



## Treasury Inspector General for Tax Administration Office of Audit

### PROCESSES FOR THE DIRECT DEPOSIT OF TAX REFUNDS NEED IMPROVEMENT TO INCREASE ACCURACY AND MINIMIZE FRAUD

Issued on September 25, 2012

## Highlights

Highlights of Report Number: 2012-40-118 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

### IMPACT ON TAXPAYERS

More than 842,000 taxpayers chose to split their tax refunds between two to three different checking or savings accounts using Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*. However, more than 65,300 bank accounts improperly had multiple direct deposits, accounting for more than 949,000 refunds for approximately \$1.6 billion. Direct deposits should only be made to accounts in the taxpayer's name.

### WHY TIGTA DID THE AUDIT

The overall objective of this audit was to evaluate the IRS's controls over the direct deposit of refunds. This audit addresses the major management challenges of Providing Quality Taxpayer Service Operations and Fraudulent Claims and Improper Payments.

### WHAT TIGTA FOUND

While some actions have been taken, IRS processes over direct deposits are not sufficient, which increases fraud potential.

Additionally, the option to split a refund between multiple accounts increases the risk of fraud. TIGTA identified more than 4,400 bank accounts listed on tax return preparers' personal tax returns that had multiple direct deposits. More than 202,000 refunds for more than \$309 million were sent to these bank accounts. This raises a concern as to whether tax return preparers are diverting clients' refunds or portions of refunds to pay tax preparation fees or for other reasons. TIGTA also identified more than 200 bank accounts listed on IRS employees' tax returns that had four or more direct deposits. More than 10,600 refunds for more than \$14 million were sent to these bank accounts.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS identify tax return preparers and IRS employees who potentially divert direct deposits.

In their response to the report, IRS officials agreed with the recommendation 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/2012reports/201240118fr.pdf>.