



Treasury Inspector General for Tax Administration Office of Audit

SUBSTANTIAL CHANGES ARE NEEDED TO THE INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER PROGRAM TO DETECT FRAUDULENT APPLICATIONS

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Highlights

Highlights of Report Number: 2012-42-081 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

In Calendar Year 1996, the IRS created the Individual Taxpayer Identification Number (ITIN) so that individuals who are not eligible to obtain Social Security Numbers could obtain an identification number for tax purposes. However, IRS management has not established adequate internal controls to detect and prevent the assignment of an ITIN to individuals submitting questionable applications. The lack of adequate controls over the processing of ITIN applications can result in the improper assignment of ITINs to individuals who have not substantiated their identity or foreign status, which can result in fraudulent tax returns. Controls are important because of the volume of returns processed. In Processing Year 2011, the IRS processed more than 2.9 million ITIN tax returns resulting in tax refunds of \$6.8 billion.

WHY TIGTA DID THE AUDIT

This audit was initiated because TIGTA received IRS employee complaints referred from members of Congress alleging that IRS management responsible for overseeing the ITIN operation was encouraging employees to assign ITINs to applicants when the ITIN application was fraudulent. The objective of our review was to assess the efficiency and effectiveness of the IRS's process to identify questionable ITIN applications.

WHAT TIGTA FOUND

TIGTA substantiated many of the allegations set forth in the IRS employees' complaints. The complaints alleged that IRS management is not concerned with addressing questionable applications and is interested only in the volume of applications that can be processed, regardless of whether they are fraudulent.

The audit found that the ITIN application review and verification process is so deficient that there is no assurance that ITINs are not being assigned to

individuals submitting questionable applications. Because of lax documentation requirements to obtain an ITIN, tax fraud can go undetected. Management also eliminated successful processes used to identify questionable ITIN application fraud patterns and schemes.

The IRS also allows Certifying Acceptance Agents to review and verify the identity of individuals applying for an ITIN. This designation enabled some individuals to commit ITIN application fraud because these individuals do not have to send documentation supporting the application to the IRS.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS develop detailed procedures and deliver adequate training to identify questionable documents, expand the quality review process to include emphasis on whether employees are accurately identifying fraudulent documents, revise the criteria for identifying questionable applications, establish a process to evaluate questionable applications, and develop a business process to include analyzing the current system to identify trends and schemes. In addition, the IRS should require only original documents or documents certified by the issuing agency in support of an ITIN application, and discontinue the Certifying Acceptance Agent designation.

The IRS agreed with seven of nine recommendations and plans to take corrective actions that include implementing interim guidelines for supporting documents. IRS management indicated it will consider the other two recommendations during the IRS's review of the ITIN Program.

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/201242081fr.pdf>

E-mail Address: TIGTACommunications@tigta.treas.gov
Website: <http://www.tigta.gov>

Phone Number: 202-622-6500