



*The Taxpayer Protection Program
Includes Processes and Procedures That Are
Generally Effective in Reducing Taxpayer
Burden*

October 17, 2018

Reference Number: 2019-40-004

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.

Redaction Legend:

1 = Tax Return/Return Information

2 = Law Enforcement Techniques/ Procedures and Guidelines for Law Enforcement Investigations or Prosecutions.

Phone Number / 202-622-6500

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

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



To report fraud, waste, or abuse, call our toll-free hotline at:

1-800-366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.



HIGHLIGHTS

THE TAXPAYER PROTECTION PROGRAM INCLUDES PROCESSES AND PROCEDURES THAT ARE GENERALLY EFFECTIVE IN REDUCING TAXPAYER BURDEN

Highlights

Final Report issued on October 17, 2018

Highlights of Reference Number: 2019-40-004 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

In January 2012, the IRS established the Taxpayer Protection Program (TPP) to proactively identify and prevent the processing of identity theft tax returns and assist taxpayers whose identities are used to file such returns. However, as part of the TPP process to identify potential identity theft returns, many legitimate taxpayer returns are also selected. When this happens, it is considered to be a "false positive." Taxpayers selected by this process must contact the IRS to authenticate their identity and confirm that they filed the return so that the TPP can issue their refund.

WHY TIGTA DID THE AUDIT

This audit was initiated to assess the IRS's efforts to reduce the burden for innocent taxpayers whose tax returns and refunds are held during processing as a result of TPP identity theft filters.

WHAT TIGTA FOUND

For Calendar Year (CY) 2017, the IRS reported that the TPP's false positive rate was 65 percent. To reduce the number of legitimate returns sent to the TPP, the IRS analyzes results from the prior year's identity theft filters and modifies or retires filters that select a high rate of taxpayer returns.

The TPP also implemented processes and procedures that were generally effective to reduce burden for taxpayers whose returns are identified as potential identity theft. Our analysis of returns that were sent to the TPP in CY 2017 through May 25, 2017, and were issued a

refund, found that the refunds were issued in an average of 46 days. The refund issuance time frame is directly contingent upon the time frame in which the taxpayer contacts the IRS and passes authentication in response to a TPP letter. The 46-day average time is less than the nine weeks that IRS customer service representatives inform taxpayers to expect their refunds.

In addition, the IRS issued a TPP letter to 1,481,740 (99 percent) of 1,501,652 individuals whose tax returns were sent to the TPP in CY 2017, as of May 25, 2017. For the majority of the 19,912 (1 percent) individuals who were not issued a letter, a programming error prevented the required TPP marker from posting to the taxpayers' accounts. Without this marker, TPP tax returns were not held from processing and letters were not issued to the individuals. The IRS identified the programming error on January 27, 2017, and promptly corrected it on January 30, 2017.

Finally, some taxpayers did not receive refunds to which they were entitled because tax examiners did not properly resolve their cases. Our review of a statistically valid sample of 26 tax returns sent to the Return Integrity and Compliance Services (RICS) organization by the Compliance Services Collection Operations (CSCO) function in CY 2017 identified that employees did not properly resolve three (11.5 percent) returns, with refunds totaling \$261,613.

In CY 2017, the CSCO function referred 282 tax returns to the RICS organization. TIGTA estimates that 19 identity theft tax returns referred to the RICS organization in CY 2017 were not accurately resolved, resulting in taxpayer refunds being delayed or not issued.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS review the 256 cases that the CSCO function referred to the RICS organization in CY 2017 that were not included in the sample of 26 cases to ensure that the cases were properly resolved.

The IRS agreed with this recommendation and plans to review the referred cases for accuracy and completeness.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 17, 2018

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Taxpayer Protection Program Includes Processes and Procedures That Are Generally Effective in Reducing Taxpayer Burden (Audit # 201740013)

This report presents the results of our review to evaluate the Internal Revenue Service's (IRS) efforts to reduce the burden for innocent taxpayers whose tax returns and refunds are held during processing as a result of Taxpayer Protection Program identity theft filters. This audit was included in our Fiscal Year 2018 Annual Audit Plan and addresses the major management challenge of Identity Theft and Impersonation Fraud.

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

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



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Table of Contents

| | |
|---|---------|
| Background | Page 1 |
| Results of Review | Page 5 |
| The Taxpayer Protection Program Includes Processes and Procedures to Reduce the Burden for Taxpayers Whose Returns Are Identified As Potential Identity Theft | Page 5 |
| Some Taxpayers Did Not Receive Their Refunds Because Tax Examiners Did Not Properly Resolve Their Cases | Page 7 |
| Recommendation 1: | Page 8 |
| Appendices | |
| Appendix I – Detailed Objective, Scope, and Methodology | Page 9 |
| Appendix II – Major Contributors to This Report | Page 11 |
| Appendix III – Report Distribution List | Page 12 |
| Appendix IV – Outcome Measure | Page 13 |
| Appendix V – Management’s Response to the Draft Report | Page 14 |



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Abbreviations

| | |
|------|---|
| CSCO | Compliance Services Collection Operations |
| CSR | Customer Service Representative |
| CY | Calendar Year |
| DDb | Dependent Database |
| FRE | Fraud Referral and Evaluation |
| IRS | Internal Revenue Service |
| RICS | Return Integrity and Compliance Services |
| RRP | Return Review Program |
| SSN | Social Security Number |
| TAC | Taxpayer Assistance Center |
| TIN | Taxpayer Identification Number |
| TPP | Taxpayer Protection Program |



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Background

The Internal Revenue Service (IRS) established the Taxpayer Protection Program (TPP) in January 2012 in an effort to proactively identify and prevent the processing of identity theft tax returns and assist taxpayers whose identities are used to file identity theft tax returns. The TPP is in the Wage and Investment Division's Return Integrity and Compliance Services (RICS) organization, with employees located throughout the United States who answer taxpayers' telephone calls and resolve TPP cases. The IRS uses the following systems during tax return processing to identify fraudulent tax returns involving identity theft:

- Return Review Program (RRP) – Uses predictive analytics, models, filters, clustering, a scoring system, business rules, and selection groups to identify suspected identity theft and fraudulent tax returns.
- Dependent Database (DDb) – A rules-based system that incorporates information from many sources that include the Department of Health and Human Services, the Social Security Administration, and the IRS. The IRS implemented identity theft rules within the DDb system in Processing Year¹ 2012. Tax returns are analyzed to identify potentially fraudulent returns involving identity theft.

In addition to these systems, Fraud Referral and Evaluation (FRE) analysts manually review tax returns to identify suspicious patterns and trends that potentially have not been identified by the RRP or DDb. Figure 1 provides the number of returns selected for the TPP for Calendar Years (CY) 2016 and 2017.

Figure 1: Tax Returns Selected for the TPP

| Method of Return Selection | Number of Returns Selected for the TPP | |
|----------------------------|--|------------------|
| | CY 2016 | CY 2017 |
| RRP | 711,673 | 872,694 |
| DDb | 1,012,843 | 992,762 |
| FRE | 410,551 | 163,462 |
| Total | 2,135,067 | 2,028,918 |

Source: TPP database for CYs 2016 and 2017. Some returns were selected by multiple return selection methods.

Tax returns identified as potential identity theft by the return selection processes are worked by the TPP.

¹ The calendar year in which the tax return or document is processed by the IRS.



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Issuance of TPP letters to taxpayers

Once a tax return is selected for the TPP, the IRS places a marker on the associated tax account to hold the tax return from further processing and sends the taxpayer one of four letters requesting that he or she confirm his or her identity with the IRS. Letters are sent to the address listed on the identified potentially fraudulent tax return. Based on the type of letter received, taxpayers are required to authenticate their identity using the TPP telephone line, visiting a Taxpayer Assistance Center² (TAC), or online and confirm that they filed the return. The four letters are:

1. **Letter 4883C, Potential Identity Theft during Original Processing** – Advises taxpayers that a return was received with their name and Social Security Number (SSN) and that to protect them from identity theft, their identity needs to be verified before processing the return. Taxpayers receiving this letter are required to call the TPP telephone line to authenticate their identity.
2. **Letter 5071C, Potential Identity Theft during Original Processing with Online Option** – Advises taxpayers that a return was received with their name and SSN and that to protect them from identity theft, their identity needs to be verified before processing the return. Taxpayers receiving this letter have the option to authenticate their identity online using the IRS's Identity Verification Services website or to call the TPP telephone line.
3. **Letter 5447C, Potential Identity Theft during Original Processing; Foreign Address** – Advises taxpayers that a return was received with their name and SSN and that the IRS is questioning its authenticity. Taxpayers receiving this letter are advised that they are being contacted to verify information on their current and prior year return and that they must call the TPP telephone line or send a response in writing to authenticate their identity in order for their return to be processed.
4. **Letter 5747C, Potential Identity Theft during Original Processing – TAC AUTH ONLY** – Advises taxpayers that if they filed the return, they must visit a TAC to authenticate their identity. Individuals issued this letter are required to visit a TAC because the IRS identified that a tax return was filed with their SSN and that the SSN was stolen in a data security breach (e.g., tax return preparer reports a data breach). If they did not file the tax return, they can call the TPP telephone line to report that they did not file the return. Beginning in Processing Year 2018, the IRS sent taxpayers a Letter 4883C, instead of a Letter 5747C, allowing them to call the TPP telephone line to authenticate (but only if the address on the return matched the address on their prior year return).

Letter recipients are asked to authenticate with the IRS within 30 days of the date on Letters 4883C, 5071C, or 5747C and within 45 days from the Letter 5447C date. IRS management noted that the IRS provides a grace period of an additional 90 days for the recipient

² The IRS provides face-to-face assistance at 362 TACs located throughout the country.



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

to respond. Tax returns selected for the TPP will be held from processing until taxpayers contact the IRS to authenticate their identity and confirm that they filed the tax return.

Taxpayer authentication process

IRS internal guidelines require customer service representatives (CSR) who answer the TPP telephone line to ask the caller basic authentication questions such as his or her SSN, name, address, date of birth, and the TPP letter type that he or she received. Individuals calling the TPP must also provide the CSR with the *****2*****,³ *****2*****. If the caller indicates that he or she filed the return, the CSR will also ask the caller a series of high-risk authentication questions to verify additional information such as:

- *****2*****.
- *****2*****.
- *****2*****.
- *****2*****.
- *****2*****.

For taxpayers who successfully answer these questions, the CSR removes the marker from the taxpayer's account, which allows the return to process and the associated refund to be issued. The CSR informs the taxpayer to expect his or her refund in nine weeks if the IRS finds no other issues with the tax return.

Callers who do not answer the authentication questions or cannot provide the correct control number to the CSR are transferred to the TAC appointment telephone line to schedule an appointment to authenticate in person. If no contact is made with the IRS in response to a TPP letter, the IRS considers the returns to have been filed by identity thieves and removes the returns from further processing (*i.e.*, the tax return does not post to the taxpayer's account and the refund is not issued).

TPP Release Plan is an effort to reduce TPP selection of returns filed by innocent taxpayers

On March 15, 2017, the IRS implemented the TPP Release Plan to remove certain tax returns identified as potential identity theft from the TPP review process if the returns meet specific criteria. *****2*****
*****2*****
*****2*****:

³ *****2*****.



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

- *****2***** - *****2*****
*****2*****
*****.
- *****2***** - *****2*****
*****2*****
*****.
- *****2***** - *****2*****
*****2*****
*****.

This review was performed in the RICS office in Austin, Texas, and the Compliance Services Collection Operations (CSCO)⁴ office in Atlanta, Georgia, from October 2017 through June 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁴ The CSCO function works tax return delinquency cases in which the IRS receives third-party income documents showing the individuals earned income but did not file a tax return.



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Results of Review

The Taxpayer Protection Program Includes Processes and Procedures to Reduce the Burden for Taxpayers Whose Returns Are Identified As Potential Identity Theft

The IRS reports that the TPP proactively identified 670,857 identity theft tax returns and prevented the issuance of \$8.9 billion in fraudulent tax refunds in CY 2017. However, the TPP's process to identify potential identity theft returns also selects many tax returns that were actually filed by innocent taxpayers. When a legitimate return is selected as a potentially fraudulent return, it is considered to be a "false positive." These taxpayers must contact the IRS to authenticate their identity and confirm that they filed the return so that the TPP can issue their refund.

For CY 2017, the IRS reported a TPP false positive rate of 65 percent. There are a number of reasons for the high false positive rate. This includes the need to continue to develop new filters and continuously adapt existing filters as identity theft patterns are constantly evolving. The IRS recognizes that new filters will have high false positive rates, which will require continued adjustment based on the returns selected. In addition, identity thieves continue to grow more sophisticated and their fraudulent returns often mirror the actual taxpayer's return. This makes it hard for the IRS to distinguish the identity thieves' returns from returns filed by legitimate taxpayers. Finally, with the number of employers and institutions that have been breached, a large number of Taxpayer Identification Numbers (TIN)⁵ have been placed on the Dynamic Selection List as a protective measure, and are intentionally selected into the TPP. The TINs are known to have been compromised and, as such, the IRS stops the returns and gives the legitimate taxpayers the opportunity to authenticate before allowing the returns to complete processing through to posting.

To reduce the number of legitimate returns sent to the TPP (*i.e.*, the false positive rate), the IRS analyzes results from the previous processing year's selection filters. Models with high false positive rates are modified or retired. This process allows the IRS to adapt to the changing behavior of fraudsters while aiming to keep the false detection rate as low as possible. IRS officials stated that there is a tradeoff between identity theft tax return detection and the false positive rate. The IRS can increase the score needed to select a return for the TPP which would lower the false positive rate. However, this would also decrease the number of identity theft returns detected, resulting in a higher number of fraudulent refunds paid. Given this fact, it is

⁵ A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, the TIN is either an Employer Identification Number, a Social Security Number, or an Individual TIN.



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

unlikely the problem of false positives can be eliminated. Therefore, the IRS must continuously improve its processes to assist lawful taxpayers whose returns are sent to the TPP.

Our analysis of 890,303 taxpayers whose returns were sent to the TPP in CY 2017 through May 25, 2017, and were issued a refund found that, on average, refunds were issued within 46 days.⁶ The refund issuance time frame is contingent upon the time frame in which the taxpayer contacts the IRS and passes authentication in response to a TPP letter. Figure 2 provides a breakdown of the time frame for taxpayers to receive their refund.

Figure 2: Time Frame for Taxpayers to Receive Their Refunds

| Days to Issue Refund | Number of Tax Returns | Percentage of Total Returns |
|----------------------|-----------------------|-----------------------------|
| 1 to 30 days | 338,024 | 38% |
| 31 to 40 days | 162,617 | 18% |
| 41 to 50 days | 153,234 | 17% |
| 51 to 60 days | 48,960 | 5% |
| 61 days or more | 187,468 | 21% |
| Total | 890,303 | |

Source: Our analysis of tax accounts for taxpayers whose returns were sent to the TPP and claimed a refund in CY 2017, as of May 25, 2017. The percentages do not total 100 due to rounding.

The average refund issuance time frame of 46 days is less than the nine weeks that internal procedures require CSRs to inform taxpayers to expect their refund after they authenticate.

TPP letters associated with potentially fraudulent returns were sent as required

Our review identified that the IRS issued a TPP letter to 1,481,740 (99 percent) of the 1,501,652 individuals whose tax returns were sent to the TPP in CY 2017 through May 25, 2017. For the majority of the 19,912 (1 percent) individuals who were not issued a letter, an RRP programming error prevented the TPP marker from posting to the Master File⁷ accounts after the returns were selected for TPP review. As previously stated, IRS procedures require this marker to be posted to the taxpayer's account to hold the tax return from further processing. Without the marker, identified TPP returns were not held from processing and letters were not issued to the taxpayers. The IRS identified the programming error on January 27, 2017, and promptly corrected it on January 30, 2017.

⁶ We measured the number of days taken to issue the refund from the date the IRS placed a TPP identity theft marker on the taxpayer's account to the date the IRS issued the refund.

⁷ The IRS database that stores various types of taxpayer account information.



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Some Taxpayers Did Not Receive Their Refunds Because Tax Examiners Did Not Properly Resolve Their Cases

Our review of a statistically valid sample⁸ of 26 tax returns⁹ sent to the RICS organization by the CSCO function in CY 2017 identified that RICS organization employees did not properly resolve *****1*****¹⁰ *****1***** *****1****. In CY 2017, the CSCO function referred 282 tax returns to the RICS organization. Based on the results of our statistically valid sample, we estimate that 19 of the identity theft tax returns¹¹ the CSCO function referred to the RICS organization in CY 2017 were not accurately resolved, resulting in taxpayer refunds being delayed or not issued. Figure 3 provides the date on which the *****1***** *****1***** and the time frame that the RICS organization took to resolve these cases.

Figure 3: Time Frame the RICS Organization Took to Resolve the Case

| Case | Date CSCO Sent the Tax Return to RICS | Date Case Resolved | Number of Days RICS Took to Resolve the Case |
|------|---------------------------------------|--------------------|--|
| 1 | *****1***** | *****1***** | **1** |
| 2 | *****1***** | *****1***** | **1** |
| 3 | *****1***** | *****1***** | **1** |

Source: Our analysis of Forms 3210 and taxpayers' accounts on the Master File, as of June 27, 2018.

The CSCO function works tax return delinquency cases, which includes issuing Notice CP 59, *1st Notice—Return Delinquency*, to individuals when the IRS receives third-party income documents showing the individuals earned income but did not file a tax return. If these individuals respond to Notice CP 59 stating that they did file a tax return and the CSCO function determines that the IRS previously concluded the return was an identity theft return, the CSCO function forwards the case to the RICS organization for resolution. Specifically, IRS procedures require the CSCO function to forward returns to the RICS organization if the returns meet the following criteria:

- The CSCO function identified the taxpayer's account for collection activities, and the taxpayer was issued a Notice CP 59.

⁸ We selected a statistically valid sample of cases using a 90 percent confidence level, 5 percent expected error rate, and ± 5 percent precision factor.

⁹ CSCO management could not provide 18 of the 44 tax returns that we selected for review because the Form 3210, *Document Transmittal*, did not contain the taxpayer's complete SSN. See Appendix IV for further details.

¹⁰ *****1*****

¹¹ The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the point estimate is between six and 44.



The Taxpayer Protection Program Includes Processes and Procedures That Are Generally Effective in Reducing Taxpayer Burden

- The IRS previously updated the taxpayer’s account to indicate that a tax return filed was an identity theft return and was not processed.
- The taxpayer responded to Notice CP 59 by submitting a copy of his or her filed tax return that the IRS previously deemed an identity theft return.

RICS management stated that *****1*****
 *****1*****
 *****1*****
 *****1*****
 *****1*****
 *****1*****. IRS procedures require RICS employees to monitor taxpayers’ accounts to ensure that tax returns are processed and refunds are issued when applicable.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should review the 256 cases that the CSCO function referred to the RICS organization in CY 2017 that were not included in our sample of 26 cases to ensure that the cases were properly resolved. This should include obtaining the taxpayers’ complete SSNs for those Forms 3210 with an incomplete SSN.

Management’s Response: The IRS agreed with this recommendation. IRS management plans to work with the CSCO function to identify the remaining accounts and will review them for accurate completion.



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the IRS's efforts to reduce the burden for innocent taxpayers whose tax returns and refunds are held during processing as a result of the TPP identity theft filters. To accomplish this objective, we:

- I. Determined if the IRS issued a letter to all taxpayers whose returns were sent to the TPP in CY 2017, as of May 25, 2017. If letters were not issued, we interviewed RICS management to determine the reasons why the letters were not issued for those taxpayers.
- II. Computed the average time to resolve cases by calculating the number of days from the placement of the TPP marker on the taxpayers' accounts and the date of the final refund.
- III. Evaluated controls to move returns improperly posted to IRS's identity theft module.
 - A. Identified and reviewed the guidelines for posting returns to the identity theft module and the Individual Master File¹ and moving returns between the identity theft module and the Individual Master File.
 - B. We selected a statistically valid sample of 44 tax return using a 90 percent confidence level, 5 percent expected error rate, and ± 5 percent precision factor so that we could project our results over the population of the 282 tax returns sent to the RICS organization by the CSCO function in CY 2017. However, CSCO function management was unable to provide 18 of the 44 tax returns selected for review because the Form 3210, *Document Transmittal*, did not contain the taxpayer's complete SSN. As such, our effective sample was 26 tax returns and the adjusted population for our projection was 176. Our contracted statistician assisted with reviewing our sampling plans and projections.
 - C. Reviewed the sampled CY 2017 returns sent by the CSCO function to the RICS organization to determine if the returns were properly moved from the identity theft module, if warranted.

Data validation methodology

During this review, we relied on data provided to us by the IRS for individuals selected for the TPP in CY 2017 as of April 27, 2017. We validated this information by comparing it to data obtained from the IRS's Master File² that were available on the Treasury Inspector General for

¹ The IRS database that maintains transactions or records of individual tax accounts.

² The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Tax Administration's Data Center Warehouse as of May 25, 2017. Before relying on the data, we selected random samples from the extracts and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System.³ We also obtained Generalized Unpostable 55 and 57 Reports for CY 2017, which contain all open and closed unpostable files respectively. We validated this information by comparing the information in the Generalized Unpostable reports to the Letter Generation File, which contained the TPP notices issued by the IRS to individuals selected for the TPP. We also compared sampled data from the Generalized Unpostable reports and verified that the data in the extracts were the same as data captured in the IRS's Integrated Data Retrieval System. Finally, we performed data analysis on the Letter Generation File to identify missing data, outliers, or obvious errors. Based on the results of our testing, we believe that the data used in our review were reliable.

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: processes to ensure that taxpayers sent to the TPP during CY 2017 received the requisite letter and controls to ensure that taxpayers' returns improperly identified as identity theft returns were timely resolved. We evaluated these controls by comparing data provided to us by the IRS on the those individuals sent to the TPP in CY 2017 to data obtained from the IRS's Master File and to the Letter Generation File. In addition, we tested controls by taking a statistically valid sample of tax returns improperly posted to the IRS's identity theft module and sent to the RICS organization by the CSCO function in CY 2017. We reviewed the cases using IRS's Integrated Data Retrieval System to ensure that they were timely resolved and reported issues identified. Our contracted statistician assisted with reviewing our sampling plans and projections.

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



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Appendix II

Major Contributors to This Report

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)
Allen Gray, Director
Van Warmke, Acting Audit Manager
Tanya Boone, Lead Auditor
Nikole L. Smith, Senior Auditor
Jerome Antoine, Auditor
Kathy Coote, Auditor



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Commissioner, Small Business/Self-Employed Division
Commissioner, Wage and Investment Division
Director, Accounts Management, Wage and Investment Division
Director, Collection, Small Business/Self-Employed Division
Director, Customer Account Services, Wage and Investment Division
Director, Return Integrity Operations, Wage and Investment Division
Director, Return Integrity and Compliance Services, Wage and Investment Division
Director, Office of Audit Coordination



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Appendix IV

Outcome Measure

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

Type and Value of Outcome Measure:

Taxpayer Rights and Entitlements – Potential; 19 taxpayers filed a tax return that the IRS processed as an identity theft return but did not accurately resolve after subsequent work determined the return was filed by the taxpayer. This resulted in refunds being delayed or not issued (see page 7).

Methodology Used to Measure the Reported Benefit:

We initially selected a statistically valid sample of 44 of the 282 tax returns sent to the RICS organization by the CSCO function in CY 2017. However, CSCO function management was unable to provide 18 of the 44 tax returns selected for review because the Form 3210, *Document Transmittal*, did not contain the taxpayers' complete SSN. As such, our effective sample was 26 tax returns. We determined that the RICS organization employees did not properly resolve three (11.5 percent) of the 26 returns reviewed. We applied the 11.5 percent error rate to an adjusted population size to estimate the number of potential tax returns that the RICS organization did not properly resolve. Specifically, the adjusted population is 167 (282 [total population of returns sent to RICS] x 26 [returns reviewed] / 44 [returns sampled]) and the projected number of exception cases is 19 (11.5 percent [exception rate] x 167 [adjusted population]).

Based on the results of our statistically valid sample, we estimate that 19 identity theft tax returns¹ the CSCO function referred to the RICS organization in CY 2017 were not accurately resolved, resulting in taxpayer refunds being delayed or not issued.

¹ The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the point estimate is between six and 44.



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Appendix V

Management's Response to the Draft Report




COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

AUG 23 2016

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – The Taxpayer Protection Program Includes
Processes and Procedures That Are Generally Effective in
Reducing Taxpayer Burden (Audit # 201740013)

Thank you for the opportunity to review and provide comments on the subject draft report. The IRS is committed to protecting U.S. taxpayers by proactively detecting potentially fraudulent refund claims and preventing their payment. These actions save billions of dollars annually by stopping the issuance of potentially fraudulent refunds. A significant achievement in our ability to identify these claims has been the development of the Taxpayer Protection Program (TPP).

The TPP, which was implemented in 2012, was a significant step in advancing the IRS from a defensive and reactive model for addressing identity theft-related refund tax fraud, to a proactive and preventive posture. Were it not for the successful operation of the program, a substantial number of the taxpayers whose identities were used to file the 670,857 returns referred to the program in 2017 would not have known their identities were being used to file fraudulent returns until their true returns were rejected by IRS systems as being duplicate submissions. The accounts of these taxpayers were protected from fraudulent activity and the U.S. taxpayers were protected by stopping \$8.9 billion from being paid out to the fraudsters making these claims.

In today's environment, personally identifiable information of individuals is at a greater risk of having been improperly obtained by fraudsters than ever before. The ubiquity of this information poses greater challenges to our ability to determine the likelihood of a return having been filed by the legitimate taxpayer. Our fraud detection models and filters are constantly reviewed and updated to respond to ever-changing tactics employed by fraudsters and to address emerging trends as they are identified. This permits us to make better-informed decisions when evaluating tax returns as they are filed and processed, with the overall objective of stopping only those returns that pose the most significant amount of risk for fraud. We attempt to minimize the burdens the



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

2

program places on legitimate taxpayers and our processes have been designed to promptly complete processing returns upon successful authentication.

When taxpayers are notified that a return filed under their name and Taxpayer Identification Number has been referred to the TPP, they are asked to authenticate their identities and confirm they filed the return. This can be accomplished through the TPP telephone line, at a Taxpayer Assistance Center, or online. The method of authentication is determined by the level of risk that identity theft may have occurred. The IRS takes this authentication process very seriously and has expended substantial resources to identify and stop tax fraud and the victimization of innocent taxpayers when their personally identifiable information is misused. We appreciate the recognition in the report of the nuances associated with administering the TPP, including the TPP Release Plan.

One issue noted in the report is a small number of taxpayers not receiving their refunds due to incorrect case resolution. We have addressed this by communicating with our employees working TPP cases and through outreach and improved communications with other IRS functions that make referrals to the TPP. A reported outcome is that 19 cases may not have been accurately resolved. This is based on three confirmed cases from a sample of 26, extrapolated to a population of 282 referrals from other functions. We do not disagree with the estimate; however, it is considered an anomaly in the context that over 890,000 taxpayers processed through the TPP up through May 25, 2017, did receive their refunds timely.

Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact Michael Beebe, Director, Return Integrity and Compliance Services, Wage and Investment Division, at (470)-639-3250.

Attachment



*The Taxpayer Protection Program Includes Processes
and Procedures That Are Generally Effective
in Reducing Taxpayer Burden*

Attachment

Recommendation

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should review the 256 cases that the Compliance Services Collection Operations (CSCO) function referred to the RICS organization in Calendar Year 2017 that were not included in our sample of 26 cases to ensure that the cases were properly resolved. This should include obtaining the taxpayers' complete SSNs for those Forms 3210 with an incomplete Social Security Number.

CORRECTIVE ACTION

We agree with this recommendation and will work with the CSCO function to identify the remaining accounts and will review them for accurate completion.

IMPLEMENTATION DATE

April 15, 2019

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

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