of the 85 individuals, 52 (61 percent) were eventually removed from the *e-file* Program. For 40 (77 percent) of the 52 individuals removed, the applicants falsified their applications by identifying themselves as United States citizens or legal resident aliens.

Testing also identified that deficiencies prevent the IRS from measuring program performance and ensuring that authorized *e-file* Providers are in conformance with *e-file* Program guidelines. For example, current procedures do not ensure *e-file* Providers most at risk of noncompliance are selected for monitoring visits, including the scheduling of required follow up visits. *E-file* Monitoring Program management information is inaccurate and *e-File* Providers who were determined to be in violation of *e-file* Program requirements were not suspended.

Finally, the IRS does not have a process to review *e-file* Provider cases worked by its Criminal Investigation function. Characteristics of these cases could identify risk factors or indicators to be used to screen unscrupulous individuals from entry into the *e-file* Program and identify unscrupulous *e-file* Providers in the *e-file* Program.

### WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, ensure applicants who claim to be a Not-For-Profit are in fact a Not-For-Profit and revise screening procedures to require validation of an applicant's citizenship. The Commissioner, Small Business/Self-Employed Division, should develop processes to ensure risk-based selection criteria is used to select *e-file* Providers for monitoring visits, the receipt and disposition of referrals are recorded, *e-file* Providers are suspended when recommended, adequate documentation supporting appeals is maintained, and management information accurately reflects *e-file* Monitoring Program results. In addition, procedures should be clarified as to when followup visits should be performed. Both Commissioners should ensure results of criminal cases involving *e-file* Providers are used to identify potential risk factors or indicators that can be built into the screening and monitoring process to improve on the identification of unscrupulous *e-file* Providers.

In their response to the report, IRS management agreed with eight of the nine recommendations and partially agreed with one recommendation. IRS management has already taken or plans to take appropriate corrective actions.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2007reports/200740176fr.pdf>

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