



*Some Tax Returns Selected for Fraud  
Screening Did Not Have Refunds  
Held and Required Notifications  
Were Not Always Sent to Taxpayers*

**March 27, 2018**

**Reference Number: 2018-40-024**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



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## HIGHLIGHTS

### **SOME TAX RETURNS SELECTED FOR FRAUD SCREENING DID NOT HAVE REFUNDS HELD AND REQUIRED NOTIFICATIONS WERE NOT ALWAYS SENT TO TAXPAYERS**

## Highlights

**Final Report issued on March 27, 2018**

Highlights of Reference Number: 2018-40-024 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### **IMPACT ON TAXPAYERS**

The IRS's Integrity and Verification Operation (IVO) function screens and verifies potentially fraudulent tax returns to prevent the issuance of improper refunds. IVO tax examiners review the income and withholding amounts on the returns for inconsistencies and, in some cases, contact employers to confirm the income and withholding amounts. Taxpayers' refunds are delayed while the IVO function completes this work.

### **WHY TIGTA DID THE AUDIT**

This audit was initiated to evaluate the IVO function's controls to ensure that tax returns are properly screened and verified. This included determining whether taxpayers were notified prior to the IRS contacting third parties to verify amounts on the tax returns.

### **WHAT TIGTA FOUND**

TIGTA's review identified that refund holds were not always placed on tax accounts, resulting in the erroneous release of refunds associated with potentially fraudulent tax returns. Specifically, our review of 236,097 tax returns screened by the IVO function between January 1 and April 21, 2016, identified 1,333 potentially fraudulent tax returns with refunds totaling \$7.3 million that were erroneously released as the result of programming errors.

In addition, TIGTA's review identified that the IRS did not issue notifications to 15,877 (18 percent) of the 90,660 taxpayers whose income documents were sent to a tax

examiner for verification during the same period. Internal Revenue Code Section 7602(c) requires the IRS to notify a taxpayer *in advance* before contacting a third party, such as an employer or bank, to help resolve questionable items on the taxpayer's return. This notification is required because taxpayers have a legal right to know before the IRS contacts third parties to verify information on the return.

IRS management noted that for the 15,877 taxpayers who did not receive the required notice, only 4,918 involved the IRS actually contacting a third party to verify the income and withholding. For the remaining 10,959 taxpayers, management stated that the IRS used internal data to verify the income and withholding amounts on the return.

Internal guidance for the verification process states that the IRS is required to notify a taxpayer *in advance* that a third party *may be* contacted to help resolve their account. As the IRS was unaware whether third-party contact was needed at the time the income documents were sent for verification, it should have issued the notice to all 15,877 taxpayers regardless of whether the third party was contacted.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS develop processes to: 1) hold refunds associated with identified first-time filers of potentially fraudulent tax returns and 2) ensure that the refund hold marker is placed on tax accounts to prevent refunds from being erroneously issued while under review.

The IRS agreed with both recommendations and stated that it had implemented programming changes that address the issues identified by TIGTA.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

March 27, 2018

**MEMORANDUM FOR** COMMISSIONER, WAGE AND INVESTMENT DIVISION

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Some Tax Returns Selected for Fraud Screening  
Did Not Have Refunds Held and Required Notifications Were Not  
Always Sent to Taxpayers (Audit # 201640036)

This report presents the results of our review to evaluate the Integrity and Verification Operation function's controls to ensure that tax returns are properly screened and verified. This audit was included in our Fiscal Year 2017 Annual Audit Plan and addresses the major management challenge of Reducing Fraudulent Claims and Improper Payments.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the Internal Revenue Service 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*

DDb	Dependent Database
EFDS	Electronic Fraud Detection System
IRS	Internal Revenue Service
IVO	Integrity and Verification Operation
PY	Processing Year
RRP	Return Review Program



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## *Background*

The Return Review Program (RRP) is the Internal Revenue Service's (IRS) primary individual tax refund fraud selection system. The RRP uses predictive analytics, models, filters, clustering, a scoring system, business rules, and selection groups to identify suspected identity theft, individual tax refund fraud, and frivolous filer tax returns. The RRP has real-time filtering capabilities and is designed to improve the IRS's ability to detect, resolve, and prevent fraud. In addition to the RRP, the IRS uses the Dependent Database (DDb). The DDb is a rules-based system<sup>1</sup> that incorporates information from many sources such as the Department of Health and Human Services, the Social Security Administration, and the IRS. The IRS initially implemented the DDb in March 2000 to identify taxpayer noncompliance, but in Processing Year<sup>2</sup> (PY) 2012, the IRS added identity theft filters within the DDb system to identify potentially fraudulent tax returns involving identity theft. Finally, the IRS uses the Electronic Fraud Detection System (EFDS) as its case management system to control potentially fraudulent tax returns selected for review.

### **Identification and verification of potentially fraudulent tax returns**

During tax return processing, the IRS systemically evaluates fraud potential for both paper and electronically filed tax returns claiming refunds using both the RRP and the DDb systems. This evaluation is done prior to issuing the tax refund. For those tax returns identified as potentially fraudulent, the IRS sends the tax return to its Integrity and Verification Operations (IVO) function<sup>3</sup> for tax examiner screening and verification. Specifically, tax returns with a fraud potential score above the IVO's return review tolerance level are added to IVO inventory and are resequenced (*i.e.*, processing of the return and any associated refund is delayed) for 14 days to allow tax examiners sufficient time to screen the return. It should be noted that if IVO tax examiners do not screen assigned returns within 14 days, processing will systemically resume for the return and the refund is released. IVO tax examiners can take the following actions:

- **Screening** – A tax examiner reviews the tax return for income and withholding information, including comparing the income and withholding information reported on the current tax year<sup>4</sup> return to previous tax year returns to identify inconsistencies. For

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<sup>1</sup> Tax returns are sent through the DDb system as they are processed for possible selection and Taxpayer Protection Program processing based on the application of a set of business rules using information from both internal and external sources. The Taxpayer Protection Program scrutinizes potential identity theft tax returns.

<sup>2</sup> The calendar year in which the tax return or document is processed by the IRS.

<sup>3</sup> The IVO function has nine screening and verification teams in five locations (Fresno, California; Atlanta, Georgia; Kansas City, Missouri; Memphis, Tennessee; and Austin, Texas).

<sup>4</sup> A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.



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returns verified as legitimate, the tax examiner “refiles” the return (*i.e.*, the return is considered verified as good and the refund can be released). If the tax examiner concludes that the tax return is potentially fraudulent, the related income documents are sent for verification and a refund hold is placed on the individual’s tax account. This hold gives the IRS additional time to verify the legitimacy of the tax return.

- **Verification** – A tax examiner uses various methods to verify income and withholding amounts reported on the potentially fraudulent tax return, including contact with the reported employer by phone or fax and reviewing internal data.
- **Referral to the Taxpayer Protection Program** – Tax returns meeting identity theft criteria are sent to the Taxpayer Protection Program. The refund is held while the return is reviewed by this program.
- **Referral to the Scheme Tracking and Referral System**<sup>5</sup> – If a tax examiner verifies a tax return as false and the income and withholding amounts are within a certain dollar tolerance but there is no indication of identity theft, the return is sent to the Scheme Tracking and Referral System and a refund hold is placed on the tax account. This indicates a tax examiner determined that the return is false or partially false.

Figure 1 shows the disposition of the 236,097 tax returns that were selected for IVO screening between January 1 and April 21, 2016.

**Figure 1: Disposition of Tax Returns Sent to the IVO function  
for Screening Between January 1 and April 21, 2016**

Disposition of Tax Return	Volume	Refunds Claimed
Refiled	44,255	\$1,654,319,441
Sent for Verification	90,755	\$549,665,909
Referral to the Taxpayer Protection Program	84,563	\$1,179,985,981
Referral to the Scheme Tracking and Referral System	14,874	\$72,981,798
Review of the Tax Return Was Not Completed at the Time of Our Analysis	1,650	\$8,225,690
<b>Total Returns</b>	<b>236,097</b>	<b>\$3,465,178,819</b>

Source: Treasury Inspector General for Tax Administration analysis of Individual Master File<sup>6</sup> accounts and data from the EFDS.

<sup>5</sup> The Scheme Tracking and Referral System is the subsystem of the EFDS that captures statistical information and tracks the status of refund schemes.

<sup>6</sup> The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.





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This review was performed at the Return Integrity and Compliance Services function headquarters in Atlanta, Georgia, from August 2016 through November 2017. 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 objectives. 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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*Results of Review*

**Refund Holds Were Not Always Placed on Tax Accounts, Which Resulted in the Erroneous Release of Refunds Associated With Potentially Fraudulent Tax Returns**

Our review of 236,097 tax returns selected for IVO function screening between January 1 and April 21, 2016, identified 1,333 potentially fraudulent returns with refunds totaling \$7.3 million that were erroneously released as the result of programming errors. The 1,333 tax returns included:

- 738 tax returns with refunds totaling \$3 million that were erroneously released prior to the IVO tax examiner completing screening of the returns. The returns were released because the required 14-day return processing hold was either not placed on the account or was not placed on the account timely. For each return, a tax examiner determined during screening that the return was potentially fraudulent and should not be refiled. Thus, the refund claimed on the return should not have been issued.

IRS management provided multiple explanations as to why refunds were erroneously released. These explanations include tax returns filed by first-time filers who do not have a tax account on the Master File and, as such, a refund hold marker cannot be added; tax returns involved a Taxpayer Identification Number mismatch between the number listed on the filed paper tax return to the tax account on Master File; and tax returns involved a name control mismatch between the name on the potentially fraudulent tax return and the Master File. It should be noted that, in June 2017, the IRS corrected the programming error involving a name control mismatch.

In November 2015,<sup>7</sup> we reported that ineffective monitoring of potentially fraudulent tax returns resulted in the erroneous issuance of refunds prior to verification. We recommended that the IRS take corrective actions to address instances in which resequencing markers placed on accounts were not working as intended to delay the processing of potentially fraudulent tax returns for two weeks. The IRS agreed with our recommendation and, on June 29, 2016, completed a review of open EFDS verification inventory to reconcile EFDS data to the Master File to ensure that all markers were working appropriately, including the resequencing markers. The IRS stated that future periodic reviews will continue and be documented on a quarterly basis to identify and

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<sup>7</sup> TIGTA, Ref. No. 2016-40-006, *Improvements Are Needed to Better Ensure That Refunds Claimed on Potentially Fraudulent Tax Returns Are Not Erroneously Released* (Nov. 2015).



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address issues as applicable. However, these reviews did not identify and address the first-time filer and Taxpayer Identification Number mismatch deficiencies we identified.

- 595 tax returns with refunds totaling \$4.3 million that were erroneously released because the refund hold marker was not placed on tax accounts as intended by IVO tax examiners. The tax examiners confirmed that each return was potentially fraudulent. However, an IRS programming error overrode the refund hold marker the tax examiner attempted to set. For example, when a tax examiner attempted to update the account with the marker and the return had a valid Identity Protection Personal Identification Number,<sup>8</sup> the programming accepted the return as legitimate and issued the refund.

Our November 2015 report identified a similar programming error that caused the erroneous issuance of some refunds before the income and withholding amounts could be screened and verified. We recommended that the IRS correct its programming to ensure that refunds are not issued prior to IVO tax examiners screening and verifying the tax returns. The IRS corrected the programming on January 28, 2016. It should be noted that the 595 tax returns we identified were processed between January 1 and January 28, 2016, which was prior to the programming update.

## ***Recommendations***

The Commissioner, Wage and Investment Division, should:

**Recommendation 1:** Develop processes to hold refunds associated with identified first-time filers of potentially fraudulent tax returns.

**Management's Response:** The IRS agreed with this recommendation. The IRS updated programming in July 2017 that causes the transactions used to delay the posting of a return, permit the posting but prevent issuance of the refund, or direct the return to other treatment streams to remain active until the account to which the holds are attempting to post is created.

**Recommendation 2:** Develop processes to ensure that the refund hold marker is placed on tax accounts for Taxpayer Identification Number mismatches between potentially fraudulent tax returns and Master File accounts to prevent refunds from being erroneously released while under IVO review.

**Management's Response:** The IRS agreed with this recommendation and stated that it does not believe a corrective action is necessary because the programming changes that it described in response to Recommendation 1 will address this condition. IRS

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<sup>8</sup> An Identity Protection Personal Identification Number is a six-digit number assigned to taxpayers that allows their tax returns/refunds to be processed without delay and helps prevent the misuse of their Social Security Numbers on fraudulent Federal income tax returns.



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management believes the steps it has already taken to keep processing hold transactions active for new accounts yet to be established, and allowing them to bypass certain validation checks when an account does exist, are sufficient.

**Required Notifications Were Not Sent to Taxpayers Whose Income Documents Were Sent for Verification**

Our review identified that the IRS did not issue notifications to 15,877 (18 percent) of the 90,660 taxpayers<sup>9</sup> whose income documents were sent to a tax examiner for verification during the period January 1 through April 21, 2016. Internal Revenue Code Section 7602(c) requires the IRS to notify a taxpayer *in advance* before contacting a third party, such as an employer or bank, to help resolve questionable items on the taxpayer's return. This notification is required because taxpayers have a legal right to know before the IRS contacts third parties to verify information on the return. Further, the IRS's internal guidance requires it to wait 10 days from the date the letter was sent before contacting the third party. For these notifications, the IRS issues the taxpayer a Computer Paragraph 05 Notice, *Information Regarding Your Refund – We have received your income tax return and are holding your refund*.

IRS management noted that for the 15,877 taxpayers who did not receive the required notice, only 4,918 involved the IRS actually contacting a third party to verify the income and withholding. For the remaining 10,959 taxpayers, management stated that the IRS used internal data to verify the income and withholding amounts on the return. It should be noted that internal guidance for the verification process states that the IRS is required to notify taxpayers *in advance* that a third party *may be* contacted to help resolve their account. As the IRS was unaware whether third-party contact was needed at the time the income documents were sent for verification, it should have issued the notice to all 15,877 taxpayers regardless of whether the third party was contacted.

When we asked IRS management why the notifications were not issued, they stated that the notifications were not sent to the taxpayers because the notification process used for PY 2016 was not effective. Prior to PY 2016, the IVO function generated a list of taxpayers whose income documents were sent for verification and batch processed the notifications that were mailed to the taxpayers. However, to save resources in PY 2016 and more efficiently address the high volume of notifications, the IRS relied on the Master File to generate the notifications as the verification markers were placed on tax accounts. However, a programming error prevented some notifications from being generated. The IRS became aware of the programming errors and, in PY 2017, reverted back to the previous batch notification process to ensure that all taxpayers whose income documents are sent for verification are properly notified. Thus, we are not making a recommendation.

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<sup>9</sup> The 90,755 tax returns sent for verification are associated with 90,660 taxpayers.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

Our overall objective was to evaluate the IVO function controls to ensure that tax returns are properly screened and verified. To accomplish this objective, we:

- I. Obtained and reviewed policy and procedural guidance for screening and verifying tax returns.
- II. Determined if the IVO resequencing code is properly placed on the Individual Master File<sup>1</sup> tax accounts to ensure that refunds are not released before IVO screening is completed.
  - A. Identified the number of EFDS<sup>2</sup> tax returns that entered screening for the period January 1 through April 21, 2016, and the total dollar amount of refunds claimed.
  - B. Compared EFDS tax returns marked with IVO screening codes to the Individual Master File to determine whether protective markers were timely posted to tax accounts to prevent refunds from erroneous release.
  - C. For tax accounts not marked with the above resequencing markers, determined the reasons and quantified the effect on tax revenue.
  - D. Validated the data and results, as required.
- III. Determined whether accounts dispositioned from screening for further review or that were deemed fraudulent during our test period received the required unexpiring markers on the Individual Master File tax accounts to protect the refunds following disposition.
  - A. For tax accounts not marked with the above resequencing markers, determined the reasons and quantified the effect on tax revenue.
  - B. Validated the data and results by comparing random samples of taxpayer accounts to ensure consistency with the information recorded on the Integrated Data Retrieval System.<sup>3</sup>

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<sup>1</sup> The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

<sup>2</sup> IRS case management system used to control potentially fraudulent tax returns selected for review.

<sup>3</sup> IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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- C. Determined whether the IRS's corrective actions to our previous report<sup>4</sup> (Finding 2, Recommendation 1) have been effective to ensure that tax returns selected for verification receive an unexpiring refund freeze.
- IV. Determined if all entitled taxpayers received the Computer Paragraph 05 notice (*Information Regarding Your Refund – We have received your income tax return and are holding your refund*) when their tax return was sent for verification.
  - A. Identified the number of tax accounts that entered screening for the period January 1 through April 21, 2016, that were dispositioned from screening for verification.
  - B. Obtained and reviewed related Internal Revenue Code and Internal Revenue Manual guidance.
  - C. Reviewed Master File data to determine whether the taxpayers whose accounts were sent for verification received a Computer Paragraph 05 notice.
  - D. Validated the data and results by comparing random samples of taxpayer accounts to ensure consistency with the information recorded on the Integrated Data Retrieval System.
  - E. For those accounts for which no Computer Paragraph 05 notice was sent, determined why and whether this resulted in a violation of the taxpayers' legal rights.

**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: 1) the processing controls to ensure that the IRS can identify and track tax returns identified for screening and verification by the IVO function using the EFDS, 2) the controls to prevent refunds for these tax returns from being issued prior to the IVO function completing its review, and 3) the controls to ensure that taxpayers whose returns are sent for verification receive notice of third-party contact in advance as required. We evaluated these controls by assessing the EFDS data interface used by IVO tax examiners, evaluating the EFDS data supplied by the IVO function to perform our data queries, and by comparing the EFDS data results to the Master File.

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<sup>4</sup> TIGTA, Ref. No. 2016-40-006, *Improvements Are Needed to Better Ensure That Refunds Claimed on Potentially Fraudulent Tax Returns Are Not Erroneously Released* (Nov. 2015).



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## **Appendix II**

### *Major Contributors to This Report*

Russell Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)  
Allen Gray, Director  
Levi Dickson, Audit Manager  
Jerry Douglas, Lead Auditor  
Tanya Boone, Senior Auditor  
Robert Howes, Senior Auditor



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## **Appendix III**

### *Report Distribution List*

Commissioner  
Office of the Commissioner – Attn: Chief of Staff  
Deputy Commissioner for Operations Support  
Deputy Commissioner for Services and Enforcement  
Chief Information Officer  
Associate Chief Information Officer, Applications Development  
Deputy Commissioner, Wage and Investment Division  
Director, Corporate Data  
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## **Appendix IV**

### *Outcome Measure*

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

#### **Type and Value of Outcome Measure:**

Revenue Protection – Potential; 738 fraudulent returns with \$3,059,504 in erroneous refunds (page 4).

#### **Methodology Used to Measure the Reported Benefit:**

Our review of 236,097 tax returns screened by the IVO function from January 1 to April 21, 2016, identified 1,333 potentially fraudulent tax returns with refunds totaling \$7.3 million that were erroneously released as the result of programming errors. For each return, a tax examiner determined, during screening, that the return was potentially fraudulent and should not be refiled. Thus, the refund claimed on the return should not have been issued. On January 28, 2016, the IRS corrected its programming error that allowed 595 of the 1,333 returns to be processed. The 595 returns claimed refunds totaling \$4.3 million. Thus, the impact of our recommendation is 738 (1,333 – 595) tax returns and \$3 million (\$7.3 million – \$4.3 million). It should be noted that the 738 returns do not include any involving a name control mismatch.



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**Appendix V**

*Management's Response to the Draft Report*



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

FEB 28 2018

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin   
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Some Tax Returns Selected for Fraud  
Screening Did Not Have Refunds Held and Required  
Notifications Were Not Always Sent to Taxpayers  
(Audit # 201640036)

Thank you for the opportunity to review the subject draft report and provide comments. The IRS is committed to protecting U.S. taxpayers by proactively detecting potentially fraudulent refund claims and preventing their payment. These protection processes save billions of dollars annually by stopping the issuance of potentially fraudulent refunds. As noted in the report, 236,097 returns were selected to be screened between January 1, 2016 and April 21, 2016. Approximately \$3.5 billion in refunds were claimed on those returns. We appreciate your acknowledgement that we stopped refunds on 99.5 percent of the questionable returns, preventing their payment until the income and withheld tax was verified. This review detected 1,333 potentially fraudulent returns, approximately one-half of one percent, where processes did not prevent payment of the refunds before a determination could be made on the accuracy of the claim.

Over the course of each filing season, we review the results of programming and processes implemented to detect suspicious returns and to stop any refunds associated with them. As noted in the report, 738 of the 1,333 refunds released prior to verification occurred because the processing hold intended to delay the posting of the return was not placed on the account. We had noticed this condition in 2016 and found the cause to be the unintended effect of longtime validation routines. These checks were designed to prevent the posting of transactions to taxpayer accounts when data mismatches between the pending transaction and existing account information conflicted. In July 2017, programming was revised to permit certain transactions, including those initiating the processing hold, to post despite minor data point differences.



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The July 2017 programming update also addressed the processing hold not being applied when an account did not already exist. When a return is deemed to be questionable and sent for verification, the processing hold request will remain outstanding until the account is created. Upon creation of the account, the hold will become effective. Also, as noted in the report, we revised programming in January 2016 to correct a condition where accurate Identity Protection Personal Identification Numbers provided on returns were preventing the processing hold from setting.

The audit identified an issue regarding the notification of third-party contacts. When the IRS determines additional verification of income and withholding is necessary through contact with a third-party, such as the employer, Internal Revenue Code § 7602(c) requires notification to the taxpayer prior to making the contact. In 2016, the IRS used a systemic process to issue these notifications when a return was selected for verification. We determined the notifications were not being issued systemically in about five percent of the cases. Changes to the process were implemented in 2017 to ensure appropriate notifications are issued when required.

The report notes 15,877 out of the 90,660 taxpayers whose returns were referred for further verification of income did not receive a notification; however, it is important to note that only 4,918 of those returns involved the IRS contacting a third-party. The IRS uses multiple methods to complete the verification process. Most verifications are completed by using information provided directly to us by employers or payroll providers prior to the start of the filing season, or by researching the Information Returns Master File, which includes third-party information filed with the IRS or the Social Security Administration. If the IRS can use any of these readily available sources of data to confirm information presented on the return, there is no need to contact employers or other third-parties or to provide notification that a third-party may be contacted.

Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Denise Davis, Director, Return Integrity Operations, Return Integrity and Compliance Services, Wage and Investment Division, at (470) 639-3205.

Attachment



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Attachment

**Recommendations**

The Commissioner, Wage and Investment Division, should:

**RECOMMENDATION 1**

Develop processes to hold refunds associated with identified first-time filers of potentially fraudulent tax returns.

**CORRECTIVE ACTION**

Programming was updated in July 2017 that causes the transactions used to delay the posting of a return, permit the posting but prevent issuance of the refund, or direct the return to other treatment streams, to remain active until the account to which they are attempting to post is created.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

Director, Return Integrity Operations, Return Integrity and Compliance Services, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 2**

Develop processes to ensure the refund hold marker is placed on tax accounts for TIN mismatches between potentially fraudulent tax returns and Master File accounts to prevent refunds from being erroneously released while under IVO review.

**CORRECTIVE ACTION**

We do not believe a corrective action is necessary for this recommendation as programming changes described in our response to Recommendation 1 will address this condition. A Taxpayer Identification Number mismatch between filed returns and the Master File is resolved on electronic returns by the Modernized e-File system rejecting returns with such conflicts back to the originator for correction. For paper returns, it is possible for taxpayers or IRS data transcribers to transpose digits when preparing or transcribing the return. It is also possible for transcription errors to occur when handwritten numbers are not legible to the data transcribers; however, our processing systems, using data point analysis, are designed to detect the error and refer the return to the Error Resolution System for correction. Only after correction is the return record sent forward for continued processing, including fraud detection and evaluation by the Return Review Program and the Dependent Database. The report does not provide a more granular analysis of the 738 returns where refunds were released prior to



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*Some Tax Returns Selected for Fraud Screening  
Did Not Have Refunds Held and Required  
Notifications Were Not Always Sent to Taxpayers*

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completing verification; however, we believe the steps already taken to keep processing hold transactions active for new accounts yet to be established, and allowing them to bypass certain validation checks when an account does exist, are sufficient.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

Director, Return Integrity Operations, Return Integrity and Compliance Services, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

N/A