



Treasury Inspector General for Tax Administration Office of Audit

REVIEW AND VERIFICATION OF INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER APPLICATIONS HAS IMPROVED; HOWEVER, ADDITIONAL PROCESSES AND PROCEDURES ARE STILL NEEDED

Issued on May 2, 2013

Highlights

Highlights of Report Number: 2013-40-052 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. A prior TIGTA audit found that IRS management had not established adequate controls to detect and prevent the assignment of an ITIN to individuals submitting questionable applications. The assignment of an ITIN based on questionable documentation enables individuals to then use the ITIN to file tax returns to commit tax refund fraud. In Calendar Year 2012, the IRS assigned approximately 1.3 million ITINs.

WHY TIGTA DID THE AUDIT

This audit was initiated in response to a complaint TIGTA received that IRS management was not supporting the implementation of revised processes and procedures designed to improve on the identification of questionable ITIN applications. A prior TIGTA audit found that the ITIN application review and verification process was so deficient that there was no assurance that ITINs were not being assigned to individuals submitting questionable applications. The overall objective of this review was to assess the IRS's progress in identifying questionable ITIN applications, including assessing the IRS's implementation of corrective actions agreed to in response to TIGTA's previously issued ITIN report.

WHAT TIGTA FOUND

The IRS initiated corrective actions to address the majority of recommendations included in our prior audit report. These actions are significantly improving the identification of questionable ITIN applications. After the new procedures were put into place, the number of applications rejected as questionable increased from

226,011 for the period July through December 2011 to 340,659 for the same period in 2012.

However, management still has not developed organizational processes and procedures to work potential fraud schemes. Moreover, actions have not been taken to analyze information from previously processed ITIN applications to identify indicators of potential questionable applications that could be used to proactively identify similar applications during processing.

In addition, tax examiners remain concerned that management will reverse the current focus of ensuring that only qualified individuals receive an ITIN to again emphasize quickly processing ITIN applications. Finally, although the quality review process was expanded, some changes could inadvertently discourage tax examiners from identifying questionable documents.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS develop programming to flag ITIN applications that contain characteristics of previously identified questionable ITIN applications when they are input into IRS computers. The IRS should also ensure that the quality review process continues to emphasize the importance of the identification of questionable documents and that weekly team meetings are held with tax examiners to discuss ITIN application processing trends, patterns, and concerns.

The IRS agreed with our recommendations and plans to evaluate implementing the programming changes as part of a risk assessment that will not only determine the scope and associated costs but will also consider other controls and actions that can be implemented if the requested programming changes are not funded. The IRS also plans to ensure that the weekly team meetings continue to be held.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2013reports/201340052fr.pdf>.

E-mail Address: TIGTACommunications@tigta.treas.gov

Phone Number: 202-622-6500

Website: <http://www.treasury.gov/tigta>