



Treasury Inspector General for Tax Administration Office of Audit

CONTROLS OVER REFUNDS TO CERTAIN INDIVIDUAL TAXPAYERS COULD BE IMPROVED

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Highlights

Highlights of Reference Number: 2011-40-126 to the Internal Revenue Service Commissioners for the Large Business and International Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

In Calendar Year 2009, the Internal Revenue Service (IRS) issued approximately 74,000 refunds totaling more than \$472 million to taxpayers filing Tax Year 2008 U.S. Individual Income Tax Returns (Form 1040, 1040A, and 1040EZ) with (b)(6) (b)(7)(C). It is imperative that controls are in place to ensure these refunds are accurate to prevent duplicate refunds and fraudulent claims.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether controls over (b)(6) (b)(7)(C) were effective in minimizing the risk of issuing erroneous refunds.

Thorough examination of returns (b)(6) (b)(7)(C) claiming (b)(6) (b)(7)(C) credits is essential to ensure accuracy and to identify or prevent duplicate and fraudulent refunds.

WHAT TIGTA FOUND

TIGTA found no major overall trends indicating significant volumes of questionable refunds being issued to individual income taxpayers (b)(6) (b)(7)(C). However, TIGTA found a disproportionate number of returns filed (b)(6) (b)(7)(C) making certain claims. The IRS had identified a refund scheme involving returns filed by taxpayers (b)(6) (b)(7)(C) making these claims. However, manual controls to freeze subsequent refunds of taxpayers involved in this scheme were ineffective. TIGTA notified the IRS of this finding and it took immediate actions to address the issue. TIGTA provided the IRS with databases of potentially questionable refund returns filed by individuals (b)(6) (b)(7)(C) making certain claims.

TIGTA also found control weaknesses regarding (b)(6) (b)(7)(C). In addition, fraud awareness training was not provided to campus employees as part

of their annual (b)(6) (b)(7)(C) return processing training.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Large Business and International Division, further refine the databases of returns with potentially questionable refunds issued to (b)(6) (b)(7)(C) by applying specific filters to ensure returns with the highest risk are identified and considered for further examination. TIGTA also recommended that the Commissioner, Wage and Investment Division, ensure employees receive fraud awareness training in their annual (b)(6) (b)(7)(C) tax return processing training.

In their response to the report, IRS officials agreed with the recommendations and plan 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/2011reports/201140126fr.pdf>.

Redaction Legend:

(b)(6) = Risk Circumvention of Agency Regulation or Statute