Insufficient and Inexperienced Staff Could Reduce the Ability to Detect and Stop Fraudulent Refunds

January 8, 2010

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DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

January 8, 2010

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Allan R. Duncan

FROM: (for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Insufficient and Inexperienced Staff Could Reduce the Ability to Detect and Stop Fraudulent Refunds (Audit # 200940032)

This report presents the results of our review to assess Internal Revenue Service (IRS) efforts to ensure a successful transition of pre-refund fraud detection activities from the Criminal Investigation Division to the Wage and Investment Division. This review was conducted as part of the Treasury Inspector General for Tax Administration Fiscal Year 2009 Annual Audit Plan related to the major management challenge of Erroneous and Improper Payments and Credits.

Impact on the Taxpayer

The Questionable Refund Program is a nationwide, multi-functional program designed to detect and stop fraudulent claims for refunds on income tax returns. Pre-refund fraud detection activities have been transferred from the Criminal Investigation Division to the Wage and Investment Division Accounts Management function. We are concerned that staffing may not be sufficient, which could result in a reduction of fraudulent refunds identified and stopped. Insufficient staffing may also reduce the ability of the IRS to provide timely assistance to taxpayers who experience delays in receiving their refund or who are victims of identity theft.

Synopsis

In early 2006, the IRS Taxpayer Advocate Service released its 2005 Annual Report to Congress, which identified refund freezes[1] placed on taxpayer accounts by the IRS Criminal Investigation

[1] The refund freeze condition on the taxpayer's account prevents the release of the refund to the taxpayer.

Division as one of the most serious problems encountered by taxpayers and called for improvements to the Questionable Refund Program. Shortly after the release of the report, the IRS Commissioner directed a review of the Questionable Refund Program. In October 2006, the IRS established the Pre-Refund Program Office to develop an enterprise vision and strategy for IRS pre-refund activities. To achieve the goals of the new Pre-Refund Program, the IRS launched three important initiatives, including the Fraud Detection Center (FDC)[2] Transition Team. In mid-January 2008, the FDC Transition Team began studying which FDC work processes and associated resources could move from the Criminal Investigation Division to the Wage and Investment Division Accounts Management function.

The IRS has taken actions or is in the process of taking actions to ensure the Wage and Investment Division will assume responsibility for transitioned activities as planned.

The FDC Transition Team recommended the realignment of five activities from the Criminal Investigation Division to the Wage and Investment Division Accounts Management function. The Team was also responsible for ensuring the transition of selected work activities and associated resources to the Accounts Management function. According to the IRS, moving these resources will capitalize on opportunities to complete this work more efficiently.

The Wage and Investment Division assumed responsibility for performing transitioned Questionable Refund Program activities on October 11, 2009. However, we believe that staffing may not be sufficient. Management used the actual hours charged by employees in Fiscal Year 2007 for the activities being transitioned and then revalidated the results by using the actual hours charged in Fiscal Year 2008 rather than performing a comprehensive analysis to determine the average time to complete one unit of work. The analysis, which established that the Accounts Management function would receive 248 Full-Time Equivalents[3] to work transitioned activities, did not include an assessment of the anticipated workload volumes by activity for the year and the average time to complete one unit of work.

Insufficient and inexperienced staff could result in a reduction of fraudulent refunds identified and stopped.

During the course of our review, we raised our concerns to management regarding the potential effect of insufficient and inexperienced staff on program accomplishments. Management responded that the pre-refund fraud detection procedures provide a greater level of detail than has been available in prior filing seasons and that each new employee will be provided training.

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[2] Criminal Investigation Division personnel at the 10 FDCs review questionable tax returns prior to the release of a refund.

[3] A Full-Time Equivalent (FTE) is a measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2008, 1 FTE was equal to 2,096 staff hours.

In addition, the Commissioner, Wage and Investment Division, and the Chief, Criminal Investigation Division, stated that they are prepared to work staffing issues cross-functionally if filing season workloads require. A memorandum of understanding between the Wage and Investment Division and Criminal Investigation Division stipulates that if the Accounts Management function has insufficient staff to work the inventories, then the Criminal Investigation Division will detail employees for the duration of the filing season or until peak inventories are reduced to a manageable level. We plan to monitor the impact of staffing on transitioned activities during the 2010 Filing Season and will include results in both our 2010 Interim Filing Season report and 2010 Filing Season report.

Recommendation

We recommended that the Commissioner, Wage and Investment Division, perform a comprehensive analysis during the 2010 Filing Season to determine the average time to complete one unit of work for each of the transitioned activities. The average time to complete one unit of work should then be applied to the anticipated workload volumes to identify staffing resources needed to timely complete these activities in Processing Year[4] 2011.

Response

IRS management agreed with our recommendation. The IRS will analyze the volume of work and staff hours needed to perform the 2010 Filing Season work in order to determine the resources required to timely complete the projected work in the 2011 Filing Season. 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 recommendation. 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.

[4] A processing year is the calendar year the return or document is processed by the IRS.

Table of Contents

Abbreviations

EFDS	Electronic Fraud Detection System
FDC	Fraud Detection Center
FTE	Full-Time Equivalent
IRS	Internal Revenue Service
QRP	Questionable Refund Program

Background

The Questionable Refund Program (QRP) is a nationwide, multi-functional program designed to detect and stop fraudulent claims for refunds on income tax returns. The Electronic Fraud Detection System (EFDS) is the primary information system used to support the QRP. The EFDS applies specific fraud criteria to tax returns filed with the Internal Revenue Service (IRS) in an attempt to identify questionable tax returns with refunds.

The Questionable Refund Program is a nationwide, multi-functional program designed to identify fraudulent tax returns and to stop the payment of fraudulent refunds.

Prior to the release of a refund, questionable tax returns are reviewed at the Criminal Investigation Division's 10 Fraud Detection Centers (FDC).[1] FDC personnel scan the identified tax returns to determine fraud potential. During this scanning process, FDC personnel use information, including prior year tax returns, to assist in determining if further verification is warranted. If a tax return is selected for verification, the refund is held until employers or third parties are contacted to verify wage information. If the verification concludes that a tax return contains false information (e.g., false or inflated wages), the tax return is referred to either the Accounts Management function or the Examination function for resolution.[2] If fraud was not detected, the IRS releases the refund. Figure 1 identifies the number of fraudulent returns and refunds identified and stopped by the QRP in Processing Years[3] 2007 and 2008.

[1] The FDCs are located at the returns processing campuses in Fresno, California; Atlanta, Georgia; Covington, Kentucky; Andover, Massachusetts; Kansas City, Missouri; Brookhaven, New York; Philadelphia, Pennsylvania; Memphis, Tennessee; Austin, Texas; and Ogden, Utah. Campuses are 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.

[2] Returns with certain refundable credits, such as the Earned Income Tax Credit, and returns for which refunds were issued are sent to the Examination function because the law requires the IRS to follow deficiency procedures before making an assessment in these cases.

[3] A processing year is the calendar year the return or document is processed by the IRS.

Figure 1: Fraudulent Returns and Refunds Identified and Stopped for Processing Years 2007 and 2008

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refunds Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2007	240,406	189,915	$1,467,762,110	$1,203,795,853
2008	380,656	306,128	$1,959,992,377	$1,683,912,973

Source: Criminal Investigation Division QRP Workload Comparison Summary Reports.

Concerns raised by the National Taxpayer Advocate resulted in revisions to the QRP

In early 2006, the IRS Taxpayer Advocate Service released its 2005 Annual Report to Congress which identified refund freezes[4] placed on taxpayer accounts by the IRS Criminal Investigation Division as one of the most serious problems encountered by taxpayers and called for improvements to the QRP. Shortly after the release of the report, the IRS Commissioner directed a review of the QRP. In October 2006, the IRS established the Pre-Refund Program Office to develop an enterprise vision and strategy for IRS pre-refund activities. To achieve the goals of the new Pre-Refund Program, the IRS launched three important initiatives, including the FDC Transition Team. In mid-January 2008, the FDC Transition Team began studying which FDC work processes and associated resources could move from the Criminal Investigation Division to the Wage and Investment Division Accounts Management function.

The core objective of the FDC Transition Team was to identify work processes residing within the FDCs that could be realigned to the Accounts Management function, which would free up Criminal Investigation Division personnel to focus on scheme development.[5] The FDC Transition Team recommended the realignment of the following activities from the Criminal Investigation Division to Wage and Investment Division Accounts Management function:

- Scanning tax returns to identify fraud.
- Verifying wage and withholding information with third parties.
- Resolving account issues that prevent workload transfers of fraudulent tax returns to the Examination function or Accounts Management function for a tax assessment. For example, the posting of a second tax return on the same account would require resolution prior to the referral for assessment.

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[4] The refund freeze condition on the taxpayer's account prevents the release of the refund to the taxpayer.
[5] Scheme development is the identification of multiple returns containing false or fictitious claims for refund that appear to be related.

- Addressing refund inquiries from taxpayers who contacted toll-free customer service sites and the Taxpayer Advocate Service regarding the status of their refund when the refund is delayed for verification of wage and withholding information with third parties.
- Adjusting tax returns for victims of identity theft.

The FDC Transition Team was also responsible for the transition of selected work activities and associated resources to the Accounts Management function by October 11, 2009. According to the IRS, moving these resources will capitalize on opportunities to complete this work more efficiently. In addition, recommendations were made by the FDC Transition Team and accepted by the Accounts Management function to reduce the number of sites performing QRP activities from 10 sites to 7 sites. Activities currently performed in Brookhaven, New York; Philadelphia, Pennsylvania; and Memphis, Tennessee, will be realigned to the remaining seven FDC sites for the 2010 Filing Season. Figure 2 shows the transitioned work activities and the Full-Time Equivalents (FTE)[6] that each of the seven sites will be primarily responsible for in the 2010 Filing Season.[7]

Figure 2: Accounts Management Function Activities by Site for the 2010 Filing Season

Program	Andover Campus	Atlanta Campus	Austin Campus	Cincinnati Campus	Fresno Campus	Kansas City Campus	Ogden Campus	Total FTEs
Scanning	14	9	16		13	9		61
Verification	2	25	2	35	22	12	19	117
Workload Transfers		1	4	1	2	2		10
Refund Inquiries		1	1	1		13	13	29
Identity Theft		1	6	1	7		12	27
Other Direct[8]		1			1	1	1	4
Total FTEs	**16**	**38**	**29**	**38**	**45**	**37**	**45**	**248**

Source: FDC Transition Project Office.

This review was performed at the Wage and Investment Division Office of Electronic Tax Administration and Refundable Credits and the Criminal Investigation Division Office of Refund Crimes in Washington, D.C. The review was also performed at the FDCs located in

[6] A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2008, 1 FTE was equal to 2,096 staff hours.
[7] The filing season is the period from January through mid-April when most individual income tax returns are filed.
[8] Time charged by employees not specific to the other programs listed, such as researching Employer Identification Numbers that may not be valid or correct.

Atlanta, Georgia; Covington, Kentucky; Memphis, Tennessee; and Austin, Texas, during the period February through September 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.

Results of Review

The IRS has taken a number of actions to facilitate the transition of QRP activities to the Wage and Investment Division. These actions include:

- Implementing effective governance and project management processes for the transition effort. These processes enabled the IRS to ensure that transition efforts met intended objectives and were planned and executed in a controlled and orderly manner.
- Preparing key project documents including a business case to identify anticipated costs and benefits, and a project plan to monitor the status and progress of the transition activities.
- Developing procedures and training materials for the various transitioned activities in an effort to ensure that Accounts Management function staff can accurately complete their required tasks.
- Announcing 222 positions on July 27, 2009, to be filled in the Accounts Management function. The IRS plans to fill all vacant positions by December 21, 2009, with training completed in early January 2010. However, as of September 30, 2009, the IRS had not filled any of the 222 positions.
- Performing a System Acceptability Test[9] to ensure changes to the EFDS were successfully programmed. These changes include the automatic generation of notification letters to third parties and the retrieval of tax returns for scanning on a first-in/first-out basis to improve the efficiency of the scanning process. Testing began on September 14, 2009.
- Developing a site deployment plan to ensure newly hired and transferring staff have the workspace and computers needed to perform their duties.
- Developing performance measures. Although the IRS had planned to have these performance measures developed by August 31, 2009, they were still being developed as of September 30, 2009.

Although the Accounts Management function assumed responsibility for transitioned activities on October 11, 2009, staffing may not be sufficient which could result in a reduction of fraudulent refunds identified and stopped, and the inability of the IRS to timely provide assistance to taxpayers experiencing delays in receiving their refund or who are victims of

[9] The process of testing a system or program to ensure it meets the original objectives outlined by the user in the requirement analysis document.

identity theft. Management used the actual hours charged by employees in Fiscal Year 2007 for the activities being transitioned and then revalidated the results by using the actual hours charged in Fiscal Year 2008 rather than performing a comprehensive analysis to determine the average time to complete one unit of work. In addition, the analysis, which established that the Accounts Management function would receive 248 FTEs to work transitioned activities beginning October 11, 2009, did not include an assessment of the anticipated workload volumes by activity for the year and the average time to complete 1 unit of work.

During the course of our review, we raised our concerns to management regarding the potential effect that insufficient and inexperienced staff may have on program accomplishments. Management responded that the pre-refund fraud detection procedures provide a greater level of detail than has been available in prior filing seasons and that each new employee will be provided training. In addition, the Commissioner, Wage and Investment Division, and the Chief, Criminal Investigation Division, stated that they are prepared to work staffing issues cross-functionally if 2010 Filing Season workloads require. A memorandum of understanding between the Wage and Investment Division and the Criminal Investigation Division stipulates that if the Accounts Management function has insufficient staff to work the inventories, then the Criminal Investigation Division will detail employees for the duration of the filing season or until peak inventories are reduced to a manageable level. We plan to monitor the impact of staffing on transitioned activities during the 2010 Filing Season and will include results in both our 2010 Interim Filing Season report and 2010 Filing Season report.

Insufficient and Inexperienced Staff Could Result in a Reduction of Fraudulent Refunds Identified and Stopped

The Accounts Management function may not have adequate staffing in Fiscal Year 2010, which could result in a reduction in the number of fraudulent refunds identified and stopped. When calculating staffing requirements, the IRS should have identified the anticipated units to be worked for the transitioned activities and then performed a comprehensive analysis to determine the average number of units of work that could be completed per hour. The estimated units to be worked should then have been divided by the average units completed per hour to determine the staff hours required. Instead, the IRS used the actual hours charged by experienced employees in Fiscal Year 2008 to compute the Fiscal Year 2010 staffing.

The IRS attempted to use a comprehensive analysis to compute the average time needed to accomplish a unit of work for each of the transitioned activities. This analysis included observing a sample of units processed by employees at a limited number of the FDCs and then calculating the work rate by dividing the number of units processed by the time expended per unit. The IRS performed this analysis for the scanning tax return activity, the verifying wage and withholding information activity, and the refund inquiry activity. Although the IRS computed the average time to complete these activities, it did not use this computation when determining staffing that would be needed to perform the work for these activities.

The IRS did not perform this analysis for the remaining transitioned activities. For example, the IRS did not perform this analysis in an attempt to identify staffing needed for adjusting tax returns for victims of identity theft, which is an activity for which the Criminal Investigation Division has experienced staffing shortages in Fiscal Year 2009. When questioned, IRS management stated that they believed the analysis of actual hours charged in Fiscal Year 2008 provided the best top-level view for determining the allocation of staffing for transitioning activities. However, a recent IRS analysis of the hours charged between May 30, 2009, and August 15, 2009, reflected that employees were charging an average of 1,600 hours per week to work identity theft cases. The analysis also estimated that 800 new cases would be received per week through mid-October 2009 and that the inventory would continue to increase by 160 cases per week using an estimated case closure rate of .4 cases per hour. If the weekly receipts and the case closure rate remain constant, we calculate that the Accounts Management function will need approximately 104,000 staff hours in Fiscal Year 2010 for the identity theft workload. However, the Accounts Management function will only be allocated 27,942 staff hours because that is what Criminal Investigation Division employees charged in Fiscal Year 2008.

Despite concerns raised as to the accuracy of Fiscal Year 2008 actual time charges, IRS management used this information to determine staffing levels

The Accounts Management function will receive approximately 11 fewer employees to perform the scanning of tax returns in Fiscal Year 2010 than the Criminal Investigation Division employed in this activity in Fiscal Year 2008. The reduction in staffing is a result of management's concern regarding the accuracy of employee time charges for the scanning activity. Management believes that employees were working on scheme development[10] but were charging time to the scanning of tax returns. The basis for this conclusion was a comparison of weekly hours charged for scanning tax returns in Calendar Years 2007 and 2008 to the weekly volume of returns scanned. Management concluded that as much as 30 percent of the hours charged to scanning in Calendar Years 2007 and 2008 could have been in support of scheme development.

Nonetheless, there was no empirical evidence to support the fact that employees were erroneously charging their time to scanning tax returns when they were actually working on scheme development. Management planned to validate their decision to reduce staffing for scanning tax returns in Fiscal Year 2010 by reviewing the hours charged to scanning tax returns in Fiscal Year 2009. However, management was unable to perform this review because of problems with the criteria used by the EFDS to identify questionable returns which were detected early in the 2009 Filing Season. These problems caused an unusually low volume of returns to be identified for scanning. This resulted in a departure from the normal identification

[10] Scheme development is the identification of multiple returns containing false or fictitious claims for refund that appear to be related.

and scanning process of questionable returns, which management explained affected the reporting of time and complicated any analysis of time reported for scanning activities.

Since the IRS was experiencing problems with the EFDS identifying returns for the QRP, the staff hours expended to scan and verify each return may not have been accurately reported for the work performed, thereby complicating any analysis of the 2009 Filing Season. We recognize that errors in time reporting can occur since employees working in the FDCs may perform multiple program activities each week. During our review, some employees indicated that the accuracy of the hours being recorded between activities was questionable.

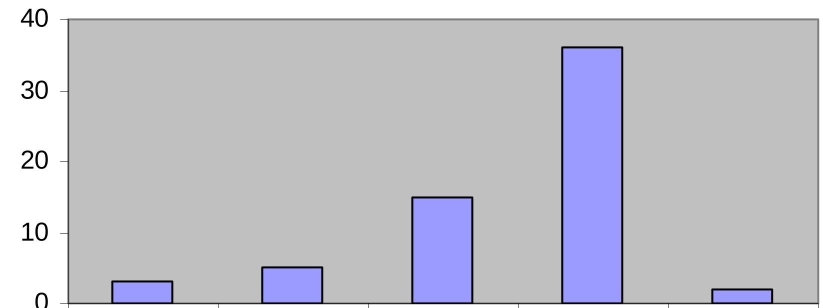
Staffing levels were based on a highly experienced staff; however, most of the individuals performing these activities in Fiscal Year 2010 will be new to these activities

Using the actual hours to identify staffing needs could result in the IRS not having adequate staffing to sustain its ability to identify and stop fraudulent refunds. The actual hours charged to the transitioned activities in Fiscal Year 2008 are based on a highly experienced staff.[11] However, when the Accounts Management function assumes responsibility for the transitioned activities, the majority of the individuals performing these duties will be new employees. Of the 359 employees who will be working on the transitioned activities, 62 percent (222 employees) will be new to the program.

We surveyed a judgmental sample of 100 employees (10 employees at each FDC) and received responses from 61 employees who noted that they had worked in a FDC for an average of 9 years. Figure 3 identifies the number of years worked by the surveyed employees. In addition, 45 of the surveyed employees believed that it took at least 1 year or more to become proficient in their assigned duties. Assigned duties of the surveyed employees included identity theft, refund inquiries, scanning, scheme development, and verification.

[11] We considered the staff at the FDCs to be highly experienced based on the low employee turnover rates indicated by the results of our employee survey and discussions held during walkthroughs at two FDCs.

Figure 3: Number of Years Worked at the FDCs



	<1 Year	1-2 Years	3-5 Years	5+ Years	Did Not Specify
Responses	3	5	15	36	2

Source: Treasury Inspector General for Tax Administration survey of FDC employees.

Of additional concern is that the 222 new employees will either be seasonal or temporary employees. The hiring of seasonal employees could result in higher turnover rates, thereby reducing the possibility of an increased number of experienced employees performing the work in subsequent years. For example, the Criminal Investigation Division had only seven seasonal employees on the rolls and experienced very low turnover rates. IRS management is filling positions with seasonal or temporary employees because the activities being transitioned to the Accounts Management function are seasonal in nature with the majority of workload demand occurring between January and June. Management has developed a contingency plan in case workload issues arise during Fiscal Year 2010. The Criminal Investigation Division has agreed to provide staffing to the Accounts Management function if needed.

Fiscal Year 2008 staffing levels were used despite clear indications that these levels were inadequate

Unlike some of the other transitioned activities (scanning and verification), the IRS cannot adjust tolerances to control the workload volume for taxpayer cases that require assistance as the result of identity theft.[12] Similar to the other transitioned activities, the IRS' determination of staffing needed for Fiscal Year 2010 was based on the actual staff hours charged in Fiscal Year 2008. Our review identified that the IRS did not have adequate staffing to timely work and assist victims of identity theft in Fiscal Year 2009. On August 24, 2009, the IRS reported that it took

[12] Identity theft cases occur when an identity thief uses a legitimate taxpayer's name and Social Security Number to file a return to fraudulently claim a refund. As part of IRS efforts to provide assistance to taxpayers who are the victims of identity theft, the IRS will place an identity theft indicator on victims' accounts so that IRS personnel can more easily recognize and assist the legitimate taxpayer in case of future account problems.

approximately 2 hours for the Criminal Investigation Division to close one identity theft case and that they were receiving 800 cases per week. Based on these figures, the Accounts Management function would need approximately 104,000 staff hours in Fiscal Year 2010 for the identity theft workload; however, Accounts Management function will only be allocated 27,942 staff hours since that is what Criminal Investigation Division employees charged in Fiscal Year 2008.

On June 30, 2009, Criminal Investigation Division management alerted management of the Accounts Management function that they would not be able to complete the inventory of identity theft cases by October 11, 2009. Management noted that staffing was not sufficient to timely work identity theft cases. For Fiscal Year 2009, identity theft casework was centralized at the FDCs in Fresno, California; Austin, Texas; and Ogden, Utah. However, the inventory increased significantly and became so unmanageable that identity theft cases had to be redistributed to seven other sites. In Fiscal Year 2008, the FDCs used 27,942 staff hours to work identity theft cases. The Accounts Management function will be allocated the same number of staff hours after the transition to work the identity theft inventory. However, the FDCs closed only 12,129 identity theft cases in Calendar Year 2008, while the number of case closures has more than doubled in Calendar Year 2009 to 29,696 through August 24, 2009. Even if the volume of identity theft cases remains at the Calendar Year 2009 level in Calendar Year 2010, the Accounts Management function will experience the same staffing shortfalls and inventory backlogs that the FDCs have encountered but it will not have the additional resources to redistribute the workload.

The project plan was to complete the identity theft inventory prior to the transition. However, as of August 22, 2009, the IRS reported 6,014 identity theft cases currently in inventory and the inventory is increasing by 160 cases per week. As a result, approximately 11,000 identity theft cases will be in inventory when the program transitions to the Accounts Management function. It is critical that the IRS provides timely assistance to taxpayers who are victims of identity theft. Delays in working identity theft cases because of the inventory backlogs can create an undue burden on taxpayers whose refunds are legitimate.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should perform a comprehensive analysis during the 2010 Filing Season to determine the average time to complete one unit of work for each of the transitioned activities. The average time to complete one unit of work should then be applied to the anticipated workload volumes to identify staffing resources needed to timely complete these activities in Processing Year 2011.

> ***Management's Response:*** The IRS management agreed with our recommendation. The IRS will analyze the volume of work and staff hours needed to perform the 2010 Filing Season work in order to determine the resources required to timely complete the projected work in the 2011 Filing Season.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess IRS efforts to ensure a successful transition of pre-refund fraud detection activities from the Criminal Investigation Division to the Wage and Investment Division. To accomplish our objective, we:

I. Evaluated the workload impact that the FDC Transition will have on pre-refund detection activities (i.e., scanning, verification, etc.) for the individual FDC locations.

   A. Attended FDC Workload Transition Team site visitations at Covington, Kentucky; Memphis, Tennessee; and Austin, Texas, and conducted walkthroughs of the FDCs at Atlanta, Georgia; and Memphis, Tennessee, to obtain an understanding of the pre-refund detection activities performed by FDC personnel.

   B. Obtained and reviewed policies and procedures issued to FDC personnel to perform the pre-refund detection activities.

   C. Met with Criminal Investigation Division and Wage and Investment Division representatives and obtained pertinent documentation to determine the pre-refund activities currently performed by each FDC and the post-transition activities that will be performed by each site.

   D. Prepared a matrix identifying the pre-refund activities performed by FDC sites before and after the transition.

   E. Met with Criminal Investigation Division and Wage and Investment Division representatives to determine which function will be the business owner of the EFDS after the transition and established each function's responsibility in the determination of data-mining threshold scores and refund tolerance levels.

II. Determined whether the governance and project management processes are effective to ensure implementation by October 11, 2009.

   A. Reviewed the Enterprise Life Cycle manual to identify required governance and project management processes and procedures.

   B. Obtained and reviewed the Project Management Plan to determine the governance and oversight in place to monitor the FDC Transition project.

   C. Attended the monthly Pre-Refund Program Executive Steering Committee meetings.

D. Obtained and reviewed the prior Pre-Refund Program Executive Steering Committee meeting minutes and briefing materials to determine how the status of the FDC transition is being reported.

E. Met with Criminal Investigation Division and Wage and Investment Division representatives to discuss each function's roles and responsibilities for the various FDC Transition project activities, including project oversight and management.

F. Selected a judgmental sample of 100 Criminal Investigation Division employees (10 employees from each of the 10 FDC sites) at the GS-9 grade level and below from a population of 250 employees to assess the experience level of the current staff primarily performing the work transitioning to the Accounts Management function. We used a judgmental sample because no statistical projections were being made. We received responses from 61 of the 100 employees surveyed.

III. Determined whether project management documentation was prepared to establish project justification and ensure a successful implementation.

A. Reviewed the Enterprise Life Cycle manual to identify project documentation requirements for project initiation and management.

B. Interviewed representatives from the Criminal Investigation Division, the Wage and Investment Division, and the Taxpayer Advocate Service to determine the expected benefits to the IRS and taxpayers with the realignment of selected QRP activities from the Criminal Investigation Division to the Wage and Investment Division.

C. Obtained and reviewed the FDC Transition Business Case for project justification, including a cost-benefit analysis.

D. Determined whether the project office established an effective method to accurately track the cost associated with the transition.

E. Obtained and reviewed project deliverables (i.e., Project Implementation Plan, Communication Plan, etc.) developed for the FDC Transition project.

F. Evaluated the analyses and supporting documentation for the project activities establishing the workload assessments and staffing requirements for the Wage and Investment Division.

G. Reviewed the Internal Revenue Manuals and training materials developed for the pre-refund detection activities transitioning to the Accounts Management function.

IV. Determined the effectiveness of project management controls.

A. Interviewed FDC Transition project management to determine how they are monitoring project progress and performance.

B. Attended the FDC Transition project meetings.

C. Obtained and reviewed status reports and project schedules used to monitor project progress and performance.

D. Determined whether issues are identified and tracked for resolution.

E. Determined whether risks are being identified by the project manager and risk mitigation measures are developed.

F. Interviewed the FDC Transition project manager to determine what measures are in place to elevate issues and risks for mitigation and what contingency plans have been developed to minimize the impact to the QRP in the event that the transition is not implemented timely.

Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)
Russell P. Martin, Director
Edward Gorman, Audit Manager
Van A. Warmke, Lead Auditor
Lawrence N. White, Senior Auditor
Stephen A. Elix, Auditor

Appendix III

Report Distribution List

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Appendix IV

Management's Response to the Draft Report

COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
DEC 14 2009

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MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Insufficient and Inexperienced Staff Could Reduce the Ability to Detect and Stop Fraudulent Refunds (Audit #200940032)

I reviewed the subject draft report and acknowledge your concerns with our planned staffing and employee experience levels. We agree that having qualified staffing in place for the 2010 Filing Season is critical to the success of the Fraud Detection Center (FDC) workload transition. However, we believe that our current pre-refund procedures and the Criminal Investigation (CI) Division's agreement to provide any needed staffing support addresses your concerns. Hiring is well underway and our procedures and training materials are in place.

In short, the IRS has developed a plan based upon analysis, subject matter expertise, and management input to accomplish the necessary hiring and provide training. We expect to satisfy the requirements of the projected workload and have contingency plans in place if needed. Additionally, as part of our contingency planning, CI is keeping all ten Scheme Development Centers, formerly known as FDCs, in place through the 2010 Filing Season to augment Wage and Investment (W&I) Division resources if necessary.

We appreciate your recognition of the actions we have taken to address the National Taxpayer Advocate's identification of a problem with pre-refund freezes. The National Taxpayer Advocate's concerns have been addressed with the actions taken by the FDC Transition Team. The transition of the identified program activities from CI to W&I Accounts Management has proceeded as planned. Additional, we appreciate your acknowledgement of the actions we took to facilitate the transition of the Questionable Refund Program activities to W&I, which successfully occurred on October 11, 2009.

2

Attached are our comments on your recommendation. If you have questions, please contact me at (404) 338-7060, or a member of your staff may contact Verlinda Paul, Director, Earned Income Tax Credit/Pre-Refund, Wage and Investment Division, at (404) 338-7112.

Attachment

Attachment

Recommendation 1:
The Commissioner, Wage and Investment Division, should perform a comprehensive analysis during the 2010 Filing Season to determine the average time to complete one unit of work for each of the transitioned activities. The average time to complete one unit of work should then be applied to the anticipated workload volumes to identify staffing resources needed to timely complete these activities in Processing Year 2011.

Corrective Action
We agree with this recommendation. We will analyze the volume of work and staff hours needed to perform the 2010 Filing Season work, in order to determine the resources required to timely complete the projected work in the 2011 Filing Season. However, as noted in the cover memorandum above, we fully expect to satisfy the requirements of the projected 2010 workload and have contingency plans in place to supplement available Wage and Investment Division resources if needed.

Implementation Date
November 15, 2011

Responsible Official
Director, Accounts Management, Wage and Investment Division

Corrective Action Monitoring Plan
This corrective action will be monitored as part of our internal managerial control system.