



Treasury Inspector General for Tax Administration Office of Audit

PRISONER TAX REFUND FRAUD: DELAYS CONTINUE IN COMPLETING AGREEMENTS TO SHARE INFORMATION WITH PRISONS AND REPORTS TO CONGRESS ARE NOT TIMELY OR COMPLETE

Issued on September 25, 2014

Highlights

Highlights of Report Number: 2014-40-091 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Refund fraud associated with prisoner Social Security Numbers remains a significant problem for tax administration. The number of fraudulent tax returns filed using a prisoner's Social Security Number that were identified by the IRS increased from more than 37,000 tax returns in Calendar Year 2007 to more than 137,000 tax returns in Calendar Year 2012. The refunds claimed on these tax returns increased from \$166 million to \$1 billion.

WHY TIGTA DID THE AUDIT

This audit was initiated because prior TIGTA reports identified concerns with the IRS's efforts to identify and prevent prisoner tax fraud. The overall objective was to evaluate the effectiveness of the IRS's corrective actions to identify and reduce prisoner fraud.

WHAT TIGTA FOUND

TIGTA found that the IRS has not yet shared fraudulent prisoner tax return information with Federal or State prison officials. TIGTA also found that the required annual prisoner fraud reports to Congress are not timely and that the reports do not address all aspects of prisoner fraud. TIGTA also followed up on a condition identified in a past review and found that IRS processes still do not ensure that all tax returns filed using a prisoner Social Security Number are assigned a prisoner indicator.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, ensure that Memoranda of Understanding are timely established with the Federal Bureau of Prisons and all State Departments of Corrections. The IRS should also ensure that the required annual report on prisoner fraud is issued to Congress timely.

In addition, the IRS should ensure that processes are developed to identify tax returns filed that have the same characteristics of confirmed fraudulent prisoner tax returns and determine whether these tax returns should be included in the annual report to Congress. IRS should also ensure that all tax returns that are filed using a prisoner Social Security Number are assigned a prisoner indicator. Lastly, the IRS should identify and address the cause of the cases TIGTA found that were not identified with a prisoner indicator.

The IRS agreed with four of the six recommendations. The IRS did not agree to develop a process to identify other tax returns that have the same characteristics as confirmed fraudulent prisoner returns. Without such processes, the IRS annual report will not include, as required, information related to the filing of all false and fraudulent tax returns by prisoners.

In addition, the IRS did not agree to correct a computer programming error that resulted in its not assigning a prisoner indicator to 3,139 tax returns TIGTA identified. Without the proper assignment of a prisoner indicator, the tax returns are not sent through those fraud detection filters specific to a prisoner-filed tax return.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2014reports/201440091fr.pdf>