



Treasury Inspector General for Tax Administration Office of Audit

SIGNIFICANT PROBLEMS STILL EXIST WITH INTERNAL REVENUE SERVICE EFFORTS TO IDENTIFY PRISONER TAX REFUND FRAUD

Issued on December 29, 2010

Highlights

Highlights of Report Number: 2011-40-009 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Refund fraud committed by prisoners is increasing at a significant rate. The number of fraudulent prisoner tax returns identified by the Internal Revenue Service (IRS) has more than doubled from 18,103 tax returns in Calendar Year 2004 to 44,944 tax returns in Calendar Year 2009. Fraudulent refunds claimed rose from \$68.1 million to \$295.1 million during the same period.

WHY TIGTA DID THE AUDIT

This audit was initiated because the Inmate Tax Fraud Prevention Act of 2008 requires TIGTA to submit a report to Congress by December 31, 2010, on the implementation of the IRS authority to disclose prisoner tax return information to the head of the Federal Bureau of Prisons and State Departments of Corrections. The objective of this review was to assess the IRS's efforts to reduce prisoner fraud, including an assessment of the IRS's compliance with the Inmate Tax Fraud Prevention Act.

WHAT TIGTA FOUND

TIGTA's review identified that as of October 2010, the IRS had not completed required agreements to allow the IRS to disclose prisoner tax return information to prison officials. As a result, no information has been disclosed to either the Federal Bureau of Prisons or State Departments of Corrections.

In addition, the Calendar Year 2009 Report to Congress on prisoner fraud is incomplete. The report stated the IRS identified 44,944 false/fraudulent prisoner tax returns during Calendar Year 2009. However, the processes the IRS uses to identify prisoner tax returns may result in the IRS understating the amount of prisoner fraud.

Finally, our review of the process used by the Criminal Investigation Division to compile the 2009 prisoner data file identified a lack of managerial oversight to ensure the accuracy and reliability of this file.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS work with the Department of the Treasury to seek legislation to extend the period of time the IRS has to disclose prisoner tax return data to the Federal Bureau of Prisons and State prison officials. TIGTA also recommended that the Commissioner, Wage and Investment Division:

- Revise the annual report to provide Congress with a complete assessment of potential prisoner fraud.
- Ensure all tax returns filed by prisoners are processed through the Electronic Fraud Detection System and receive a prisoner indicator.
- Revise prisoner filters to validate wages and withholding associated with prisoners incarcerated for a year who filed tax returns claiming a refund.
- Develop a process to assess the reliability (accuracy and completeness) of data received from Federal and State prisons.

The IRS agreed with two of our five recommendations and partially agreed with two recommendations. The IRS did not indicate its agreement or disagreement with one recommendation.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2011reports/201140009fr.pdf>.