

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Opportunities Exist to Improve the Accuracy of Information in the Centralized Authorization File and Increase the Use of the Tax Pro Account System**

May 24, 2023

Report Number: 2023-40-033

# HIGHLIGHTS: Opportunities Exist to Improve the Accuracy of Information in the Centralized Authorization File and Increase the Use of the Tax Pro Account System

Final Audit Report issued on May 24, 2023

Report Number 2023-40-033

## Why TIGTA Did This Audit

In September 2020, TIGTA reported that improvements were needed to address the continued deficiencies in ensuring the accuracy of the Centralized Authorization File (CAF) database and made 12 recommendations for improvements. IRS management agreed with nine of the recommendations.

This audit continues our assessment of the IRS's controls to authenticate requests from individuals seeking to represent taxpayers and access taxpayer information.

## Impact on Tax Administration

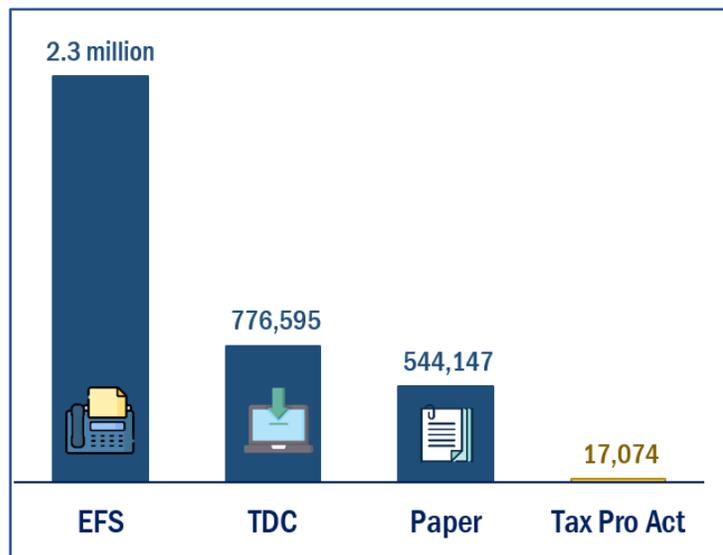
Taxpayers can grant a power of attorney to individuals (*i.e.*, representatives) who are given the authority to represent a taxpayer before the IRS. Therefore, the IRS must implement controls to authenticate the validity of the authorization forms to ensure that the taxpayer signed the form. Without these controls, identity thieves could submit fraudulent authorization forms to steal the taxpayers' information.

## What TIGTA Found

TIGTA previously reported that improvements were needed to ensure the accuracy of the CAF. Although management took actions to address our prior concerns and improve the accuracy of the CAF, the IRS still does not have sufficient controls to ensure the accuracy of information in the CAF database. TIGTA continued to find issues with the accuracy and reliability of the information in the CAF.

Our review of the CAF database identified the same types of concerns as reported previously. For example, our review identified 8,764 deceased authorized individuals and the IRS's Research function identified 15,713 authorized individuals with multiple CAF numbers in the database. A CAF number is systemically generated for each authorized individual when a CAF record is established. In addition, CAF numbers with confirmed fraudulent activity continue to remain in the CAF database.

The IRS also developed Tax Pro Account to strengthen security over the process for representatives to access taxpayers' account information. However, since it was launched in 2021, Tax Pro Account was rarely used. The following figure illustrates the number of authorizations received in Fiscal Year 2022.



EFS = Enterprise File Storage. TDC = Taxpayer Digital Communication.

Although IRS management promoted Tax Pro Account, they have no plans to conduct targeted outreach to authorized individuals and taxpayers to determine why people who have logged on to use Tax Pro Account to submit authorizations do not continue to use it. Increased use of Tax Pro Account could allow the IRS to redirect resources to assist with addressing its backlogged inventories.

## What TIGTA Recommended

TIGTA made four recommendations to the IRS to improve the accuracy of the information in the CAF database and to conduct outreach encouraging the use of Tax Pro Account to submit authorizations. The IRS agreed with all four recommendations.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**  
**WASHINGTON, D.C. 20220**

May 24, 2023

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

*Heather Hill*

**FROM:** Heather M. Hill  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Opportunities Exist to Improve the Accuracy of Information in the Centralized Authorization File and Increase the Use of the Tax Pro Account System (Audit # 202240011)

This report represents the results of our review to evaluate the Internal Revenue Service's (IRS) controls to authenticate third-party authorization requests to represent taxpayers and access taxpayer information. This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Protecting Taxpayer Data and IRS Resources*.

Management's complete response to the draft audit report is included as Appendix II. If you have any questions, please contact me or Diana M. Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

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## **Background**

Under Internal Revenue Code § 6103(e)(6), taxpayers can grant a power of attorney to individuals (*i.e.*, representatives) who may represent them before the Internal Revenue Service (IRS).<sup>1</sup> Moreover, Internal Revenue Code § 6103(c) allows taxpayers to authorize persons or organizations to access their confidential tax information. Therefore, the IRS must implement controls to authenticate the validity of the authorization forms to ensure that the taxpayer signed the form. Without these controls, identity thieves could submit fraudulent authorization forms to steal the taxpayer’s information. Figure 1 shows two authorization form types, permissions granted, and the information required to authenticate each form.

**Figure 1: Authorization Forms**

Form Number	Type of Authorization Granted	Requirements for Processing
<b>Form 2848, Power of Attorney and Declaration of Representative</b>	Authorizes a representative to perform acts on behalf of the taxpayer, including authorization to represent a taxpayer before the IRS (includes signing returns and making agreements with the IRS). Representatives may request, receive, and submit forms such as Forms 1040, <i>U.S. Individual Income Tax Return</i> ; Forms W-2, <i>Wage and Tax Statement</i> ; and others.	Form must include elements such as the taxpayer’s Social Security Number (SSN), name, address, and dated signature. The form must have the representative’s name, address, acts authorized, designation under which they are authorized to practice before the IRS, type of tax or tax forms, specific period(s), and representative’s signature.
<b>Form 8821, Tax Information Authorization</b>	Permits a third-party designee to receive returns and return information. The designee may request the same form types as a power of attorney.	Form submission must include basic identifying information for the taxpayer such as SSN, name, address, and dated signature. In addition, the form must include the designee’s name and address.

*Source: Forms 2848 and 8821 Instructions, Internal Revenue Manual, and Publication 216, Conference and Practice Requirements.*

The authority granted by these forms can be revoked at any time by the taxpayer or withdrawn by the representative or designees (hereafter referred to as an authorized individual). In addition, oral consent authorizing the disclosure of tax return information to third parties does not substitute for a power of attorney or a legal designation. When the taxpayer provides oral consent for a third party to access their tax information, discussions are limited to the issue for which oral consent is given.

### **Processing Forms 2848 and 8821**

Tax examiners in the IRS’s Centralized Authorization File (CAF) units located in Philadelphia, Pennsylvania; Memphis, Tennessee; and Ogden, Utah, process Forms 2848 and 8821. These CAF units process authorization requests for taxpayers (individuals and businesses) residing in the United States. The Philadelphia CAF unit also processes authorizations submitted

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<sup>1</sup> Internal Revenue Code § 6103, *Confidentiality and disclosure of returns and return information.*

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by or on behalf of international taxpayers. Figure 2 provides the number of forms processed by each CAF unit in Fiscal Year 2022.<sup>2</sup>

**Figure 2: Number of Forms 2848 and 8821  
Processed by Each CAF Unit in Fiscal Year 2022**

Processing Site	Receipts	Closures	Ending Inventory
Memphis	1.3 million	1.3 million	4,000
Ogden	1.7 million	2.4 million	26,000
Philadelphia	0.6 million	0.6 million	26,000
<b>Totals<sup>3</sup></b>	3.7 million	4.3 million	57,000

*Source: Customer Account Services, Accounts Management Paper Inventory Reports.*

Either a taxpayer or a taxpayer’s authorized individual can submit Form 2848. The authorized individual listed on the form must be an individual. However, for Form 8821, an individual or a business can be listed. The CAF units accept forms via mail, fax, or online submissions. Once received, clerical staff in the CAF units sort the mailed forms by receipt date, batch them by receipt type, and use a database to track the faxed and online CAF inventory.

### **Paper and fax processing**

CAF units process forms on a first-in, first-out basis, regardless of the method used to submit the authorization. IRS guidelines require Forms 2848 and 8821 to be processed within five business days from receipt. Figure 3 identifies the five required elements tax examiners are required to confirm when processing an authorization request for Forms 2848 and 8821.

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<sup>2</sup> Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government’s fiscal year begins on October 1 and ends on September 30.

<sup>3</sup> Totals may not add up due to rounding.

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**Figure 3: Required Elements for Forms 2848 and 8821**

Required Element	Form 2848	Form 8821
<b>Taxpayer Signature and Date</b> - The taxpayer's dated signature is required. An electronically signed, printed, or stamped signature is not acceptable. <sup>4</sup> Authorized employees of a business (e.g., officer of the company, employee designated by the board of directors) or an individual may sign Form 8821.	✓	✓
<b>Representative's Information</b> - The representative's designation under which they are authorized to practice before the IRS must be present (e.g., certified public accountant, enrolled agent, attorney), licensing jurisdiction/number (if applicable), along with the representative's signature and date.	✓	✗
<b>Acts Authorized and Tax Periods</b> - Acts authorized on Form 2848 or tax information on Form 8821 (e.g., type of tax, tax form number, or tax year). The IRS will not record on the CAF system future tax years or periods listed that exceed three years from December 31 of the year that the IRS receives the form.	✓	✓
<b>Taxpayer Information</b> - Clear identification of the taxpayer (i.e., name, address, Taxpayer Identification Number (TIN)). <sup>5</sup> The presence of two of the three identifiers is sufficient as long as the TIN is on the authorization. The tax examiner is required to validate the taxpayer's information using the TIN provided through Integrated Data Retrieval System research. <sup>6</sup>	✓	✓
<b>Third-Party Information</b> - Clear identification of the third party (i.e., name and address).	✓	✓

Source: IRS Internal Revenue Manual 21.3.7.5.1 dated June 8, 2021.

If all essential elements are on the form, the tax examiner manually transcribes all form information into the CAF database. If a required element is missing, the tax examiner should not process the form. Instead, the tax examiner should send Letter 861C, *Power of Attorney Tax Information Authorization and/or U.S. Estate Tax Return (Forms 2848, 8821, or 706) Incomplete for Processing*, to the taxpayer requesting additional information to verify and process the authorization.

### **Tax Pro Account processing**

Section 2302 of the Taxpayer First Act, signed into law in July 2019, requires the IRS to publish guidance to establish uniform standards for the acceptance of taxpayers' electronic signatures (e-signatures), which are meant to authorize a taxpayer's request for disclosure to a tax practitioner or power of attorney.<sup>7</sup> The Act required the IRS to develop the customer service strategy, which the IRS refers to as the Taxpayer Experience Strategy.

<sup>4</sup> Electronic signatures are allowed for forms submitted through the Taxpayer Digital Communication. The Taxpayer Digital Communication allows authorization information from both powers of attorney and designees to be submitted via this online service by practitioners who represent their client.

<sup>5</sup> 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, an SSN, or an Individual TIN.

<sup>6</sup> IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

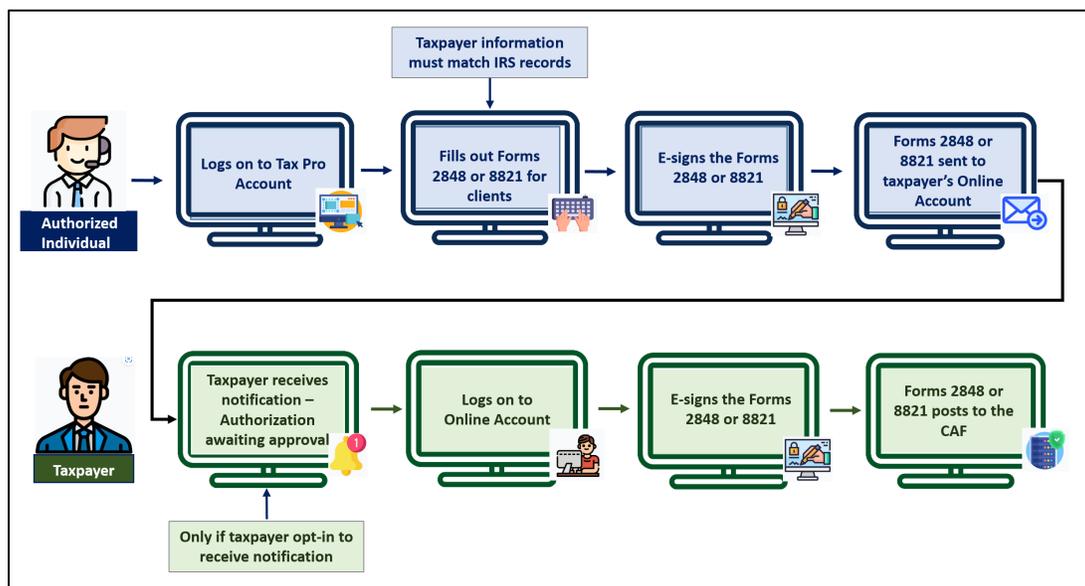
<sup>7</sup> Taxpayer First Act, Pub L. No. 116-25, 133 Stat. 981 (codified in scattered sections of 26 U.S.C.).

## Opportunities Exist to Improve the Accuracy of Information in the Centralized Authorization File and Increase the Use of the Tax Pro Account System

In July 2021, the IRS deployed the Tax Professional Online Account (Tax Pro Account) to strengthen security over the process for representatives to access taxpayers' account information.<sup>8</sup> Tax Pro Account is an online system that allows authorized individuals to securely request third-party authorizations for an individual taxpayer, as power of attorney or designee, in lieu of submitting Forms 2848 or 8821 by mail, fax, or the Taxpayer Digital Communication (TDC). This service allows the authorized individual, using their CAF number, to initiate authorization requests that route to the taxpayer's IRS Online Account for approval. Using this online method, the authorization will automatically be loaded to the CAF database without tax examiner input or review.

Between July 18, 2021, and September 30, 2022, the IRS received 22,421 authorization requests through Tax Pro Account that were sent to a taxpayer's Online Account for approval. Figure 4 illustrates how Forms 2848 and 8821 are submitted through Tax Pro Account.

**Figure 4: Forms 2848 and 8821 Process Using Tax Pro Account**



Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the Tax Pro Account online process.

### CAF database

The Customer Account Services' Policy and Procedures Business Master File function oversees the Specialty Accounts Team, which is responsible for processing forms in the CAF units. The CAF database is a system of records that maintains authorization information from both powers of attorney and designees. An identifying number, also known as the CAF number, is systemically generated for each authorized individual when a CAF record is established. The CAF number allows the IRS to identify the authorized individual along with the taxpayers for whom the IRS has processed authorizations in the CAF. Multiple CAF numbers are permitted to be assigned to an authorized individual to differentiate between multiple office addresses or

<sup>8</sup> Treasury Inspector General for Tax Administration, Report No. 2020-40-067, *Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File* (Sept. 2020).

related entities. In addition, an authorized individual can have a CAF number but not be actively representing a taxpayer.

## **Results of Review**

This report presents the results of our continued assessment of the IRS's controls to authenticate requests received from individuals seeking to represent taxpayers and access taxpayer information. In September 2020, TIGTA reported that improvements were needed to address continued deficiencies to ensure the accuracy of the CAF database and made 12 recommendations for improvements.<sup>9</sup> IRS management agreed with nine recommendations. During this review, we found that the IRS has taken the following actions to address our prior concerns and strengthen the accuracy of the CAF, as follows:

- Deployed Tax Pro Account, an online system that allows authorized individuals to securely request third-party authorizations for an individual taxpayer as power of attorney or designee.
- Loaded 1,546 TINs into the appropriate Dynamic Selection List (a list which includes TINs that are at risk of tax-related identity theft and should be monitored for use in the filing of tax returns submitted to the IRS).
- Issued a reminder to reinforce Service-wide awareness of a mailbox to report suspicious CAF number activity. Between September 24, 2020, and May 3, 2022, 12 different functions submitted referrals to report suspicious authorization requests.
- Planned programming to prevent tax examiners from erroneously assigning multiple CAF numbers to authorized individuals with the same name and address.
- Coordinated with the Return Preparer Office to receive information when a return practitioner's Preparer Tax Identification Number (PTIN) is revoked to determine whether the practitioner's CAF authorization(s) should be removed. The CAF unit received 64 cases for review.
- Updated its Critical Filing Season Readiness Training in October 2022 to ensure that CAF tax examiners verify a representative's designation, jurisdiction, and licensing information when processing Forms 2848.

However, the IRS still does not have sufficient controls to ensure the accuracy of information in the CAF database. During this review, we continued to find issues with the accuracy and reliability of the information in the CAF.

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<sup>9</sup> TIGTA, Report No. 2020-40-067, *Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File* (Sept. 2020).

## **Requiring Authorized Individuals to Provide Their Taxpayer Identification Number Would Enhance Protection of Sensitive Taxpayer Information and Improve the Accuracy of Information in the Centralized Authorization File Database**

In September 2020, we reported that improvements were needed to ensure the accuracy of the CAF.<sup>10</sup> Our analysis of CAF data in this audit identified the same types of concerns as reported previously. For example, we found:

- 8,764 deceased authorized individuals as of November 6, 2021, 5,660 (64.6 percent) who are in “good standing.” In addition, 250 of these representatives were identified in our 2020 review. In response to our prior recommendations, the Office of Professional Responsibility provided weekly lists of deceased authorized individuals to the CAF between December 2020 and December 2021. However, this process did not provide complete lists of deceased authorized individuals. Instead, the Office of Professional Responsibility’s list identified only deceased authorized individuals governed under Circular 230.<sup>11</sup> Further, actions were not taken on all deceased authorized individuals identified. According to CAF management, actions could only be taken when the tax examiner could confirm that the deceased individual was the authorized individual.
- 15,713 authorized individuals with multiple CAF numbers identified by the IRS’s Research function as of October 12, 2022. In response to our prior recommendations, CAF management worked with the IRS’s Research function to provide a list of authorized individuals with multiple CAF numbers. The IRS’s Research function identified these authorized individuals for additional review as part of its efforts to merge duplicate accounts. More recently, IRS’s Research function reported there are 277 authorized individuals with multiple CAF numbers, as of December 30, 2022.<sup>12</sup> CAF management indicated not all records could be merged because of the inability to match the name of the authorized individual. While improvements have been made, the IRS’s CAF function continues to create duplicate CAF accounts for authorized individuals.

When we asked IRS management why these inaccuracies continue to exist, they stated that tax examiners can take corrective actions only on the authorized individual’s CAF account when their manual research can accurately confirm the authorized individual’s identity. CAF accounts cannot be merged when there is not an exact match for the authorized individual’s name. For example, John A. Doe at 123 Main Street Anytown, USA would not be considered a match with John Doe at 123 Main Street Anytown, USA. In addition, actions cannot be taken if the IRS cannot verify that a CAF number belongs to an individual due to the inability to confirm the individual’s identity. Yet, if the IRS required authorized individuals to provide their TIN or proof of identity, it would be able to readily and efficiently identify and confirm their identity.

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<sup>10</sup> TIGTA, Report No. 2020-40-067, *Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File* (Sept. 2020).

<sup>11</sup> Circular 230 representatives are attorneys, certified public accountants, enrolled agents, enrolled actuaries, and enrolled retirement plan agents. Circular 230 representatives do not include all paid tax preparers or CAF representatives.

<sup>12</sup> We were unable to determine if the 277 authorized individuals were included in the 15,713 authorized individuals.

The IRS's Research function also confirmed instances in which the inability to authenticate the identity of the authorized individual resulted in the release of taxpayer information. They indicated this might have been prevented if the TIN of the authorized individual was linked to the assigned CAF number. Further, the IRS's Research function recommended collecting the authorized individual's TIN on an application before assigning a CAF number. They also noted that for authorized individuals who already have an assigned CAF number, this information should be collected before approving future authorizations to receive taxpayer information.

IRS management noted concerns that processing authorizations contingent on a fully completed and approved CAF application with the authorized individual's TIN could impact the taxpayer's ability to obtain timely representation due to processing times. We agree with the IRS's rationale; however, this information should be collected and processed separately from the authorization process.

### **CAF numbers with confirmed fraudulent activity continue to remain active in the CAF database**

Our review of the mailbox the IRS uses to report suspicious CAF authorizations identified 200 referrals made between April 2021 and May 2022. The CAF Program confirmed 47 CAF numbers as fraudulent. Our review found that 10 (21 percent) of the 47 CAF numbers confirmed as fraudulent continue to have active authorizations in the CAF database. In addition, three of the 10 CAF numbers that were confirmed as fraudulent remain in "good standing" status. According to the IRS's internal guidelines, when a confirmed fraudulent CAF number is identified, fraudulent authorizations should be deleted. A new CAF number is assigned and good authorizations merged to the newly assigned CAF number, when applicable. Active authorizations on bad CAF numbers could result in the IRS improperly releasing taxpayer information to unscrupulous individuals.

When we brought our concern to management's attention, they stated that authorized individuals with retired or confirmed fraud CAF numbers would not be provided taxpayer information. In addition, the IRS's subsequent review of the three CAF numbers in good standing found that they should not have been classified as fraudulent CAF numbers. As such, they remained in good standing as of October 12, 2022.

### **Lack of processes contributes to invalid PTINs entered into the CAF database<sup>13</sup>**

Our analysis of the available PTINs for authorized individuals in the CAF identified 5,088 records for which the PTINs in the CAF database did not match the information in the IRS's PTIN database. Further review of these records found that 678 (13.3 percent) of the 5,088 PTINs we identified appeared to be invalid. Specifically, we found:

- 671 PTINs that did not meet the minimum character length requirement.
- Seven PTINs have repeating eight digits following the initial P.

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<sup>13</sup> A PTIN is a nine-digit number required by individuals who prepare or assist in preparing tax returns for compensation.

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Valid PTINs are nine characters in length and do not contain repeating digits. Additionally, our review of the PTINs that were not obviously invalid identified questionable PTINs such as P12345678 or PTINs that belonged to a John Doe.

When we shared the results of our review with IRS management, they noted that the PTIN is not a required field for CAF processing. Therefore, if a PTIN is on the authorization, it is entered as provided with no additional authentication unless the authorization is for Level H – an unenrolled preparer. The lack of IRS processes to verify information provided by the authorized individual before entering it into an IRS database contributes to additional data inaccuracies and calls into question the reliability of the data stored in the CAF database.

The Commissioner, Wage and Investment Division should:

**Recommendation 1:** Create a method to collect the identifying information of authorized individuals as part of the application for a CAF number. For authorized individuals who already have a CAF number assigned, create a method to collect identifying information during subsequent authorization requests.

**Management's Response:** IRS management agreed with the recommendation and is developing and deploying processes to allow tax professionals to request that their Personal Identification Numbers be linked to their CAF number and TIN. This systemic linkage will be verified through Tax Professional Online Account (Tax Pro Account). The IRS is also exploring the feasibility of enhancing its systems to allow IRS employees to create this linkage on its internal-facing systems.

**Recommendation 2:** Ensure existing authorizations linked to the seven CAF numbers that the IRS identified as fraudulent are merged to the newly assigned CAF numbers.

**Management's Response:** IRS management agreed with the recommendation and completed the merging of the seven CAF numbers.

**Recommendation 3:** Review the 5,088 potentially invalid PTINs and take appropriate actions to update the CAF database with accurate PTIN information when appropriate.

**Management's Response:** IRS management agreed with the recommendation and will review the list and update the CAF database as appropriate.

### **Since It Launched in 2021, the Tax Pro Account System Was Very Rarely Used**

As stated previously, the IRS developed the Tax Pro Account system (hereafter referred to as Tax Pro Account) to strengthen security over the process for authorized individuals to access taxpayers' account information. The system provides a secure online self-service portal for tax professionals with a complementary interface to the Online Account application for taxpayers. The IRS launched the tool on July 18, 2021, and the next day, as part of its official press release about Tax Pro Account, the IRS noted, "*a key benefit is the completed digital authorization, if accurate, will go directly to the Centralized Authorization File (CAF) database and will not require manual processing.*" Further, "*This new digital authorization option will be a much faster process. It will allow the IRS to reduce its current CAF inventory and to focus on authorization*

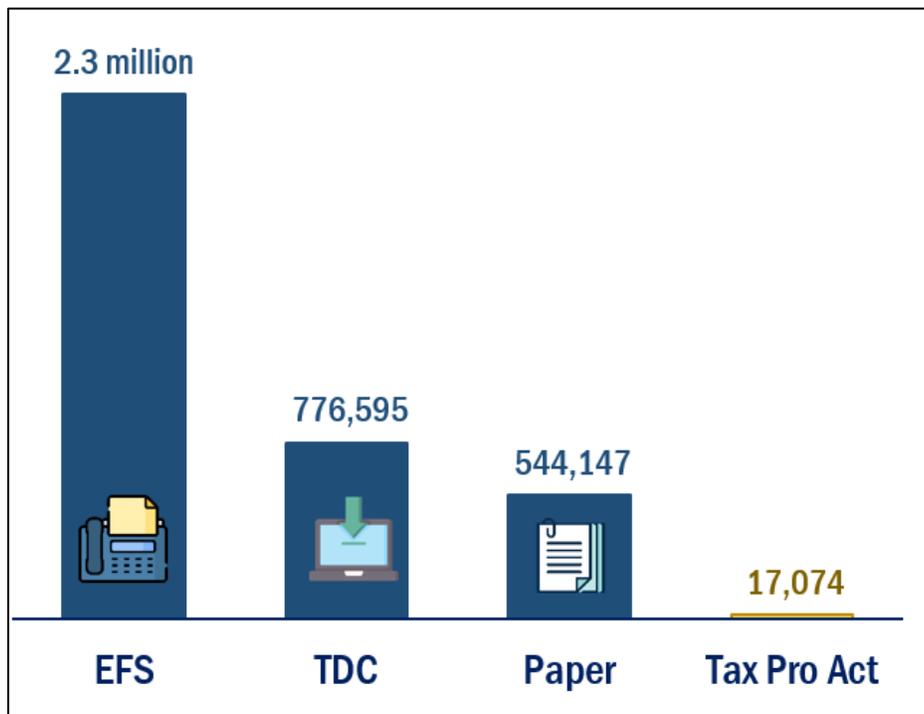
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requests received through fax, mail or the Submit Forms 2848 and 8821 Online - all of which require IRS personnel to handle."

In an article published in September 2021, the IRS noted, "Launching the Tax Pro Account meets the IRS's goal to promote the use of self-service channels along with the use of plain language to increase voluntary compliance....Self-service can reduce efforts to digitize paper forms, lessen our environmental impact and help employees to focus their time and attention on more complex cases."<sup>14</sup>

As of October 31, 2022, the IRS spent \$31 million to develop and modify Tax Pro Account. The IRS anticipates spending an additional \$29.7 million during Fiscal Year 2023. Yet, as a tool that was lauded as a groundbreaking step in the IRS's expansion of electronic options for taxpayers and authorized individuals, it has not yet reduced the amount of manual processing that is still required. Since the IRS launched Tax Pro Account, 22,421 authorization forms have been submitted through this self-service channel and sent to a taxpayer's Online Account for approval. Figure 5 illustrates the number of authorizations received via the different submission methods in Fiscal Year 2022.

**Figure 5: Fiscal Year 2022 CAF Inventory Receipts by Submission Method**



Source: TIGTA analysis of CAF inventory receipts and Google Analytics Dashboard for Tax Pro Account. EFS = Enterprise File Storage.

During our review, we surveyed a random sample of 27 representatives who used Tax Pro Account at least one time to submit an authorization, then submitted other/subsequent authorizations via paper or fax. The majority of the authorized individuals, 24 (89 percent) of 27, stated that they would use Tax Pro Account in the future to submit their authorization forms. Whereas three (11 percent) of the authorized individuals surveyed noted that they were not sure

<sup>14</sup> IRS Source, *IRS improves services to taxpayers with digital authorizations and launch of new Tax Pro Account* (September 2021).

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they would use Tax Pro Account again. Further, 10 (37 percent) of 27 authorized individuals we surveyed noted that their clients (the taxpayer) experienced difficulties creating an online account and successfully authenticating. These authorized individuals stated that they had to spend additional time assisting their clients to set up an online account. As such, authorized individuals may have used other methods to submit authorizations to avoid additional delays.

The IRS uses an analytics feature to monitor the internet traffic for Tax Pro Account. Our review of the analytics reports identified 250,231 Tax Pro Account sessions between July 18, 2021, and September 30, 2022. However, our analysis of analytics dashboard found that authorized individuals completed 22,421 Forms 2848 or 8821 after beginning the process, yet less than one-half of the authorizations submitted by the authorized individuals were subsequently approved by the client. Further, our analysis of the authorizations submitted through the Enterprise File Storage or TDC channels during the same time period identified 1.7 million authorizations that could have been submitted via Tax Pro Account.

During our discussions with IRS management, neither the CAF Program nor the Office of Online Services indicated they have taken any actions to determine why there is a disparity between use of Tax Pro Account and Enterprise File Storage or TDC channels, or paper submissions. According to management, some of the disparity in the number of receipts could be attributed to duplicate submissions due to processing delays. In addition, management noted that Tax Pro Account only allows authorization requests for individual taxpayers, which may also account for some of the disparity.

Although IRS management promoted Tax Pro Account, they indicated they have no plans to conduct targeted outreach to authorized individuals and taxpayers to determine why people who have logged on to use Tax Pro Account to submit authorizations do not continue to use it.

### **Increased use of Tax Pro Account could allow resources to be redirected to assist with addressing backlogged inventories**

As we reported in December 2022, the IRS continues to struggle with the reduction of inventory due to the Coronavirus Disease 2019 pandemic.<sup>15</sup> As of December 1, 2022, the IRS has not met its goal to return its tax return processing and other account work inventories to pre-pandemic levels and will continue with backlogged inventories in the 2023 Filing Season. In the 2022 Annual Report to Congress, the National Taxpayer Advocate recently noted that the IRS needs to focus on its core taxpayer service missions of processing tax returns and paying refunds, as an example.<sup>16</sup> This report also noted that inadequate digital services impede efficient case resolution and force taxpayers, including tax practitioners, to call or send correspondence to the IRS. Further, the report acknowledges that providing tax information and services accessible through a robust online account and seamlessly integrated digital communication tools are essential for taxpayers, their representatives, and IRS employees. Specifically, adding increased capabilities and functionality to Tax Pro Account, such as viewing notices and letters and uploading requested documents to provide authorized representatives' seamless access to their clients' online accounts, may make Tax Pro Account more appealing to taxpayers' representatives and help boost usage. This in turn would allow the IRS to redirect tax

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<sup>15</sup> TIGTA, Ref. No. 2023-46-007, *Backlogs of Tax Returns and Other Account Work Will Continue Into the 2023 Filing Season* (Dec. 2022).

<sup>16</sup> National Taxpayer Advocate Annual Report to Congress, 2022.

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examiner resources, normally used to process authorization requests manually, to help with the backlogged inventories.

**Recommendation 4:** The Commissioner, Wage and Investment Division, should coordinate with the Office of Online Services to conduct directed outreach encouraging the use of Tax Pro Account to submit authorizations. These outreach events should include steps to identify why people are not using the system, in addition to providing information to help taxpayers create an online account.

**Management's Response:** IRS management agreed with the recommendation and will perform continuing outreach through the 2023 IRS Nationwide Tax Forums.

## **Appendix I**

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

The overall objective of this review was to evaluate the IRS's controls to authenticate third-party authorization requests to represent taxpayers and access taxpayer information. To accomplish our objective, we:

- Determined what actions the IRS took in response to our prior audit recommendations.
- Evaluated the IRS's plan to delete third-party authorizations associated with deceased authorized individuals.
- Analyzed Tax Pro Account data to evaluate the representatives' use of the system to submit third-party authorizations. From a universe of 271 authorized individuals who used Tax Pro Account during July 2021 through May 2022 to request an authorization but then later used another method, we randomly sampled 150 (27 of whom responded).

#### **Performance of This Review**

This review was performed with information obtained from the Wage and Investment Division Submission Processing CAF functions located in Philadelphia, Pennsylvania, and Ogden, Utah, during the period September 2021 through January 2023. 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.

Major contributors to the report were Diana Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services); Linna Hung, Director; Paula Johnson, Audit Manager; Brieane Hamaoka, Acting Audit Manager; Erica Law, Lead Auditor; Jerome Antoine, Auditor; and Branden Dreher, Auditor.

#### **Validity and Reliability of Data From Computer-Based Systems**

During this review, we obtained extracts from the CAF and Reporting Agent File as of November 5, 2022, PTIN File, and the National Account Profile that were available on the TIGTA Data Center Warehouse. We evaluated the data by performing electronic testing of required data elements, reviewing existing information about the data, and selecting random samples and verifying the data to the IRS's Integrated Data Retrieval System. We determined that the data were sufficiently reliable for purposes of this report.

#### **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: IRS processes and procedures

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for authenticating and processing authorizations, CAF Internal Revenue Manuals, and IRS processes and procedures for ensuring accuracy of the CAF database. We evaluated these controls by reviewing the Internal Revenue Manual, meeting with IRS management, and reviewing relevant documentation provided by the IRS.

Management's Response to the Draft Report



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

May 4, 2023

MEMORANDUM FOR HEATHER M. HILL  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Kenneth C. Corbin   
Commissioner, Wage and Investment Division

Digitally signed by Kenneth C.  
Corbin  
Date: 2023.05.04 14:17:46 -0400'

SUBJECT:

Draft Audit Report – Opportunities Exist to Improve the Accuracy  
of Information in the Centralized Authorization File and Increase  
the Use of the Tax Pro Account System (Audit # 202240011)

Thank you for the opportunity to review and provide comments on the subject draft report. The Centralized Authorization File (CAF) is a repository of unique identifiers assigned to authorized taxpayer representatives including attorneys, certified public accountants, enrolled agents, officers, employees, etc., who have been designated to represent or act on behalf of taxpayers. The designations are most commonly made on Form 2848, *Power of Attorney and Declaration of Representative*, or Form 8821, *Tax Information Authorization*. Varying levels of representative authority are permitted, based on the credentials and qualifications of the designee and the intent of the designating taxpayer(s). The data recorded on the CAF is available to IRS employees who use it to verify permitted authorizations when working with the representatives, thereby eliminating the need to resubmit the same authorization documents for each interaction with IRS employees. In fiscal year 2022, the CAF team received and processed over three million such authorizations.

A limitation of the CAF in its current state is the inability to link the Taxpayer Identification Numbers (TIN) of authorized individuals to their assigned CAF numbers. The TINs of authorized representatives are not captured for input on Forms 2848 or 8821 as a measure to protect the representatives from potential identity theft associated with their TINs being divulged to the taxpayers they represent, as those taxpayers must sign the applicable designation form to authorize representation and are entitled to a copy of the complete executed document. We are working to enhance the functionality of the CAF by adding linkages to the representative information without putting the representatives at risk of disclosing personally identifiable information to their clients.

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To automate the intake and recordation of representative information into the CAF, we implemented the Tax Professional Online Account (Tax Pro Account) in July 2021. Usage of the Tax Pro Account has not achieved our expectations; however, we are committed to increasing its adoption within the representative community. In 2023, we will be holding at least nine outreach sessions, including two national webinars expected to reach over ten thousand participants. We will solicit feedback from taxpayer representatives to identify reasons for non-use of the Tax Pro Account and will incorporate their feedback into revising our strategy for improving its rate of use.

Our responses to your specific recommendations are enclosed. If you have any questions, please contact me, or a member of your staff may contact Dietra Grant, Director, Customer Account Services, at 470-639-3504.

Attachment

**Opportunities Exist to Improve the Accuracy of Information in the  
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Attachment

**Recommendations**

The Commissioner, Wage and Investment Division should:

**RECOMMENDATION 1**

Create a method to collect the identifying information of authorized individuals as part of the application for a CAF number. For authorized individuals who already have a CAF number assigned, create a method to collect identifying information during subsequent authorization requests.

**CORRECTIVE ACTION**

We are developing and deploying processes to enable tax professionals to request Personal Identification Numbers that link to their Centralized Authorization File (CAF) number and their Social Security Number (SSN). The linkage will be verified through Tax Professional Online Account (Tax Pro Account) and require no manual processing. We are also exploring the feasibility of enhancing our systems to permit employees to create this linkage when creating or updating records on our internal-facing systems. The requisite programming resources to accomplish this will be subject to prioritization among competing needs.

**IMPLEMENTATION DATE**

October 15, 2026

**RESPONSIBLE OFFICIAL**

Director, Accounts Management, 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.

**RECOMMENDATION 2**

Ensure existing authorizations linked to the seven CAF numbers that the IRS identified as fraudulent are merged to the newly assigned CAF numbers.

**CORRECTIVE ACTION**

We completed merging the seven CAF numbers on May 24, 2022.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

Director, Accounts Management, Customer Account Services, Wage and Investment Division

**Opportunities Exist to Improve the Accuracy of Information in the  
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**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 3**

Review the 5,088 potentially invalid PTINs and take appropriate actions to update the CAF database with accurate PTIN information when appropriate.

**CORRECTIVE ACTION**

We will review the list of Preparer Taxpayer Identification Numbers and update the CAF database as appropriate.

**IMPLEMENTATION DATE**

October 15, 2023

**RESPONSIBLE OFFICIAL**

Director, Accounts Management, Customer Account Services, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 4**

The Commissioner, Wage and Investment Division, should coordinate with the Office of Online Services to conduct directed outreach encouraging the use of Tax Pro Account to submit authorizations. These outreach events should include steps to identify why people are not using the system, in addition to providing information to help taxpayers create an online account.

**CORRECTIVE ACTION**

We will perform continuing outreach through the 2023 IRS Nationwide Tax Forums<sup>1</sup>, which will include presentations on the Tax Pro Account. The forums will be held in New Orleans, LA; Atlanta, GA; National Harbor, MD; San Diego, CA; and Orlando, FL during July and August 2023.

**IMPLEMENTATION DATE**

October 15, 2023

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<sup>1</sup> <https://www.irs.gov/tax-professionals/irs-nationwide-tax-forums-information>

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**RESPONSIBLE OFFICIAL**

Director, Project Management Office, 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.

## Appendix III

### Abbreviations

CAF	Centralized Authorization File
IRS	Internal Revenue Service
PTIN	Preparer Tax Identification Number
SSN	Social Security Number
TDC	Taxpayer Digital Communication
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number



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Treasury Inspector General for Tax Administration

P.O. Box 23291

Washington, D.C. 20026

Information you provide is confidential, and you may remain anonymous.