



## Treasury Inspector General for Tax Administration Office of Audit

### **MOST TAXPAYERS WHOSE IDENTITIES HAVE BEEN STOLEN TO COMMIT REFUND FRAUD DO NOT RECEIVE QUALITY CUSTOMER SERVICE**

Issued on May 3, 2012

## Highlights

Highlights of Report Number: 2012-40-050 to the Internal Revenue Service Deputy Commissioner for Operations Support.

### **IMPACT ON TAXPAYERS**

The Federal Trade Commission reported that identity theft was the number one complaint in Calendar Year 2011, and government documents/benefits fraud was the most common form of reported identity theft. As of December 31, 2011, the IRS's Incident Tracking Statistics Report showed that 641,052 taxpayers have been affected by identity theft in Calendar Year 2011. The IRS is not effectively providing assistance to victims of identity theft, and current processes are not adequate to communicate identity theft procedures to taxpayers, resulting in increased burden for victims of identity theft.

### **WHY TIGTA DID THE AUDIT**

This audit was initiated because the number of identity theft cases in the IRS has grown significantly over the last few years, overwhelming IRS resources and burdening taxpayers. Taxpayers testifying before Congress stated that they had to talk to multiple IRS employees and were provided conflicting instructions.

### **WHAT TIGTA FOUND**

Identity theft cases are not worked timely and can take more than a year to resolve. Communications between the IRS and victims are limited and confusing, and victims are asked multiple times to substantiate their identity.

When taxpayers call the IRS to advise it that their electronic tax return was rejected because it appears another individual has already filed a tax return using their identity, the IRS instructs them to mail in a paper tax return with the Form 14039, *Identity Theft Affidavit*, attaching supporting identity documents. However, the IRS has been processing these tax returns using standard processing procedures.

Identity theft guidelines and procedures are dispersed among 38 different Internal Revenue Manual sections.

These guidelines are inconsistent and conflicting, and not all functions have guidelines on handling identity theft issues.

The IRS uses little of the data from the identity theft cases to identify any trends, *etc.*, that could be used to detect or prevent future refund fraud.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS: 1) establish accountability for the Identity Theft Program; 2) implement a process to ensure that IRS notices and correspondence are not sent to the address listed on the identity thief's tax return; 3) conduct an analysis of the letters sent to taxpayers regarding identity theft; 4) ensure taxpayers are notified when the IRS has received their identifying documents; 5) create a specialized unit in the Accounts Management function to exclusively work identity theft cases; 6) ensure all quality review systems used by IRS functions and offices working identity theft cases are revised to select a representative sample of identity theft cases; 7) revise procedures for the Correspondence Imaging System screening process; and 8) ensure programming is adjusted so that identity theft issues can be tracked and analyzed for trends and patterns.

The IRS agreed with all our recommendations. It has established a governance structure to oversee the enterprise-wide identity theft initiatives and plans to expand its identity theft indicator codes identifying claims of identity theft. It plans to review its suite of identity theft letters and to update its guidance instructing employees to notify taxpayers acknowledging receipt of documentation. The IRS currently has specialized units in the Accounts Management function working only identity theft cases. Finally, the IRS plans to create a specific quality review for identity theft cases and is currently evaluating options for enhancing its ability to track and analyze the fraudulent identity theft information removed from a taxpayer account.

### **READ THE FULL REPORT**

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

<http://www.treas.gov/tigta/auditreports/2012reports/201240050fr.pdf>.

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