TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Limited Progress Has Been Made to Eliminate the Unnecessary Use of Social Security Numbers in Taxpayer Correspondence

July 9, 2015

Reference Number: 2015-40-063

LIMITED PROGRESS HAS BEEN MADE TO ELIMINATE THE UNNECESSARY USE OF SOCIAL SECURITY NUMBERS IN TAXPAYER CORRESPONDENCE

Highlights

Final Report issued on July 9, 2015

Highlights of Reference Number: 2015-40-063 to the Internal Revenue Service Deputy Commissioner for Operations Support.

IMPACT ON TAXPAYERS

The Federal Trade Commission lists the theft of mail as one method used by identity thieves to obtain personal and financial information so that they can commit fraud and other crimes. The safeguarding of Personally Identifiable Information such as a Social Security Number (SSN) is extremely important for the IRS because it generates notices and letters to taxpayers that contain this type of information and requests that taxpayers provide this information when submitting tax forms.

WHY TIGTA DID THE AUDIT

In Fiscal Year 2014, the IRS mailed more than 141 million notices and 37 million letters to taxpayers for various reasons to help them understand and meet their tax obligations. In a prior review, TIGTA reported that the IRS had not made significant progress in redacting or masking taxpayers' SSNs from systems, notices, and forms. This audit was initiated to assess the IRS's progress in eliminating taxpayer SSNs from correspondence.

WHAT TIGTA FOUND

Limited progress has been made to reduce the unnecessary use of SSNs on forms, letters, and notices. As of January 2015, the IRS estimates that it has removed SSNs from 58 (2 percent) of the 2,749 letters and 93 (48 percent) of the 195 notices it issues.

An Office of Management and Budget mandate required the IRS to eliminate the unnecessary use of SSNs by March 2009. However, the IRS suspended work on the forms, letters, and

systems components of its SSN Elimination and Reduction Program in September 2011, so that it could focus on other components of the program with its limited funding. Funding needed to upgrade computer systems to process barcoded notices will not be available in Fiscal Year 2016 because other projects are deemed more critical.

TIGTA also identified that processes are needed to identify the universe of taxpayer correspondence with unnecessary SSNs and to ensure that SSNs are excluded when creating new correspondence. For example, our statistically valid review of 65 forms created since Calendar Year 2009 found that 14 (22 percent) require taxpayers to provide their SSNs.

Finally, processes are needed to monitor the use of barcode scanners which are used to track correspondence. TIGTA identified scanners that were not being used in one function while another function did not have enough scanners.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) update the SSN Elimination and Reduction Program strategy to include specific time frames and describe how implementation of the proposed digital communication project would affect the IRS's SSN elimination and reduction plans, 2) develop a Service-wide strategy to identify and compile a list of all correspondence issued to taxpayers, 3) develop processes to ensure that newly created correspondence is designed to omit the unnecessary use of an SSN, and 4) develop processes and procedures to monitor and track barcode scanners to ensure that their use is maximized.

The IRS agreed with three of the four recommendations. The IRS disagreed with the recommendation to compile a list of all correspondence issued to taxpayers and stated that implementing the recommendation is a more costly endeavor than it appears. TIGTA continues to believe that without identifying the universe of correspondence, the IRS cannot measure its progress in reducing the unnecessary use of SSNs.

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

July 9, 2015

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT

FROM: Michael E. McKenney
       Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Limited Progress Has Been Made to Eliminate the
       Unnecessary Use of Social Security Numbers in Taxpayer
       Correspondence (Audit # 201440012)

This report presents the results of our review to assess the Internal Revenue Service's (IRS) progress to eliminate taxpayer Social Security Numbers from correspondence. This audit is included in the Treasury Inspector General for Tax Administration's Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Security for Taxpayer Data and IRS Employees.

Management's complete response to the draft report is included in Appendix IV. The IRS disagreed with the estimated number of forms with Social Security Numbers presented in Figure 4 of the report. The estimated number of forms in Figure 4 was provided to us by the IRS during the audit, and is documented in a November 2014 briefing entitled, "The Elimination and Reduction Program Strategic Approach." This briefing was given by the IRS Privacy, Governmental Liaison, and Disclosure organization to the IRS Identity Theft Executive Steering Committee. At the conclusion of our audit, the IRS provided a lower estimate of its forms. However, the support for this lower estimate has not been verified by the IRS.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).

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Abbreviations

FY	Fiscal Year
IPP	Information Protection Projects
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PII	Personally Identifiable Information
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration

Background

In February 2015, the Federal Trade Commission reported that identity theft topped its national ranking of consumer complaints for the 15th consecutive year. The Federal Trade Commission lists the theft of mail as a method used by identity thieves to obtain personal and financial information. Identity theft occurs when someone uses Personally Identifiable Information (PII),[1] such as an individual's name or Social Security Number (SSN) to commit fraud and other crimes. A person's SSN is the most valuable piece of personal data an identity thief can obtain to commit financial fraud, and the SSN becomes even more valuable if it is linked to other personal data such as information required to prepare a tax return. Tax-related identity theft occurs when an identity thief uses another individual's SSN and name to commit tax refund fraud or gain employment.

The safeguarding of PII is extremely important for the Internal Revenue Service (IRS) because it generates a substantial number of notices and letters to taxpayers that contain PII. In Fiscal Year[2] 2014, the IRS mailed more than 141 million notices and 37 million letters to taxpayers. In addition to mailing correspondence, the IRS requests taxpayers to provide PII when submitting tax forms. Figure 1 provides the letter and notice types that were most frequently issued to taxpayers during FY 2014.

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[1] PII is any combination of information that can be used to uniquely identify, contact, or locate a person and could subsequently be used to commit identity theft.
[2] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

Figure 1: Letter and Notice Types Issued Most Frequently - FY 2014

Letter Type	Volume	Notice Type	Volume
Letter 2645C, Interim Letter[3]	3,923,363	CP 521, Installment Agreement Reminder Notice	28,228,204
Letter 2644C, Second Interim Response	2,182,367	CP 14, Balance Due $5 or More, No Math Error	7,193,386
Letter 2273C, Installment Agreement Accepted; Terms Explained	1,599,900	CP 49, Overpayment Adjustment – Offset	8,147,370
Letter 4314C, Automated Underreporter Interim Letter	1,467,579	CP 504, Final Balance Due Notice	5,826,483
Letter 5071C, Potential Identity Theft During Original Processing With Online Option	1,257,443	CP 503, IMF[4] 2nd Balance Due Notice	4,828,109

Source: Media and Publications Division. CP = Computer paragraph. IMF = Individual Master File.

The law requires Federal agencies to safeguard PII

The Privacy Act of 1974[5] and the E-Government Act of 2002[6] require Federal agencies to protect PII. In addition, the Federal Information Security Management Act of 2002[7] requires agencies to develop, document, and implement programs to provide security for their information and systems that store the information. Congress reiterated the IRS's responsibility in the Consolidated and Further Continuing Appropriations Act of 2015,[8] which states that the IRS shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information and protect taxpayers against identity theft.

The Office of Management and Budget (OMB) has also issued several memoranda to Federal agencies about safeguarding PII. For example, on May 22, 2007, the OMB issued Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*, to the heads of executive agencies requiring that:

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[3] Letter sent to notify a taxpayer that a final response from the IRS is pending.

[4] The IRS database that maintains transactions or records of individual tax accounts.

[5] 5 U.S.C. § 552a (2006).

[6] Pub. L. 107-347, 116 Stat. 2899.

[7] Pub. L. No. 107-347, Title III, 116 Stat. 2899, 2946-2961 (2002) (codified as amended in 44 U.S.C. §§ 3541-3549).

[8] Pub. L. 113-235, 128 Stat. 2130 (2014).

> *Within 120 days from the date of this memo, agencies must establish a plan in which the agency will eliminate the unnecessary collection and use of Social Security Numbers within eighteen months.*

To comply with the OMB mandate, the IRS's actions should have been completed by March 2009.[9] The memorandum cites the work of the Identity Theft Task Force[10] and requires agencies to review and reduce the volume of PII to the minimum necessary and, in particular, reduce the use of SSNs. It also listed security regulations that agencies should have already implemented to safeguard PII and provided guidance on security, privacy, and reporting requirements.

Actions taken to eliminate unnecessary collection and use of SSNs

The IRS's Privacy, Governmental Liaison, and Disclosure organization is responsible for leading the efforts to reduce the unnecessary use of SSNs. Its Information Protection Projects (IPP) office manages the SSN Elimination and Reduction Program (hereafter referred to as Elimination and Reduction Program) including the 2-Dimensional Barcode Project (hereafter referred to as Barcode Project). The Elimination and Reduction Program was initiated to identify opportunities to eliminate or reduce SSNs in correspondence and systems, reduce IRS reliance on the SSN, and replace SSNs as identifiers. The Barcode Project was initiated to eliminate the unnecessary display of SSNs on taxpayer notices by using a barcode and masking the first five digits of the SSN. Figure 2 presents IRS actions taken in response to the May 22, 2007, OMB mandate.

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[9] March 2009 is from the enactment date of May 22, 2007, plus 120 days from the date of the OMB memorandum, plus the 18 months to be in compliance with the mandate.
[10] Executive Order 13402 charged the Identity Theft Task Force with developing a comprehensive strategic plan for steps the Federal Government can take to combat identity theft and recommending actions which can be taken by the public and private sectors.

Figure 2: IRS Actions Taken in Response to OMB Memorandum M-07-16

Date	Actions
August 2007	The IRS submits its plan to the Department of the Treasury to develop and implement a Breach and Notification Policy for reporting on the security of information systems. The policy covers privacy and security, incident reporting, external breach notification, and authorized access to PII.
November 2007	The IRS works on developing its *Internal Revenue Service SSN Elimination and Reduction Implementation Plan* to reduce the use of SSNs.
FY 2008	The IRS eliminates SSNs from one notice and 49 letters. The IRS issued about 125.3 million of these notices and letters in FY 2008.
February 2009	The IRS submits its *SSN Elimination and Reduction Plan* to the Department of the Treasury and establishes the Elimination and Reduction Program.
Calendar Year 2009 – July 2010	The IRS updates its SSN Elimination and Reduction Plan several more times to provide accomplishments, constraints, funding issues, new milestones, and projected goals for the Elimination and Reduction Program.
August 2010	The IPP office initiates the Barcode Project.
July 2011	The IRS barcodes and masks SSNs on 17 non-payment Individual Master File notices. The IRS issued about five million of these notices in FY 2014.
September 2011	The IRS eliminates or masks SSNs on 116 forms. The IRS suspends the forms, letters, and systems components of its Elimination and Reduction Program to focus on barcoding and masking notices.
Calendar Years 2012 and 2013	The IRS barcodes and masks the SSNs on 51 additional non-payment notices. The IRS issued about 6.4 million of these notices in FY 2014.
July 2013	The IRS resumes the Elimination and Reduction Program.
January 2014	The IRS barcodes and masks the SSNs on two payment and two non-payment notices. The IRS issued about 4.5 million of these notices in FY 2014.
September 2014	The IRS updates the Elimination and Reduction Program plan milestones.
November 2014	The IPP office presents the Elimination and Reduction Program plan to the Wage and Investment Division's Identity Theft Executive Steering Committee and requests business unit points of contact to explore ways to reduce the unnecessary use of SSNs.
January 2015	The IRS barcodes and masks the SSNs on 21 more notices and 17 letters. The IRS issued about 35.6 million of these notices and letters in FY 2014.

Source: Treasury Inspector General for Tax Administration auditor's analysis of IRS actions taken or planned.

A prior audit found that the IRS had not established target dates for the elimination of the unnecessary use of SSNs

In August 2010, we reported[11] that the IRS did not plan on eliminating or reducing the use of the SSN in the immediate future. Since the IRS submitted its first release of the SSN Elimination and Reduction Plan to the Department of the Treasury in the first quarter of FY 2008, it had not made significant progress in redacting or masking taxpayers' SSNs from systems, notices, and forms. The IRS also needed to improve internal controls to ensure that all planned actions were appropriately and timely accomplished and to ensure that target dates and milestones were established and updated when necessary. Figure 3 contains our recommendations and the IRS's corrective actions taken in response to our prior audit.

Figure 3: Corrective Actions Taken in Response to Prior Audit Report

Recommendation	Corrective Action
Maintain documentation to support major deliverables and key meetings so that it is readily available for examination.	The IRS dedicated a shared electronic folder to maintain documentation related to major Elimination and Reduction Program deliverables and key meetings.
Validate data received from the business units and all accomplishments to ensure that all needed actions are complete.	The IRS implemented a data validation process for all SSN Elimination and Reduction Plan accomplishments to ensure that all required actions are completed.
Refine and update the milestones for the SSN Elimination and Reduction Plan to ensure timely progress of the strategy.	The IRS refined and updated milestones to ensure timely progress of program strategies.

Source: Treasury Inspector General for Tax Administration (TIGTA) auditors' analysis of IRS corrective actions.

This review was performed at the IPP office in Philadelphia, Pennsylvania, during the period August 2014 through March 2015. We also obtained information from the Office of Taxpayer Correspondence.[12] We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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[11] Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2010-40-098, *Target Dates Have Not Been Established to Eliminate or Reduce Taxpayer Social Security Numbers From Outgoing Correspondence*.

[12] The Office of Taxpayer Correspondence is the IRS's hub for comprehensive correspondence services—from design and development to measuring the effectiveness and downstream effect of the correspondence.

Results of Review

The Majority of Taxpayer Correspondence Still Contains Social Security Numbers

The IRS advises individual taxpayers to secure personal information and provide their SSNs only when absolutely necessary. However, as of January 2015, the IRS has made limited progress eliminating taxpayers' SSNs on forms, letters, and notices in response to the May 2007 OMB mandate requiring agencies to eliminate the unnecessary use of SSNs by March 2009. The IRS's limited progress results from suspending the forms, letters, and systems components of its Elimination and Reduction Program in September 2011. Since resuming the program in July 2013, progress continues to be limited. Figure 4 provides what the IRS estimates is the number of notices, letters, and forms compared to the number in which the SSN has been masked or fully eliminated. The numbers are estimated as the IRS has yet to establish a process to identify the universe of correspondence with an unnecessary use of an SSN.

Figure 4: Correspondence Types and Number With the SSN Masked or Eliminated as of January 2015

Type of Correspondence	Estimated Number	Number With SSN Masked or Eliminated	Percentage With SSN Masked or Eliminated
Forms	891[13]	116	13%
Letters	2,749	58	2%
Notices	195	93	48%

Source: Data for estimated numbers provided by the IPP office and the Office of Taxpayer Correspondence.

Key components of the Elimination and Reduction Program were suspended for 22 months

The IRS suspended its efforts to eliminate the unnecessary use of SSNs from forms, letters, and systems in September 2011 and did not resume these efforts until July 2013. The IRS stated that

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[13] The Elimination and Reduction Program Strategic Approach briefing to the Identity Theft Executive Steering Committee, November 19, 2014.

the efforts were suspended due to a lack of funding, and a shift in focus to the Barcode Project and eliminating the use of employees' SSNs from internal systems.

The Elimination and Reduction Program Plan was developed and implemented in response to OMB M-07-16. The Plan outlines the IRS's implementation methodology, transition to new business practices, and the future state of the Elimination and Reduction Program. The IRS submitted the first release of its Elimination and Reduction Plan to the Department of the Treasury in August 2007. Subsequent to the initial development of the Plan, the IRS provided three additional releases of its plan to reduce or eliminate the use of SSNs to the Department of the Treasury for incorporation into the Department's overall plan. The final release was submitted in February 2009. The Plan identifies opportunities to eliminate or reduce SSN use, to reduce IRS reliance on the SSN, and to replace SSNs as identifiers. The transition to new business practices included introducing new policies and procedures Service-wide to institutionalize the need to continuously reconsider SSN use.

Funding affects Barcode Project expansion

Since the Barcode Project was initiated in August 2010, the project team has focused on barcoding high-volume notices relating to IRS systems that have the capability to process barcoded notices. For example, the IRS issued about 141.3 million notices in FY 2014. The 93 notices barcoded and masked, as of January 2015, account for 51.5 million (36 percent)[14] of the total notices issued. However, expansion of the project to additional notices will be limited as some of the systems that process the notices will not be upgraded or replaced to provide this capability. IRS officials informed us in January 2015 that the Barcode Project will not receive all requested funding needed for the system upgrades in FY 2016 because other projects were deemed more critical.

IRS officials stated they are electing not to dedicate resources to upgrade some of the older systems to process barcoded notices because their goal is to develop online systems that communicate digitally with taxpayers. For example, the IRS's future digital communication system would send an e-mail to a taxpayer indicating that a message from the IRS is waiting. This e-mail would not contain the taxpayer's SSN. Once the message is received, the taxpayer would log on to a secure server to read the e-mail. The IRS plans limited testing of this process in FY 2016. However, management could not provide us with a time frame when digital communications would be fully deployed.

Recommendation

Recommendation 1: The Deputy Commissioner for Operations Support should update the Elimination and Reduction Program strategy to include specific time frames and describe how

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[14] This percentage is an estimate because the IRS has not identified the universe of notices with an SSN.

implementation of the proposed digital communication project would affect the IRS's SSN elimination and reduction plans.

> ***Management's Response:*** The IRS agreed with this recommendation. As the IRS expands the use of secure accounts and digital communications with taxpayers, the IRS plans to reduce the need for paper correspondence. IRS plans to revise the SSN Elimination and Reduction Strategic Plan to include time frames currently planned for the roll-out of Taxpayer Digital Communication initiatives. The IRS noted, however, that this is a long-term project, and like many initiatives for the IRS, progress will be somewhat dependent on funding.

The Universe of Taxpayer Correspondence With Unnecessary Use of Social Security Numbers Has Not Been Identified

In September 2014, we reported on the IRS's inability to identify the universe of correspondence issued to taxpayers.[15] The IRS had not developed processes and procedures to compile an accurate and complete inventory of all letters and notices used to correspond with taxpayers by the IRS's various business functions. As a result, the IRS Office of Taxpayer Correspondence was unable to ensure that correspondence complies with the Plain Writing Act of 2010.[16] We recommended that the Deputy Commissioner for Services and Enforcement develop a process to identify the universe of letters and notices used by the business functions. The IRS disagreed, citing that implementing the recommendation would use the limited resources and staffing of the Office of Taxpayer Correspondence for a result that would provide limited value and is not required under the Plain Writing Act.

Because of this same control weakness, the IRS is still unable to accurately measure its progress in masking or eliminating SSNs. The Elimination and Reduction Program attempted to identify the universe of some correspondence types. For example, when the program started in February 2009, the team began identifying the computer systems that create internal forms for employees and taxpayer notices with SSNs, as well as the number of form and notice types. However, at this same time, the IRS was planning the implementation of the barcoding software for composing notices. As a result, the process to identify the universe of correspondence with an SSN was not completed.

When the IRS restarted the Elimination and Reduction Program in July 2013, the project plan included steps for identifying the universe of forms, notices, and letters with an SSN. However, these steps were also delayed. On February 3, 2015, the IRS's Elimination and Reduction Program team met with 23 business unit points of contact to discuss identifying forms that have

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[15] TIGTA, Ref. No. 2014-40-076, *Processes Are Needed to Ensure That Letters and Notices Are Written in Compliance With the Plain Writing Act* (Sept. 2014).
[16] Pub. L. No. 111–274, 124 Stat. 2861.

an SSN and the ones in which the SSN can be eliminated. In addition, the team plans to meet with stakeholders in June 2015 to discuss alternative solutions for eliminating SSNs from letters.

In our prior review and in this current review, the Office of Taxpayer Correspondence initiated multiple attempts to compile a list of notices, letters, and forms in use. Although each functional area (*i.e.,* Office of Taxpayer Correspondence and the IPP office) has a different business need for compiling the list, the result has been the same – the IRS is unable to measure compliance with requirements. In addition, the multiple functions' attempts to identify the correspondence universe causes the IRS to waste more resources than if it initiated one Service-wide effort to compile a master list that can be used to support business decisions.

Recommendation

Recommendation 2: The Deputy Commissioner for Operations Support should develop a Service-wide strategy to identify and compile a list of the universe of correspondence issued to taxpayers.

> ***Management's Response:*** The IRS disagreed with this recommendation. The IRS stated that it has already identified the most widely used letters, notices, and forms for the most common programs in the IRS. The IRS also stated that in an organization as diverse as the IRS, measuring the universe of correspondence, notices, and forms, is a more daunting and costly endeavor than it appears. Given the limited resources in these tough budget times, the IRS believes that addressing those known to have the highest volume is a better use of taxpayer money. Thus, the IRS stated that it would rather focus its efforts on achieving desired outcomes than measuring the universe.

> ***Office of Audit Comment:*** We remain concerned that without identifying the universe of correspondence issued to taxpayers, the IRS cannot measure its progress in reducing the unnecessary use of SSNs. In addition, the IRS responded that establishing a Service-wide strategy to identify the correspondence universe would not be an effective use of its limited resources. However, the IRS's multiple attempts to identify the correspondence universe results in the inefficient use of its limited resources.

Processes Have Not Been Established to Ensure Social Security Numbers Are Not Used Unnecessarily When Creating New Correspondence

The IPP office has not established a process to ensure that all newly created correspondence does not use SSNs unnecessarily. For example, our review of a statistically valid sample of 65 forms from the 405 public use forms created since Calendar Year 2009 identified that 14 (22 percent)

include an SSN.[17] The IPP office did not review these forms to determine if the SSN was necessary. Designing new forms that request a full SSN is counterproductive to the goal of eliminating the unnecessary use of SSNs from correspondence.

As previously stated, the IRS has focused its efforts on barcoding and masking the SSNs on high-volume notices used for nonpayment of taxes that can be processed by the IRS's current systems. However, the IPP office has not focused on identifying the many other systems that process newly created correspondence. In addition, it has not implemented a process to verify that all newly created correspondence by IRS business functions excludes the SSN as an identifier when it is not necessary.

The Elimination and Reduction Program team stated that it plans to establish relationships with the business functions responsible for creating forms, notices, and letters. Once these relationships are established, the team plans to prepare guidance for the functions on how to design new correspondence that omits unnecessary SSNs. This guidance may also require the IPP office to review the new correspondence that uses the SSN to ensure that it is necessary.

Recommendation

Recommendation 3: The Deputy Commissioner for Operations Support should develop processes and procedures to ensure that newly created correspondence is designed to omit the unnecessary use of an SSN.

> **Management's Response:** The IRS agreed with this recommendation. The IRS plans to develop a process to ensure that all newly created correspondence is reviewed to determine if the use of an SSN is necessary. Per IRC 6109d: "The social security account number issued to an individual for purposes of section 205 (2)(A) of the Social Security Act shall, except as shall otherwise be specified under regulations of the Secretary, be used as the identifying number for such individual for purposes of this title." It is important to note that there are instances where use of the complete SSN is necessary.

Processes Are Needed to Monitor and Track the Use of Barcode Scanners

Our review identified that the IRS has not established an effective process to monitor and track the use of barcode scanners. For example, internal guidelines detailing procedures and responsibilities for monitoring scanner use and reassigning scanners have not been documented and provided to all campus functional areas. As a result, we identified scanners that were not

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[17] The point estimate error rate for the percent of forms created since 2009 that request an SSN is 22 percent (14/65). We are 95 percent confident that the true population (although its size is unknown) exception rate is between 11.5 percent and 31.6 percent.

being used while other functional areas did not have the scanners they needed. For example, we identified:

- Nine (31 percent) of 29 scanners assigned to the Atlanta Campus Compliance Services Collection Operations function were not being used. Management stated that decreased volume in correspondence, in this function, reduced the need for the scanners. However, the Remittance Strategy for Paper Check Conversion function in this same Campus did not have enough scanners to process payment correspondence. Management indicated the process was not clear on how to reassign scanners from one functional area to another. In addition, the point of contact for the barcode scanners in the Compliance Services Collection Operations function was unaware of the need to monitor scanner usage and reassign scanners as necessary to ensure optimal usage.

- 58 (56 percent) of the 103 scanners in the Philadelphia Campus Compliance Services Collection Operations, Automated Collection System Support, and Remittance Strategy for Paper Check Conversion functions were not being used. Managers in these functions stated that the unused scanners are retained in case they are needed in the future.

Barcode scanners are needed by employees who work in functional areas that receive correspondence from taxpayers that contain a barcode. The scanner deciphers the barcode on the correspondence to allow the employee to identify the specific taxpayer(s) who sent the correspondence. The scanner also improves the efficiency and accuracy of processing because it allows the automatic upload of data from the correspondence to IRS computer systems.

Scanners are assigned to the IRS's 10 processing campuses, Field Assistance function's Taxpayer Assistance Centers,[18] and other notice processing functions located throughout the nation. Figure 5 shows the number of scanners assigned to IRS functional areas.

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[18] IRS walk-in offices where taxpayers can obtain face-to-face assistance.

Figure 5: Scanners Assigned to IRS Functional Areas

Functional Area	Scanners
Field Assistance	528
Accounts Management	436
Compliance Services	406
Remittance Strategy – Payment Check Conversion	126
Submission Processing	112
Return Integrity and Compliance Services	31
Information Technology	25
Miscellaneous	20
Total	**1,684**

Source: Data provided by the IPP office.

When we brought this issue to IPP office management's attention, they indicated that it was not their responsibility to control reassignment of the scanners. However, as the Barcode Project receives funding in future years, the team plans to identify any idle scanners and will work with the functional areas to reassign as necessary.

Processing barcoded correspondence without a scanner requires tax examiners to perform time-consuming research, using the Integrated Data Retrieval System,[19] to identify the taxpayer's SSN and manually key the information from the correspondence into IRS systems. For example, the clerk may be able to read only the taxpayer's name and address on the barcoded correspondence. In this instance, without a scanner, the clerk would need to search IRS systems using only the taxpayer's name and try to match it with an address. The manual process is inefficient and, as such, it is imperative that the IRS maximize the use of all available scanners.

Recommendation

Recommendation 4: The Deputy Commissioner for Operations Support should develop processes and procedures to monitor and track barcode scanners to ensure that their use is

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[19] IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

maximized to reduce inefficiencies associated with manual processing of barcoded correspondence.

> ***Management's Response***: The IRS agreed with this recommendation. The IRS plans to use established asset management processes and procedures to ensure business units have the required scanners to eliminate the need for manual processing of barcoded notices. The IRS plans to clarify how the scanners should be allocated and ensure that there are processes in place to request this equipment. The IRS plans to factor in the need for functions to consider notice volume fluctuations and peak seasonal activity in the equipment request.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the IRS's progress to eliminate taxpayer SSNs from correspondence. In order to accomplish this objective, we conducted the following tests:

I.   Assessed the progress of eliminating taxpayer SSNs in forms, notices, and letters.

      A. Identified the number of forms, notices, and letters in which the SSN has been masked and the number in which the SSN has been fully eliminated as a result of the Elimination and Reduction Program or Barcode Project.

      B. Calculated the percentage of forms, notices, and letters in which the SSN is masked, and the percentage in which the SSN is fully eliminated.

      C. Determined if IRS corrective actions to address our recommendations in the prior audit[1] have been implemented.

      D. Interviewed IPP office management and project leads responsible for implementing the Elimination and Reduction Program and Barcode Project to determine if funding and technical support have been obtained to advance the program/project.

II.   Assessed the IRS's current Elimination and Reduction Program plan to determine if it adequately outlines processes to eliminate SSNs on all forms and letters.

      A. Analyzed the Elimination and Reduction Program plan goals, objectives, action items, performance measures, and schedule to determine if the plan is sufficiently defined to eliminate the use of SSNs on forms and letters.

      B. Determined whether Elimination and Reduction Program officials have developed a strategy to coordinate with all IRS business units to identify unnecessary use of SSNs on forms and letters. We also selected a statistically valid sample of 65 forms from the 405 public use forms created since Calendar Year 2009 using a confidence level of 95 percent, a ± 5 percent precision rate, and a 5 percent error rate. This sampling method was used because we wanted to project our results to the population of 405 forms.

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[1] TIGTA, Ref. No. 2010-40-098, *Target Dates Have Not Been Established to Eliminate or Reduce Taxpayer Social Security Numbers From Outgoing Correspondence* (Aug. 2010).

III.   Assessed the Barcode Project plan and processes for eliminating SSNs from all notices.

    A. Analyzed the Barcode Project plan and schedule to determine if they are sufficient to ensure that all IRS notices are redesigned for compatibility with the xPression tool and the Barcode solution.

    B. Interviewed the Barcode Project lead to determine whether project officials have developed a strategy to coordinate with all IRS business units to identify the unnecessary use of SSNs on notices.

    C. Assessed the process for tracking the number of scanners deployed and the business units and functions that have the scanners.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's policies, procedures, inventories, and practices used to identify, track, and plan for the elimination and/or reduction of the unnecessary use of SSNs and to track and monitor the use of barcode scanners. We evaluated these controls by interviewing management and employees, examining applicable guidance documents, and reviewing correspondence inventories and related information.

Major Contributors to This Report

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Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division SE:W:CAR
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Senior Operations Advisor, Wage and Investment Division SE:W:S
Chief, Performance Evaluation and Improvement, Wage and Investment Division SE:W:S:PEI
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM
Director, Privacy, Governmental Liaison and Disclosure OS:P
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Audit Coordination OS:PPAC:AC
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

PRIVACY, GOVERNMENTAL
LIAISON AND DISCLOSURE

July 2, 2015

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

From: Mary J. Howard, *Celia Richardson for*
                Director, Privacy, Governmental Liaison, and Disclosure

Subject: Draft Audit Report – Limited Progress Has Been Made to
                Eliminate the Unnecessary Use of Social Security Numbers in
                Taxpayer Correspondence (Audit # 201440012)

Thank you for the opportunity to respond to the above referenced draft audit report. We agree that safeguarding Personally Identifiable Information (PII) is extremely important. Protecting sensitive information of taxpayers and employees is a top priority of IRS and core to maintaining the public's trust.

We have taken significant actions to strengthen the Social Security Number Elimination and Reduction (SSN ER) Program and correct those deficiencies noted during the early implementation period. In addition to other actions taken to comply with the Office of Management and Budget (OMB) mandate to eliminate unnecessary use of SSNs, we implemented the Barcode Project to mask SSNs on certain notices to taxpayers. Utilizing 2-dimensional barcoding technology, the IRS further protected taxpayer PII while also gaining processing efficiencies by allowing specific entity information to be picked up electronically by barcode scanners. We deployed more than 1,800 hand-held scanners to operational areas across the IRS, enabling us to mask the SSNs on over 17 million outgoing non-payment notices per year. We also added the barcode to over 37 million payment notices, providing the Service with processing efficiencies gained through the use of the barcode.

Business unit representatives across IRS collaborated to perform a comprehensive analysis to identify correspondence where SSNs could be reduced or eliminated. We implemented Notice Review procedures that included questions for the notice business unit owner to consider before including the SSN.

We agree with three of the four attached audit recommendations in this report. It is not feasible and would be very expensive for IRS to identify and compile a listing of the universe of correspondence issued to taxpayers. The IRS already identified the most widely used letters, notices, and forms for the most common programs in the IRS. Given our limited resources in these tough budget times, we believe addressing

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correspondence known to have the highest volume is a better use of taxpayer money and achieves our shared goal of protecting PII.

We disagree with the data presented on the "Forms" line in Figure 4 (Correspondence Types and Number with the SSN Masked or Eliminated as of January 2015) on Page 6 of the report. Specifically, the estimated volume of IRS forms is inaccurate; the IRS estimates there were 618 forms as of January 2015, not the 891 shown in the report. We provided TIGTA with the 891 estimate in error and offered a correction in March by providing TIGTA with copies substantiating the 618 estimate. The correct number of forms, 618, changes the "Percentage with SSN Truncated or Eliminated" from 13% to 19%. We apologize for the confusion our original submission caused but are compelled to note the discrepancy, as using the erroneous higher form volume significantly understates the percentage of protected forms.

We will continue our efforts to protect taxpayer identifying information by eliminating the unnecessary collection of SSNs.

If you have any questions, please contact me at (202) 317-6449, or a member of your staff may contact Celia Richardson, Director, Identity and Records Protection at (202) 317-6451.

Attachments (4)

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Attachment

Recommendation 1

The Deputy Commissioner for Operations Support should update the Elimination and Reduction Program strategy to include the specific time frames and describe how implementation of the proposed digital communication project would affect the IRS' SSN elimination and reduction plans.

Corrective Action

The IRS agrees with this recommendation. As IRS expands the use of secure accounts and digital communications with taxpayers, we will reduce the need for paper correspondence. IRS will revise the SSN Elimination and Reduction (SSN ER) Strategic Plan to include timeframes currently planned for the roll-out of Taxpayer Digital Communication (TDC) initiatives. It should be noted, however, that this is a long-term project, and like many initiatives for IRS, progress will be somewhat dependent on funding.

Implementation Date

June 15, 2016

Responsible Official

Director, Privacy, Governmental Liaison and Disclosure
(Director, Identity and Records Protection)

Corrective Action Monitoring Plan

Establish a timeline of necessary actions that incorporate expected outcomes and dates to successfully accomplish stated tasks.

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Recommendation 2
The Deputy Commissioner for Operations Support should develop a service-wide strategy to identify and compile a listing of the universe of correspondence issued to taxpayers.

Corrective Action
The IRS does not agree with this recommendation. The IRS has already identified the most widely used letters, notices, and forms for the most common programs in the IRS. In an organization as diverse as the IRS, measuring the universe of correspondence, notices, and forms, is a more daunting and costly endeavor than it appears. Given our limited resources in these tough budget times, we believe that addressing those known to have the highest volume is a better use of taxpayer money. We would rather focus our efforts on achieving desired outcomes than measuring the universe.

Implementation Date
N/A

Responsible Official
N/A

Corrective Action Monitoring Plan
N/A

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Recommendation 3
The Deputy Commissioner for Operations Support should develop processes and procedures to ensure newly created correspondence is designed to omit the unnecessary use of an SSN.

Corrective Action
The IRS agrees with this recommendation. IRS will develop a process to ensure that all newly created correspondence is reviewed to determine if the use of an SSN is necessary. Per IRC 6109d: "The social security account number issued to an individual for purposes of section 205 (2)(A) of the Social Security Act shall, except as shall otherwise be specified under regulations of the Secretary, be used as the identifying number for such individual for purposes of this title." It is important to note that there are instances where use of the complete SSN is necessary.

Implementation Date
May 15, 2016

Responsible Official
Director, Privacy, Governmental Liaison and Disclosure
(Director, Identity and Records Protection)

Corrective Action Monitoring Plan
Establish a timeline of necessary actions that incorporates expected outcomes and dates to successfully accomplish stated tasks.

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Recommendation 4

The Deputy Commissioner for Operations Support should develop processes and procedures to monitor and track scanners to ensure their use is maximized reducing inefficiencies associated with manual processing of barcoded correspondence.

Corrective Action

The IRS agrees with this recommendation. The IRS will use established asset management processes and procedures to ensure business units have the required scanners to eliminate the need for manual processing of barcoded notices. We will clarify how the scanners should be allocated and ensure there are processes in place to request this equipment. We will factor in the need for functions to consider notice volume fluctuations and peak seasonal activity in the equipment request.

Implementation Date

April 15, 2016

Responsible Official

Director, Privacy, Governmental Liaison and Disclosure
(Director, Identity and Records Protection)

Corrective Action Monitoring Plan

Establish a timeline of necessary actions that incorporates expected outcomes and dates to successfully accomplish stated tasks.