
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Office of Inspections and Evaluations



Requests for Taxpayer Information Were Generally Processed Properly in the Return and Income Verification Services and the Income Verification Express Service Programs

March 2, 2015

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

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 2, 2015

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Gregory D. Kutz
Acting Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Inspection Report – Requests for Taxpayer Information Were Generally Processed Properly in the Return and Income Verification Services and the Income Verification Express Service Programs (#IE-13-017)

This report presents the results of our inspection to determine whether the Return and Income Verification Services (RAIVS) and the Income Verification Express Service (IVES) programs have adequate processes and procedures in place designed to prevent inadvertent disclosures of taxpayer information.

Synopsis

The Internal Revenue Service (IRS) established the RAIVS and IVES programs within the Wage and Investment (W&I) Division to provide photocopies of tax returns and return information to taxpayers and/or their authorized representatives, Federal agencies, or other parties. It is imperative that employees properly process RAIVS and IVES requests for sensitive taxpayer information so that Personally Identifiable Information (PII)¹ is not inadvertently disclosed and used to perpetrate acts of harm, such as identity theft.

The RAIVS and IVES units have adequate processes and procedures in place designed to prevent inadvertent disclosures of taxpayer information. The units processed approximately 118 million requests for taxpayer information and reported only 778 total inadvertent disclosure incidents in

¹ PII is any information that, by itself or in combination with other information, may be used to uniquely identify an individual. Examples of PII are names, addresses, and Social Security Numbers.



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Fiscal Years 2009 through 2013. Nevertheless, even one disclosure is deemed significant and can pose a risk to the confidentiality and privacy of a taxpayer's PII.

We found that at two campuses the number of inadvertent disclosures reported is significantly understated because disclosures are counted by incident instead of unique taxpayers as required by IRS policies. The RAIVS and IVES processing units are reporting multiple incidents involving several taxpayers as one inadvertent disclosure in the Service-Wide Notice Information Program (SNIP).² For example, employees at the Cincinnati Campus reported 166 inadvertent disclosure incidents for Fiscal Years 2009 through 2013. However, the inadvertent disclosure incidents affected 1,085 taxpayers, which is approximately 554 percent higher than the disclosures reported. We also found that the W&I Division did not ensure that inadvertent disclosures that occurred in the Austin and Cincinnati Campuses had been reported within one hour after discovery as required. Executives and managers have expressed concern regarding the reasonableness of the one-hour requirement, indicating that a longer period may be necessary.

Additionally, we found inadvertent disclosures that occurred in the RAIVS and IVES processing units in Austin and Cincinnati were not sufficiently documented because employees used inconsistent methods for documenting disclosures, the documentation for 51 (22 percent) of 230 inadvertent disclosures was either missing or not prepared, and the root cause for most inadvertent disclosures could not be readily determined.³ We also found that the Austin quality review team did not perform the required reconciliation of IVES requests, which may have led to the identification of additional inadvertent disclosures. Lastly, the instructions in the Internal Revenue Manual (IRM)⁴ for processing RAIVS and IVES requests do not contain the correct process for reporting inadvertent disclosures to the W&I Division Office of Taxpayer Correspondence (OTC). The OTC is responsible for processing inadvertent disclosures.

Recommendations

We recommended that the Commissioner, W&I Division, require that the RAIVS and IVES processing units use the SNIP to report an inadvertent disclosure for each taxpayer and reevaluate the IRM policy for reporting disclosures within one hour of discovery to determine if a longer time period is warranted. We also recommended that the Commissioner, W&I Division, determine the proper method to document and fully report disclosures, ensure quality review

² The SNIP serves as the centralized source for reporting inadvertent disclosures. All inadvertent disclosures must be entered into the SNIP database.

³ We could not readily determine the cause of the inadvertent disclosure in 99 of the 179 cases (55 percent) for which supporting documentation was available.

⁴ The IRM is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities.



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teams conduct the required IVES reconciliations, and ensure that the IRM is updated to document the correct process for reporting inadvertent disclosures to the OTC.

Response

IRS management provided an adequate, detailed response to our draft report. Management agreed with three of the five recommendations and disagreed with two. The Commissioner, W&I Division, plans to evaluate best practices for documenting inadvertent disclosures and update any resulting procedural changes in the IRM and to work with the OTC to ensure that the correct process for reporting inadvertent disclosures is documented in the IRM. Additionally, the Commissioner issued guidance to reinforce the requirement and expectations that IVES reconciliations be conducted as specified in the IRM.

Management disagreed with the recommendation to ensure that all unique taxpayers are reported in the SNIP for each inadvertent disclosure. Management indicated that the SNIP would have to be modified to record and report all unique taxpayers affected by inadvertent disclosures and that funding and resources are currently not available to modify the system. Management plans to continue to use spreadsheets to record and report the information related to affected taxpayers.

Additionally, management will not reevaluate the IRM policy based on the Office of Management and Budget (OMB) Memorandum 07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*, requiring that inadvertent disclosures be reported within one hour of discovery to determine whether the time frame should be extended. In response to this recommendation, management sent a reminder on October 1, 2014, to employees and managers to adhere to the one-hour requirement for timely reporting disclosures. Management's complete response to the draft report is included in Appendix VII.

Office of Inspections and Evaluation Comment:

In response to the IRS's disagreement with the first recommendation, we recognize the IRS's need to prioritize information technology projects based on its budget limitations. While having an alternate process for documenting taxpayers potentially affected by inadvertent disclosures is acceptable, the IRS could not readily provide us the data we requested to assess the effectiveness of the process. The IRS should ensure that inadvertent disclosures are fully and timely documented in its alternate process and that data about the events and taxpayers affected can be readily retrieved.

It remains essential that the IRS gather and report the facts and circumstances related to all inadvertent disclosures as urgently as possible. Therefore, we understand the IRS's decision to maintain the one-hour reporting requirement within the agency in order to convey the sense of urgency for ensuring that inadvertent disclosures are reported and mitigation actions are taken.



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However, management should develop a system to ensure that disclosures are actually reported within one hour.

Please contact me or Kevin P. Riley, Director, Office of Inspections and Evaluations, if you have questions.



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Abbreviations

FY	Fiscal Year
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IVES	Income Verification Express Service
OMB	Office of Management and Budget
OTC	Office of Taxpayer Correspondence
PII	Personally Identifiable Information
RAIVS	Return and Income Verification Services
SNIP	Service-Wide Notice Information Program
TDS	Transcript Delivery System
W&I	Wage and Investment



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Background

The Internal Revenue Service (IRS) established the Return and Income Verification Services (RAIVS)¹ and the Income Verification Express Service (IVES)² programs within the Wage and Investment (W&I) Division to provide tax information to taxpayers and/or their authorized representatives, Federal agencies, or other parties. The IRS requires that taxpayer return information be requested using the following forms:³ Form 4506, *Request for Copy of Tax Return*; Form 4506-T, *Request for Transcript of Tax Return*; and Form 4506-T-EZ, *Short Form Request for Individual Tax Return Transcript*. This review focused on individual and business requests processed at the RAIVS and IVES processing units. A description of the various products available from the RAIVS and IVES units is contained in Appendix IV.

The RAIVS and IVES processing units are located at the following IRS campuses:⁴

Figure 1: RAIVS and IVES Processing Units

IRS Campus	Type of Request
Austin	Individual Master File ⁵
Cincinnati	Business Master File ⁶
Fresno	Individual Master File
Kansas City	Individual Master File
Ogden ⁷	Business Master File

Source: *Internal Revenue Manual (IRM)*⁸ 3.5.20.2, *General Information for All Requests*.

The RAIVS program provides tax return transcripts for individual, corporation, and partnership returns generally within 24 to 48 hours of receiving the completed request form. The maximum

¹ The RAIVS program provides copies of the returns or transcripts of returns upon request.

² The IVES program is used by mortgage lenders and others within the financial community to confirm the income of a borrower during the processing of a loan application.

³ The requests must be signed by the taxpayer or authorized individual.

⁴ A campus is the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.

⁵ The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.

⁶ The Business Master File is the IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

⁷ Forms 4506-A, *Requests for Public Inspection or Copy of Exempt or Political Organization IRS Form*, are also processed at the IRS Campus in Ogden, Utah, but were not included in the scope of this inspection.

⁸ The IRM is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities.



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time frame for providing this service is four work days. Taxpayers must pay a \$50 fee to request a photocopy of a previously filed tax return.

The IVES program allows individuals or companies to request bulk transcripts and obtain them, electronically, within two business days after IRS receipt of the completed form or signed request. IVES participants are required to pay a \$2 fee for each tax period requested. Each company participating in the IVES program must complete a Form 13803, *IVES Application*, to enroll in the program. The IVES program is the only expedited service offered by the RAIVS function. The IRS offers a free, 10-day service for non-IVES participants.

RAIVS and IVES employees should follow established policies and procedures to ensure that requests for taxpayer information are processed properly to prevent the occurrence of an inadvertent disclosure. An inadvertent disclosure is the unintentional disclosure of Personally Identifiable Information (PII)⁹ to a party other than the requestor. Inadvertent disclosures must be reported in the W&I Division Service-Wide Notice Information Program (SNIP) database¹⁰ within one hour of discovery.

The IRS Office of Privacy, Governmental Liaison and Disclosure performs risk assessments of inadvertent disclosures to determine whether taxpayers should be notified that their tax return information has been inadvertently disclosed.

This review was performed at the RAIVS and IVES processing units in Austin, Texas, and Cincinnati, Ohio; the Office of Taxpayer Correspondence (OTC) in Atlanta, Georgia; and the Office of Privacy, Governmental Liaison and Disclosure location in Philadelphia, Pennsylvania. W&I Division Headquarters staff was also contacted. The review was performed during the period February through September 2014. We conducted this inspection in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspections. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁹ PII is any information that, by itself or in combination with other information, may be used to uniquely identify an individual. Examples of PII are names, addresses, and Social Security Numbers.

¹⁰ The SNIP serves as the centralized source for reporting inadvertent disclosures. All inadvertent disclosures must be entered into the SNIP database.



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Results of Review

The RAIVS and IVES units have processed millions of requests for taxpayer information, and procedures in place are designed to prevent the inadvertent disclosure of PII. However, we found that improvements are needed to ensure that inadvertent disclosures are timely identified and properly reported. When inadvertent disclosures are mishandled, the IRS cannot ensure that taxpayer information is protected from acts of harm, such as identity theft.

Reported Inadvertent Disclosures Are Relatively Low but Are Inconsistent With Established Policies

IRS records show that the RAIVS and IVES units processed approximately 118 million requests from Fiscal Years (FYs) 2009 through 2013.¹¹ During the same period, the W&I Division reported only 778 total inadvertent disclosure incidents, which mean that approximately one out of every 151,671 requests resulted in an inadvertent disclosure. Nevertheless, even one disclosure is deemed significant and can pose a risk to the confidentiality and privacy of sensitive taxpayer information. The figure below shows the number of RAIVS and IVES inadvertent disclosure incidents reported in FYs 2009 through 2013.

Figure 2: Inadvertent Disclosure Incidents Reported, FYs 2009 Through 2013

FY	Austin	Cincinnati	Fresno	Kansas City	Ogden	Total
2009	1	5	6	0	0	12
2010	26	4	16	42	12	100
2011	21	34	27	101	44	227
2012	6	76	41	104	25	252
2013	10	47	34	44	52	187
Total	64	166	124	291	133	778

Source: W&I Division, Specialty Programs Branch.

¹¹ The W&I Division counts forms containing multiple taxpayers and tax periods as one request. Appendix II shows the total number of RAIVS and IVES requests processed by type from FYs 2009 through 2013.



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The IRM policy for reporting disclosures do not reflect current SNIP processes

Employees are required to report inadvertent disclosures in the SNIP database, which is operated by the W&I Division OTC. IRM 3.5.20.2.1, *Inadvertent Disclosure Reporting Procedures*, states that inadvertent disclosures should be reported in the SNIP by the number of unique taxpayers.¹² However, employees at the Austin and Cincinnati Campuses are reporting inadvertent disclosures involving multiple taxpayers as one inadvertent disclosure incident. Consequently, the number of inadvertent disclosures reported in the SNIP is significantly understated because disclosures are counted by incident instead of taxpayers affected. For example, on June 20, 2013, an employee in the Cincinnati Campus sent 40 transcripts for 40 taxpayers to the wrong IVES participant. The W&I Division counted this error as one inadvertent disclosure incident.

The Cincinnati Campus reported 166 inadvertent disclosure incidents for FYs 2009 through 2013. Based on our review of documentation for 121 inadvertent disclosures, we determined that the Cincinnati Campus had inadvertent disclosures affecting 1,085 taxpayers, approximately 554 percent higher than the disclosures reported.¹³

Figure 3: Cincinnati Campus Inadvertent Disclosure Analysis, FYs 2009 Through 2013¹⁴

FY	Inadvertent Disclosure Documentation Reviewed	Number of Inadvertent Disclosures (As Reported in SNIP)	Number of Inadvertent Disclosures (Reported by Cincinnati)	Taxpayers Affected
2009	0	5	9	Unknown
2010	0	4	1	Unknown
2011	39	34	58	404
2012	49	76	59	385
2013	33	47	41	296
Total	121	166	168	1,085

Sources: OTC and Cincinnati Campus RAIVS and IVES processing units inadvertent disclosure totals and inadvertent disclosure documentation located at the Cincinnati Campus.

¹² IRM 3.5.20, *Accounts Services, Processing Requests for Tax Return/Return Information*, is the primary source for instructions on processing RAIVS and IVES requests.

¹³ Documentation for 45 (27 percent) of the 166 inadvertent disclosures was either not prepared or was missing.

¹⁴ We obtained the information in this table from the review of the employee disclosure incident form (see Appendix VI). This form was used at the Cincinnati Campus only.



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Managers in the Austin and Cincinnati Campuses stated that it would be too time-consuming to input an inadvertent disclosure in the SNIP for each potentially affected individual taxpayer. When inadvertent disclosures involving multiple taxpayers occur, employees list the taxpayers on a separate impacted individual or business spreadsheet per inadvertent disclosure incident. The spreadsheet is sent to the OTC for review and then to the Office of Privacy, Governmental Liaison and Disclosure.

An Office of Privacy analyst indicated that information on the potentially affected individual taxpayers is input into a separate system, and basic reporting information, such as the total number of inadvertent disclosures by taxpayers, can be retrieved and summarized within hours. The W&I Division executives noted that reporting the individual taxpayers in the SNIP would require additional resources, and the impacted individual or business spreadsheet works as a good solution.

We believe reporting the potentially affected individual taxpayers in the SNIP as required would eliminate the need to record the information on a separate spreadsheet and send it to the OTC. Once reported in the SNIP, the W&I Division could use the information to readily summarize and report the number of inadvertent disclosures by the number of taxpayers for each of the RAIVS and IVES units.

Recommendation

Recommendation 1: The Commissioner, W&I Division, should ensure that all unique taxpayers are reported in the SNIP for each inadvertent disclosure, as required.

Management's Response: IRS management disagreed with the recommendation. Limited resources preclude the expenditure of staff time to submit individual incident reports for each affected taxpayer through the SNIP. Modifying the SNIP for reporting multiple taxpayers under the same incident is not a priority at this time.

Office of Inspections and Evaluations Comment: It is important to note that the IRS's own policy is to document individual incidents by taxpayer in the SNIP. We recognize the IRS's need to prioritize information technology projects based on its budget limitations. While having an alternate process for documenting taxpayers potentially affected by inadvertent disclosures is acceptable, the IRS could not readily provide us the data we requested to assess the effectiveness of the process. The IRS should ensure that inadvertent disclosures are fully and timely documented in its alternate process and that data about the events and taxpayers affected can be readily retrieved.

Inadvertent disclosures may not have been timely reported

Although inadvertent disclosures must be reported in the SNIP within one hour of discovery, we could not verify that the disclosures that occurred at the Austin and Cincinnati Campuses had been reported within the time frame required in IRM 3.5.20.2.1, *Inadvertent Disclosure*



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Reporting Procedures. Executives and managers questioned the reasonableness of the requirement to report disclosures within one hour of discovery. The managers contend that, in some cases, it may not be practical for employees to report the disclosure within an hour. We were told that the period of time required for reporting a disclosure may need to be extended to accommodate an employee's ability to stop work, notify his or her manager, document the circumstances of the disclosure, and report the disclosure in the SNIP.

The timely reporting of inadvertent disclosures of taxpayer information and the loss or theft of sensitive information is critical for quickly initiating any needed investigation or recovery of information. Employees should promptly notify their managers of inadvertent disclosures and report the disclosure in the SNIP as soon as possible to decrease the possibility that the information will be compromised and used to perpetrate identity theft.

Recommendation

Recommendation 2: The Commissioner, W&I Division, should reevaluate the IRM policy requiring that inadvertent disclosures be reported within one hour of discovery to determine whether the time frame should be extended. If a longer period for reporting an inadvertent disclosure is needed, IRM 3.5.20.2.1 should be modified documenting the new time period. Managers should ensure that all disclosures are reported timely.

Management's Response: IRS management disagreed with the recommendation. The one-hour time frame is based on Office of Management and Budget (OMB) Memorandum 07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*.¹⁵ They will remind employees and managers of the one-hour reporting window and the importance of adhering to that time frame for timely reporting inadvertent disclosures.

Office of Inspections and Evaluations Comment: It remains essential that the IRS gathers and reports the facts and circumstances related to all inadvertent disclosures as urgently as possible. Therefore, we understand the IRS's decision to maintain the one-hour reporting requirement in order to convey the sense of urgency for ensuring that inadvertent disclosures are reported and mitigation actions are taken. However, management should ensure that a system is developed to ensure that disclosures are actually reported within one hour.

¹⁵ Prior to October 1, 2014, OMB Memorandum 07-16 required Federal agencies to report any incident involving PII to the Department of Homeland Security within one hour of discovery or detection. Effective October 1, 2014, an OMB revision to the reporting requirements eliminated the requirement to report an incident within one hour of discovery or detection. Currently an agency must report a cyber (electronic) incident to the Department of Homeland Security within one hour of confirming the loss of PII and reporting the loss to the agency's top-level Computer Security Incident Response Team or information technology department. An agency must report non-cyber (paper) incidents to the agency's privacy office within one hour of confirming the incident.



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Many of the inadvertent disclosures that occurred in the Austin and Cincinnati Campuses were the result of human error

From FYs 2009 through 2013, the RAIVS and IVES employees located at the Austin and Cincinnati Campuses processed 43.5 million requests for taxpayer information and reported 230 inadvertent disclosures. We reviewed the documentation for 179 (78 percent) of the 230 inadvertent disclosure incidents.¹⁶ Documentation for the remaining 51 (22 percent) inadvertent disclosure incidents was either not prepared or was missing. Generally, we found that the disclosures were identified by one of the following three methods:

- 1) IVES employees identified the disclosure after taxpayer information was electronically transmitted to the requestor's mailbox over the Transcript Delivery System (TDS).¹⁷
- 2) IVES participants contacted the IRS to notify the coordinator that they received taxpayer information in error and were charged incorrectly for the transaction.
- 3) The quality review team identified the inadvertent disclosure during its reviews.

The IRS has developed an initial PII disclosure training course for new RAIVS and IVES employees. A refresher disclosure course is provided annually to ensure that employees understand their responsibilities. Overall, RAIVS and IVES employees in the Austin and Cincinnati Campuses have received timely disclosure training.

Managers stated that a large portion of the disclosures were caused by employee input error, such as keystroke errors. As a result, sensitive taxpayer information was sent to the wrong individual or business. However, we could not readily determine the root cause for most inadvertent disclosures because the cause of the disclosure was not documented consistently.¹⁸ For example, employees reported that PII was sent to the wrong IVES participant, but they did not document how the error actually occurred. Managers should ensure that the cause of the disclosure is always reported.

Prior to January 2013, TDS would allow employees to continually submit requests for taxpayer information for individuals or businesses without having to change the requestor after each request was entered. We were told that because the TDS screen would not alert employees to change the requestor when a different individual or business request was initiated, employees would enter requests for taxpayer information for the wrong requestor without noticing the error. In January 2013, the IRS enhanced the TDS to force employees to enter the requestor for each

¹⁶ We reviewed the documentation for 58 and 121 inadvertent disclosures (a total of 179 disclosures) in the RAIVS and IVES processing units located at the Austin and Cincinnati Campuses, respectively.

¹⁷ The TDS provides self-service for return and account information requests by external customers through the e-services portal. The TDS automates the validation, processing, and delivery of taxpayer information to an authorized party.

¹⁸ We could not readily determine the cause of the inadvertent disclosure in 99 of the 179 cases (55 percent) for which supporting documentation was available.



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individual or business request. This change was intended to reduce the number of input errors and inadvertent disclosures.

Managers suggested that the TDS should be further enhanced to delay the submission of taxpayer information after the request is entered by the employee but prior to electronic transmission to the requestor. A proposed delay of an hour or less would enable employees to perform a final review of the input screen. However, a W&I Division Headquarters analyst stated that the IRS may not have the funds in its budget to make this change to the TDS. The analyst further stated that it is ultimately the employee's responsibility to prepare, review, and route all outgoing documents properly and that there will always be the risk of human error in processing large volumes of requests due to the routine nature of the work.

Employees in the Austin and Cincinnati Campuses made decisions to develop and implement local best practices to assist in preventing and processing inadvertent disclosures. Both offices are now limiting the number of requests by individuals or businesses that can be entered together in TDS at one time. The Austin unit prints the requestor's number on a cover sheet using large, bold numbers to minimize visual errors, designated a single employee (a PII coordinator) to enter all inadvertent disclosures in the SNIP, and developed a PII job aid that summarizes the procedures for reporting inadvertent disclosures. In meetings with IRS management, we discussed the possibility of sharing best practices among managers in the RAIVS and IVES processing units in the five campuses; however, we did not make a recommendation related to this issue.

The Decision to Notify a Taxpayer of an Inadvertent Disclosure Is Based on a Risk Assessment

In May 2007, OMB Memorandum 07-16 instructed Federal agencies to enhance their safeguards for PII and to enact incident handling and data loss notification policies. Since September 2007, the IRS Incident Management Office within the Office of Privacy, Governmental Liaison and Disclosure has been responsible for ensuring that incidents involving the disclosure of PII are investigated, analyzed, and resolved.

According to IRM 10.5.4.2, *Incident Management Risk Assessment*, the Incident Management Office should perform a risk assessment to evaluate the likely risk of harm, specifically the potential for identity theft, for all reported IRS data loss incidents. The Incident Management Office reported 782 inadvertent disclosure incidents from FY 2009 through 2013.¹⁹ The Incident Management Office determined that taxpayers should be notified in only four of the

¹⁹ The W&I Division reported 778 inadvertent disclosure incidents from FY 2009 through 2013; however, the OTC could not account for the difference (782 - 778 = 4) in the number of inadvertent disclosure incidents reported by the W&I Division and the Office of Privacy, Governmental Liaison and Disclosure.



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782 disclosure incidents (less than 1 percent) based on risk assessments. This office uses the following key factors identified by the OMB to assess the likely risk of harm.

Figure 4: Incident Management Risk Assessment Key Considerations

Level	Key Considerations
1 – Data Element	<p>What were the data elements? Were they PII?</p> <p>In what context were the data elements compromised?</p> <p>Why was this information collected?</p> <p>Who owns this information?</p>
2 – Likelihood of Compromise	<p>Was the information encrypted with National Institute of Standards and Technology approved methods?</p> <p>Will the unauthorized recipient know the value of the information?</p>
3 – Likelihood of Harm	<p>Will substantial harm, embarrassment, inconvenience, or unfairness occur from this loss?</p> <p>Will the manner of the breach or type of data involved lead to risk of harm?</p>
4 – Ability to Mitigate Risk of Harm	<p>Does the agency have the capabilities to take countermeasures?</p>

Source: Office of Privacy, Governmental Liaison and Disclosure.

Based on the total factor rating points, the incident is categorized (color coded) into one of four levels.

- **Code Orange:** The risk of identity theft or other harm is unlikely. The data do not contain PII, so there is no risk of identity theft or other harm.
- **Code Green:** The data did contain PII, but the risk of identity theft or other harm is deemed unlikely based on the circumstances.
- **Code Red:** The data did contain PII, and the risk of or potential for identity theft or other harm is likely based on the circumstances. Letters are sent to the potentially impacted individuals.
- **Code Blue:** The risk of identity theft or other harm is likely and the lost data could compromise national security, a grand jury, or an ongoing criminal investigation.

Privacy officials stated that if taxpayer information was incorrectly sent to an approved IVES participant, the IRS does not notify the potentially impacted taxpayers due to the relationship



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between IVES participants and the IRS. The IRS does not consider these individuals or businesses likely to commit identity theft. In the event the IVES processing units send taxpayer information to a non-IVES program participant, the risk assessment would require notifying potentially affected individuals.

Inadvertent Disclosure Information Was Not Always Captured and Reviews Were Not Conducted

We identified several weaknesses related to the documentation of inadvertent disclosures that occurred at the Austin and Cincinnati Campuses. These weaknesses increase the risk that disclosures may not be timely identified and appropriate corrective action may not be taken.

Inconsistent methods were used to document inadvertent disclosures in the Austin and Cincinnati Campuses, and some information required for the SNIP was not always obtained

Employees must document specific information involving the inadvertent disclosure prior to entry into the SNIP. However, we found that the inadvertent disclosure documentation maintained in the Austin and Cincinnati Campuses was inconsistent and incomplete. Employees located in the Austin Campus reported disclosures primarily using a memorandum, and employees in the Cincinnati Campus reported disclosures using an employee disclosure incident form.

The employee disclosure incident form, created by a prior manager in the Cincinnati Campus, is an effective tool to ensure that information required for entry into the SNIP is captured consistently among RAIVS and IVES units. However, we could not locate the employee disclosure incident form for 11 (9 percent) of 121 inadvertent disclosures. Furthermore, of the 110 forms available for review, we noted the following discrepancies:

- 13 (12 percent) forms were not signed and dated by the employee and/or manager.
- 5 (5 percent) forms did not document the numbers of taxpayers and tax periods affected.
- 5 (5 percent) forms did not document the date the inadvertent disclosure occurred.
- 11 (10 percent) forms did not document the SNIP reporting number.

The W&I Division should ensure that information related to an inadvertent disclosure is properly captured to provide insight in determining why the disclosure occurred and how to prevent it in the future. Clear guidance should be provided identifying the documents that employees need to prepare and maintain for inadvertent disclosures.



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Recommendation

Recommendation 3: The Commissioner, W&I Division, should determine the proper method for documenting inadvertent disclosures and ensure that the method is consistently applied among the RAIVS and IVES processing units. The specific details of each inadvertent disclosure should be fully reported.

Management's Response: The IRS agreed that consistency by all units in documenting inadvertent disclosures will improve program performance. Best practices will be evaluated and procedural changes will be documented in IRM 3.5.20.2.1.

Required reviews were not conducted

Quality reviews are key elements critical for the success of the RAIVS and IVES programs. IRM 3.5.20.4.2.10, *IVES Reconciliation*, states that IVES coordinators or designated individuals are required to perform a 100 percent reconciliation between the TDS detail report information and the completed IVES batches for one day's work every two weeks. Each RAIVS and IVES unit must provide a reconciliation schedule showing rotating days of the week for each two-week period to the W&I Division Headquarters by the end of the month preceding the month to be reviewed.

The quality review teams at each processing site are required to take the following steps to complete the reconciliation:

- 1) Review the completed batches of work, comparing information from the Form 4506-T or Form 4506T-EZ against the detail reports covering the selected date.
- 2) Make necessary credit or debit adjustments for fees for requests as identified.
- 3) Provide information to the managers to ensure that disclosure procedures are followed on unauthorized disclosures.
- 4) Share feedback with the managers and/or employees on any errors identified.

The quality review teams are required to share the following information with the W&I Division Headquarters within seven work days of the scheduled reconciliation date: volume reconciled, total number of errors identified, number of unauthorized disclosures identified that had not been previously identified, number of credit adjustments needed, and number of debit adjustments needed.

We determined that the quality review team in the Cincinnati Campus is performing the required reconciliations; however, the Austin Campus quality review team does not perform the reconciliations. The quality review team manager in Austin stated that it would take the TDS too long to run the voluminous detail report and that more detailed instructions need to be provided on how to perform the reconciliation. When reconciliations are not performed, the IRS cannot



Requests for Taxpayer Information Were Generally Processed Properly in the Return and Income Verification Services and the Income Verification Express Service Programs

ensure that all inadvertent disclosures are identified and employees may not receive the feedback or training needed to prevent future disclosures.

Recommendation

Recommendation 4: The Commissioner, W&I Division, should ensure that IVES reconciliations are conducted at each IVES processing unit. Specific guidance should be provided to the quality review teams on how to conduct the reconciliation.

Management's Response: The IRS agreed with this recommendation. The procedures for performing IVES reconciliations are contained in IRM 3.5.20.4.2.10. E-mail guidance was issued on June 24, 2014, to all sites addressing and reinforcing the requirement and the expectation that the reconciliations be performed as specified in the procedures.

The W&I Division inadvertent disclosure reporting policy in the IRM should be updated

The OTC has been the point of contact for all erroneous taxpayer correspondence since April 2010, and the related policy and guidance to that effect is contained in IRM 10.5.4, *Privacy and Information Protection, Incident Management Program*.²⁰ The OTC will notify the Situation Awareness Management Center as necessary after an initial analysis of the incident. This procedure minimizes the potential for inaccurate, incomplete, and duplicate reporting of incidents to the Situation Awareness Management Center and focuses resources on correcting the error to prevent additional breaches or losses.

The W&I Division reporting procedures in IRM 3.5.20.2.1, *Inadvertent Disclosure Reporting Procedures*, dated April 1, 2014, acknowledge that "...the Situation Awareness Management Center incident reporting has been redesigned to account for losses, thefts, and disclosures of sensitive information." However, these procedures do not include the role of the OTC in the process or that information about inadvertent disclosures must be reported to the OTC.

The correct process for reporting inadvertent disclosures should be documented in the IRM section that contains the procedures for processing RAIVS and IVES requests. Employees must be provided complete procedures regarding the W&I Division office responsible for processing inadvertent disclosures.

²⁰ IRM 10.5.4 provides the organizational framework for carrying out specific policies and procedures aimed at timely reaction and appropriate responses to occurrences of IRS data losses, thefts, breaches, and disclosures.



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Recommendation

Recommendation 5: The Commissioner, W&I Division, should ensure that the correct process for reporting inadvertent disclosures to the OTC is sufficiently documented in IRM 3.5.20.2.1.

Management's Response: The IRS agreed with this recommendation. The Submission Processing function will work with the OTC to ensure that the correct process for reporting inadvertent disclosures is documented in IRM 3.5.20.2.1.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the RAIVS and IVES programs have adequate processes and procedures in place designed to prevent inadvertent disclosures of taxpayer information. To accomplish this objective, we:

- I. Identified and evaluated controls in place designed to prevent inadvertent disclosures of taxpayer information.
 - A. Reviewed IRM 3.5.20, *Accounts Services, Processing Requests for Tax Return/Return Information*, and other supporting policies to ensure that sufficient processes and procedures have been developed over the RAIVS and IVES programs.
 - B. Interviewed W&I Division employees and RAIVS and IVES employees located at one judgmentally selected individual master file campus (Austin) and one judgmentally selected business master file campus (Cincinnati) to obtain a description of the processes used to avoid inadvertent disclosures and to notify effected taxpayers when their information is inadvertently disclosed.¹
 - C. Determined whether RAIVS and IVES employees are properly trained to process requests for taxpayer information and to avoid disclosing taxpayer information to unauthorized individuals or businesses.
 - D. Evaluated the internal controls used to process requests of taxpayer information.
- II. Developed trending information related to the number of requests processed, the number of inadvertent disclosures incurred, and the causes of such disclosures.
 - A. Obtained the total number of RAIVS and IVES requests made in FYs 2009 through 2013 and the SNIP information showing the total number of inadvertent disclosures that occurred in FYs 2009 through 2013.
 - B. Because the SNIP does not always identify the cause of the inadvertent disclosures, reviewed the inadvertent disclosure documentation maintained at the Austin and Cincinnati Campuses and determined whether the errors were caused by weak controls or a failure to follow existing controls.

¹ We could not project the results of our review at the Austin and Cincinnati Campuses to the entire population.



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Appendix II

Major Contributors to This Report

R. David Holmgren, Deputy Inspector General for Inspections and Evaluations
Kevin P. Riley, Director, Inspections & Evaluations
James Douglas, Supervisory Evaluator
Michelle Griffin, Lead Program Analyst
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Appendix III

Report Distribution List

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 Wage and Investment Division SE:W
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Appendix IV

Description of RAIVS and IVES Products

Product	Description
Photocopy of Tax Form	Copy of original return and all attachments/schedules, including Form W-2, <i>Wage and Tax Statement</i> .
Tax Return Transcript	A sanitized record of line items transcribed from an original return during processing. Changes made after transcription, such as the following, are not reflected on a return transcript: <ul style="list-style-type: none"> • Subsequent payments. • Amended returns. • Adjustments. These are available for the current year and the three prior years.
Account Transcript	A sanitized record of line items, including changes made after transcription. In response to requests for account transcripts, RAIVS provides the TDS transcripts or sanitized transcripts. Upon specific request, internal use transcripts are also provided. Internal use transcripts must be manually sanitized.
Record of Account	An account transcript that contains information on the financial status of the account. <ul style="list-style-type: none"> • A combination of line-item information and later adjustments to the account. • A sanitized record of line items transcribed from the original return during preprocessing, including adjustments made after the return was filed. • Available for the current year and three prior tax years. Most requests will be processed within 30 calendar days.
Verification of Non-filing	A notification disclosing that a return was not filed.
Forms W-2, <i>Wage and Tax Statement</i> , Forms 1098, <i>Mortgage Interest Statement</i> , Forms 1099 Information ¹	Wage and tax information up to the 10 most current tax years. Form 1099 information will be available for up to the 10 most current tax years.

¹ Form 1099 includes a series of forms used to report various types of income other than wages, salaries, and tips.



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Product	Description
<p>Closed Audit Reports and Copies of CP 2000, <i>Request for Verification of Unreported Income, Payments, or Credits</i>; CP 2501, <i>Initial Contact to Resolve Discrepancy Between Income, Credits, and/or Deductions Claimed on Return & Those Reported by Payer</i>; and/or Letter 2893C, <i>Underclaimed/Overclaimed Withholding, Excess Social Security or Medicare Tax Closure</i></p>	<p>Copies of letters and assessment information previously provided to the taxpayer.</p> <p>Requests are referred to RAIVS from Customer Service Representatives and Taxpayer Assistance Centers.</p> <p>The closed audit report responds to a taxpayer's claim of non-receipt of a <i>Notice of Proposed Changes to Income, Payments, Credits, Deductions, or Examination Reports</i>.</p>
<p>Copies of Miscellaneous Nontax Return Form</p>	<p>Form 8821, <i>Tax Information Authorization</i>, received without a Form 4506 or Form 4506-T² will be routed to the appropriate Accounts Management unit for processing based on the State of residence.</p> <ul style="list-style-type: none"> • Memphis. • Ogden. • Philadelphia. <p>Refer to the General Instructions of the Form 8821 for States served by each location and the respective fax number to refer the Form 8821.</p> <p>Exception: Form 8821 will be used by the Small Business Administration through the Cincinnati RAIVS unit for disaster requests.</p> <p>Requests for miscellaneous nontax returns will be processed in either of the Business Master File³ RAIVS locations under existing procedures:</p> <ul style="list-style-type: none"> • Form 1128, <i>Application to Adopt, Change, or Retain a Tax Year</i>. • Form 2553, <i>Election by a Small Business Corporation</i>.

Source: Internal Revenue Manual 3.5.20.2.3, *Description of RAIVS and IVES Products and Services*.

² Form 4506, *Request for Copy of Tax Return*, and Form 4506-T, *Request for Transcript of Tax Return*.

³The Business Master File is the IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.



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Appendix V

RAIVS and IVES Requests Processed by Type, Fiscal Years 2009 Through 2013

RAIVS Photocopy Requests						
FY	Austin	Cincinnati	Fresno	Kansas City	Ogden	Total
2009	30,373	29,974	43,605	36,827	48,955	189,734
2010	36,996	31,474	76,689	45,211	30,266	220,636
2011	40,095	39,976	66,933	65,146	39,578	251,728
2012	26,357	30,943	44,755	56,073	26,815	184,943
2013	25,930	28,057	33,294	38,816	25,693	151,790
Total	159,751	160,424	265,276	242,073	171,307	998,831
IVES Transcripts Requests						
FY	Austin	Cincinnati	Fresno	Kansas City	Ogden	Totals
2009	1,086,609	1,898,152	1,820,715	2,025,458	817,108	7,648,042
2010	3,348,368	4,516,862	3,326,043	5,254,534	4,939,606	21,385,413
2011	3,921,313	4,295,964	3,648,039	5,569,952	5,714,501	23,149,769
2012	3,084,604	4,450,815	4,772,429	5,327,734	1,433,886	19,069,468
2013	2,914,808	5,061,846	5,639,291	3,762,733	6,671,284	24,049,962
Total	14,355,702	20,223,639	19,206,517	21,940,411	19,576,385	95,302,654
Non-IVES Participant Transcript Requests						
FY	Austin	Cincinnati	Fresno	Kansas City	Ogden	Totals
2009	239,608	1,709,702	876,202	488,119	447,749	3,761,380
2010	388,198	2,479,184	1,361,344	894,009	912,268	6,035,003
2011	325,830	1,735,162	1,071,633	1,115,276	1,156,092	5,403,993
2012	308,200	674,948	869,362	1,061,884	614,862	3,529,256
2013	288,892	400,975	826,553	1,031,199	409,002	2,956,621
Total	1,550,728	6,999,971	5,005,094	4,590,487	3,539,973	21,686,253
Grand Total	16,066,181	27,384,034	24,476,887	26,772,971	23,287,665	117,987,738

Source: W&I Division, Specialty Programs Branch.



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Appendix VI

Cincinnati Employee Disclosure Incident Form

SNIP CASE # _____

Employee Disclosure Incident

Employee Name: _____

Date of Incident: _____

Did employee notify the Manager/Lead? _____

Number of Taxpayers affected? _____

Total number of years incorrectly sent? _____

Nature of Disclosure:

_____ *Employee has reviewed a copy of the Incident Report and the Case File.*

Employee Signature

Date

Manager Signature

Date

A copy of this incident with the SNIP report will be placed in your Employee Performance File.

Source: RAIVS and IVES Processing Unit, Cincinnati Campus.



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Appendix VII

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

OCT 21 2014

MEMORANDUM FOR R. DAVID HOLMGREN
DEPUTY INSPECTOR GENERAL FOR INSPECTIONS AND
EVALUATIONS

FROM: Debra Holland *Debra S. Holland*
Commissioner, Wage and Investment Division

SUBJECT: Draft Inspection Report – Requests for Taxpayer Information
Were Generally Processed Properly in the Return and Income
Verification Services and the Income Verification Express
Service Programs (#IE-13-017)

Thank you for the opportunity to review and respond to the subject draft report. We appreciate your acknowledgement that the Return and Income Verification Services (RAIVS) and Income Verification Express Service (IVES) units have adequate processes and procedures in place to prevent inadvertent disclosures of taxpayer information. The RAIVS and IVES units processed almost 118 million requests for taxpayer information during the five year period from Fiscal Years 2009 through 2013, with only 778 incidents of inadvertent disclosure, translating to an error rate of .00066 percent. We agree, however, that even one disclosure of Personally Identifiable Information (PII) is significant and we appreciate your recommendations for improvements to the program.

We will standardize best practices throughout the campus operations and improve instructions to employees and managers on the importance of timely reporting and performing detailed reviews of the reporting process. Actions have been taken to ensure employees receive appropriate training in processing PII-sensitive requests and preventing its unauthorized disclosure.

We are also addressing the issue of inadvertent disclosures due to human error (for example, key stroke errors) by providing self-service options for taxpayers and representatives through transcript delivery applications available on IRS.gov. Through September 1, 2014, the Get Transcript application on IRS.gov accommodated more than 17.3 million taxpayer requests for transcript information. And, as we expand these



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web-based self-service tools for transcript delivery, we will then further reduce the potential for inadvertent disclosures.

As noted in the report, incidents of inadvertent disclosure of PII are required to be reported within one hour of discovery. The Servicewide Notice Information Program (SNIP) is the system employees use to report inadvertent disclosures when they are discovered. When a disclosure incident affects multiple taxpayers, the event is reported as a single incident within the SNIP. Supplemental reporting on each affected individual is fully captured and provided to the Office of Taxpayer Correspondence and the Privacy, Government Liaison, and Disclosure function for evaluation of risks, notification, and reporting. The one-hour standard for reporting discovered incidents is based on guidance provided by the Office of Management and Budget (OMB)¹ for incident reporting of PII disclosures.

The report mentions the risk assessment process used to determine whether a taxpayer is notified of an inadvertent disclosure, and the low rate of notifications that have been triggered under that process. Currently, an inadvertent disclosure to an approved IVES participant would be considered a low-risk disclosure because IVES participants are required to sign an agreement to abide by the guidelines for safeguarding taxpayer data. While the report does not make any recommendations with respect to our risk assessment process, we recognize that unauthorized disclosures can have a significant impact on taxpayers and that our current exception criteria for notification should be revisited. A full review of our notification criteria will be performed to ensure that impacted taxpayers are appropriately notified when such disclosures occur.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Ivy McChesney, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment

¹ Office of Management and Budget Memorandum 07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*.



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Attachment

Recommendation

RECOMMENDATION 1

The Commissioner, W&I Division, should ensure that all unique taxpayers are reported in SNIP for each inadvertent disclosure, as required.

CORRECTIVE ACTION

We disagree with this recommendation. Procedures are in place for the recordation and separate reporting of multiple taxpayers affected by a single inadvertent disclosure incident. This process is not performed within the Servicewide Notice Information Program (SNIP) system, but is done in conjunction with the SNIP reporting and is referenced to the SNIP incident.

Limited resources preclude the expenditure of staff time to submit individual incident reports for each affected taxpayer through the SNIP. Reduced funding has required a need-based prioritization of Information Technology expenditures. Modifying the SNIP to streamline the process for reporting multiple taxpayers under the same incident is not a priority at this time.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendation

RECOMMENDATION 2

The Commissioner, W&I Division, should re-evaluate the IRM policy requiring that inadvertent disclosures be reported within one-hour of discovery to determine whether the time frame should be extended. If a longer period for reporting an inadvertent disclosure is needed, IRM 3.5.20.2.1 should be modified documenting the new time period. Managers should ensure that all disclosures are reported timely.

CORRECTIVE ACTION

We disagree with the recommendation to reevaluate the one-hour reporting timeframe and modify Internal Revenue Manual (IRM) 3.5.20.2.1, *Accounts Services - Processing Requests for Tax Return/Return Information*. The one-hour reporting standard is based on guidance provided by the Office of Management and Budget Memorandum 07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*. When an unauthorized disclosure is discovered, the one-hour reporting



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requirement conveys the appropriate sense of urgency for ensuring the disclosure is promptly reported and mitigation actions are taken.

We will remind employees and managers of the one-hour reporting window and the importance of adhering to that timeframe for timely reporting inadvertent disclosures. On October 1, 2014, Servicewide Electronic Research Program Alert 99A1023 was issued for this purpose.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendation

RECOMMENDATION 3

The Commissioner, W&I Division, should determine the proper method for documenting inadvertent disclosures and ensure that the method is consistently applied among the RAIVS and IVES processing units. The specific details of each inadvertent disclosure should be fully reported.

CORRECTIVE ACTION

We agree that consistency by all units in documenting inadvertent disclosures will improve program performance. Best practices will be evaluated and procedural changes will be documented in IRM 3.5.20.2.1.

IMPLEMENTATION DATE

March 16, 2015

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.



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Recommendation

RECOMMENDATION 4

The Commissioner, W&I Division, should ensure that IVES reconciliations are conducted at each IVES processing unit. Specific guidance should be provided to the quality review teams on how to conduct the reconciliation.

CORRECTIVE ACTION

The procedures for performing IVES reconciliations are contained in IRM 3.5.20.4.2.10. Email guidance was issued on June 24, 2014, to all sites, addressing and reinforcing the requirement and the expectation that the reconciliations be performed as specified in the procedures.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendation

RECOMMENDATION 5

The Commissioner, W&I Division, should ensure that the correct process for reporting inadvertent disclosures to OTC is sufficiently documented in IRM 3.5.20.2.1.

CORRECTIVE ACTION

The Submission Processing function will work with the Office of Taxpayer Correspondence to ensure the correct process for reporting inadvertent disclosures is documented in IRM 3.5.20.2.1.

IMPLEMENTATION DATE

March 16, 2015

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.