



Treasury Inspector General for Tax Administration Office of Audit

FURTHER EFFORTS ARE NEEDED TO ENSURE THE INTERNAL REVENUE SERVICE PRISONER FILE IS ACCURATE AND COMPLETE

Issued on December 18, 2012

Highlights

Highlights of Report Number: 2013-40-011 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The number of fraudulent tax returns filed by prisoners and identified by the IRS has increased from more than 18,000 tax returns in Calendar Year 2004 to more than 91,000 tax returns in Calendar Year 2010. The refunds claimed on these returns increased from \$68 million to \$757 million. The accuracy and reliability of the Prisoner File affects the IRS's ability to stop fraudulent refunds.

WHY TIGTA DID THE AUDIT

Refund fraud committed by prisoners remains a significant problem for tax administration. The overall objective of the audit was to assess the reliability of the IRS Prisoner File.

WHAT TIGTA FOUND

Despite increased efforts by the IRS to improve the accuracy of the Prisoner File, some prisoner information contained in the file is inaccurate, the file contains incomplete records, and not all facilities that house prisoners reported prisoners. As a result, controls used to ensure the IRS identifies fraudulent refunds on tax returns prepared by prisoners are not fully effective.

The majority of the inaccuracies identified are due to misinformation on individual prisoners. The IRS does not have the authority to disclose to the prisons information related to prisoner-filed fraudulent tax returns or prisoner identity issues. This limits the ability of prison officials to curtail prisoners' continued abuse of the tax system.

Of the 2.8 million records on the 2012 Prisoner File, 2.3 million (82 percent) matched the information on the Social Security Administration's records. About 260,000 (9 percent) records had information missing, and 240,000 (9 percent) records did not match Social Security Administration records.

Most of these issues are beyond the control of the IRS. Nonetheless, the IRS can take steps to improve its validation and verification processes.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure the validation and verification of future IRS Prisoner Files. Additionally, legislation is needed that would permanently authorize the IRS to share data with the prisons.

IRS management plans to continue to assess the effectiveness of the validation activities performed on the Prisoner File. IRS management also stated that new programming and procedures will be deployed for Calendar Year 2013, which will include certain validation and verifications. However, TIGTA believes the new programming and procedures are unrelated to the Prisoner File validation process and will not ensure the reliability and accuracy of the Prisoner File.

The IRS also agreed that legislation is needed to permanently authorize the IRS to share data with the prisons.

READ THE FULL REPORT

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

<http://www.treasury.gov/tigta/auditreports/2013reports/201340011fr.pdf>