



*Review and Verification of Individual  
Taxpayer Identification Number Applications  
Has Improved; However, Additional  
Processes and Procedures Are Still Needed*

**May 2, 2013**

**Reference Number: 2013-40-052**

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

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## HIGHLIGHTS

### REVIEW AND VERIFICATION OF INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER APPLICATIONS HAS IMPROVED; HOWEVER, ADDITIONAL PROCESSES AND PROCEDURES ARE STILL NEEDED

## Highlights

Final Report issued on May 2, 2013

Highlights of Reference Number: 2013-40-052 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

In Calendar Year 1996, the IRS created the Individual Taxpayer Identification Number (ITIN) so that individuals who are not eligible to obtain Social Security Numbers could obtain an identification number for tax purposes. A prior TIGTA audit found that IRS management had not established adequate controls to detect and prevent the assignment of an ITIN to individuals submitting questionable applications. The assignment of an ITIN based on questionable documentation enables individuals to then use the ITIN to file tax returns to commit tax refund fraud. In Calendar Year 2012, the IRS assigned approximately 1.3 million ITINs.

### WHY TIGTA DID THE AUDIT

This audit was initiated in response to a complaint TIGTA received that IRS management was not supporting the implementation of revised processes and procedures designed to improve on the identification of questionable ITIN applications. A prior TIGTA audit found that the ITIN application review and verification process was so deficient that there was no assurance that ITINs were not being assigned to individuals submitting questionable applications. The overall objective of this review was to assess the IRS's progress in identifying questionable ITIN applications, including assessing the IRS's implementation of corrective actions agreed to in response to TIGTA's previously issued ITIN report.

### WHAT TIGTA FOUND

The IRS initiated corrective actions to address the majority of recommendations included in our prior audit report. These actions are significantly improving the identification of questionable ITIN applications. After the new procedures were put into place, the number of applications rejected as questionable increased from 226,011 for the period July through December 2011 to 340,659 for the same period in 2012.

However, management still has not developed organizational processes and procedures to work potential fraud schemes. Moreover, actions have not been taken to analyze information from previously processed ITIN applications to identify indicators of potential questionable applications that could be used to proactively identify similar applications during processing.

In addition, tax examiners remain concerned that management will reverse the current focus of ensuring that only qualified individuals receive an ITIN to again emphasize quickly processing ITIN applications. Finally, although the quality review process was expanded, some changes could inadvertently discourage tax examiners from identifying questionable documents.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS develop programming to flag ITIN applications that contain characteristics of previously identified questionable ITIN applications when they are input into IRS computers. The IRS should also ensure that the quality review process continues to emphasize the importance of the identification of questionable documents and that weekly team meetings are held with tax examiners to discuss ITIN application processing trends, patterns, and concerns.

The IRS agreed with our recommendations and plans to evaluate implementing the programming changes as part of a risk assessment that will determine the scope and associated costs and will also consider other controls and actions that can be implemented if the requested programming changes are not funded. The IRS also plans to ensure that weekly team meetings continue to be held.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 2, 2013

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

**FROM:**

Michael E. McKenney  
Acting Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Review and Verification of Individual Taxpayer Identification Number Applications Has Improved; However, Additional Processes and Procedures Are Still Needed (Audit # 201340019)

This report presents the results of our review to assess the Internal Revenue Service's (IRS) progress in identifying questionable Individual Taxpayer Identification Number applications. This review was initiated as the result of a complaint we received from an IRS employee that planned corrective actions in response to a prior Treasury Inspector General for Tax Administration audit<sup>1</sup> had not been followed by the IRS. This review addresses the major management challenge of Fraudulent Claims and Improper Payments and is included in our Fiscal Year<sup>2</sup> 2013 Annual Audit Plan.

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 recommendations. If you have any questions, please contact me or Russell P. Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

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<sup>1</sup> Treasury Inspector General for Tax Administration, Ref. No. 2012-42-081, *Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications* (July 2012).

<sup>2</sup> A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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## *Abbreviations*

IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
PTID	Patterns and Trends Identification Desk
TIGTA	Treasury Inspector General for Tax Administration



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## *Background*

We initiated this audit based on a complaint we received from an Internal Revenue Service (IRS) employee that IRS management was not supporting the implementation of revised processes and procedures designed to improve on the identification of questionable Individual Taxpayer Identification Number (ITIN) applications.

The law requires that individuals employed in the United States have a Social Security Number that is valid for employment. The Social Security Number is a unique nine-digit number used for taxpayer identification, income reporting, and recordkeeping purposes. Individuals required to file a Federal tax return are required to include an identifying number, referred to as a Taxpayer Identification Number, on their tax returns. For the majority of filers, this is the individual's Social Security Number. In Calendar Year 1996, the IRS created the ITIN to provide Taxpayer Identification Numbers to individuals who do not have and are not eligible to obtain a Social Security Number. Only individuals who have valid tax return filing requirements or are filing tax returns to claim a refund of over-withheld tax are eligible to receive an ITIN.

An ITIN is issued regardless of an individual's immigration status. However, individuals assigned an ITIN should either be a resident not authorized to work in the United States or a nonresident. Nonresident aliens must file a tax return if they are engaged in a trade or business in the United States or if they have any other United States sources of income on which the tax was not fully paid by the amount of tax withheld at the source. Nonresident aliens file using a Form 1040NR, *U.S. Nonresident Alien Income Tax Return*.

***An ITIN is a tax processing number issued by the IRS. It is a nine-digit number that always begins with the number nine (9XX-XX-XXXX).***

### **Processing of ITIN applications**

To obtain an ITIN, an individual, his or her spouse, or qualifying dependent(s) must complete Form W-7, *Application for IRS Individual Taxpayer Identification Number*, and send it to the IRS Submission Processing Center in Austin, Texas, or provide it to an IRS assistant at a Taxpayer Assistance Center.<sup>1</sup> Supporting documents are required to prove the applicant's identity and foreign status and must show the individual's name and support for the claim of foreign status. At least one document must show the individual's photograph.<sup>2</sup> ITIN applicants are required to prove identity and foreign status and demonstrate a Federal tax reporting or filing

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<sup>1</sup> IRS offices with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.

<sup>2</sup> Photo documents are not required for dependents younger than 14, or younger than 18 if a student.



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requirement when submitting the Form W-7 application and are not issued an ITIN until those requirements are met.

The ITIN unit in the IRS Submission Processing Center in Austin, Texas, is responsible for processing all ITIN applications. The mission of the ITIN Operations Department is to ensure that ITINs are issued timely to qualifying individuals and used only for tax administration purposes. Tax returns attached to the application are sent for processing, and IRS computer systems are updated with information including the individuals' names, addresses, and identification numbers. Tax examiners in the ITIN Operations Department:

- Review Form W-7 and supporting documentation for completeness and correctness.
- Input all required data to the IRS's ITIN Real-Time System.<sup>3</sup>
- Return original supporting documents to the applicant.
- Forward the tax return associated with the application for processing.

Based on the tax examiner's review of an ITIN application and associated information, the application will be either:

- **Approved:** The IRS mails a letter with the assigned ITIN to the applicant.
- **Rejected:** The IRS mails a letter notifying the individual that the ITIN application was rejected.
- **Suspended:** The ITIN application is suspended for a procedural issue or because it has questionable information. A procedural issue is one in which the applicant did not properly complete the application, such as a missing signature, or did not attach the required documentation to the application. Applications with just one discrepancy identified by the tax examiner as questionable can also be suspended.

For suspended applications, the case file, consisting of the ITIN application and the tax return, is placed in a Suspense File for correspondence with the applicant for additional information. The applicant has 45 days to respond. Once an applicant's response is received, the application package is pulled from the Suspense File and the documentation is reviewed by another tax examiner to determine the next action to be taken. If the applicant does not respond within 65 days, the case file is pulled from the Suspense File and is systemically rejected. In Calendar Year 2012, the IRS assigned approximately 1.3 million ITINs.

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<sup>3</sup> A web-based application used by ITIN tax examiners to process and record applicant submissions. Tax examiners review all applications and attached documents, then input the information into the Real-Time System.



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**A Prior Treasury Inspector General for Tax Administration review identified significant deficiencies in the review and verification of ITIN applications**

At the request of Congress, in Fiscal Year<sup>4</sup> 2012 the Treasury Inspector General for Tax Administration (TIGTA) conducted an audit based on complaints by two IRS employees made to a U.S. Representative and a U.S. Senator. The employees alleged that IRS management was requiring employees to assign ITINs even when the applications were fraudulent. In a July 2012 report, we substantiated many of the allegations.<sup>5</sup>

The audit found that the ITIN application review and verification process was so deficient that there was no assurance that ITINs were not being assigned to individuals submitting questionable applications. The audit also found that IRS management:

- Created an environment that discouraged tax examiners responsible for reviewing ITIN applications from identifying questionable applications.
- Eliminated successful processes used to identify questionable ITIN application fraud patterns and schemes.
- Established processes and procedures that were inadequate to verify each applicant's identity and foreign status.<sup>6</sup>

In addition, TIGTA reported that management had not established adequate internal controls to detect and prevent the assignment of ITINs to individuals submitting questionable applications. The IRS accepted copies of documents to substantiate the applicant's identity and foreign status, which prevents adequate verification. Further, it had not developed sufficient criteria for employees to use to identify questionable applications. The assignment of an ITIN based on questionable documentation enables individuals to then use the ITIN to file tax returns to commit tax refund fraud.

This review was performed at the Austin Submission Processing Center in Austin, Texas; the ITIN Program Office in Atlanta, Georgia; and the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period September 2012 through February 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Detailed information on our audit objectives,

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<sup>4</sup> A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.

<sup>5</sup> TIGTA, Ref. No. 2012-42-081, *Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications* (July 2012).

<sup>6</sup> Documentation must support that the individual resides in a foreign country.



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scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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*Results of Review*

**Progress Has Been Made in Identifying Questionable Individual Taxpayer Identification Number Applications**

The IRS has initiated corrective actions to address seven of the nine deficiencies identified in the prior TIGTA audit,<sup>7</sup> which has allowed it to significantly improve its identification of questionable ITIN applications. Tests show that the new requirements and the corrective actions implemented have improved IRS tax examiners' ability to identify and reject questionable ITIN applications. Figure 1 provides the corrective actions the IRS has taken in response to our prior report.

**Figure 1: Corrective Actions Implemented in Response to the Prior TIGTA Audit Report**

<b>Recommendation</b>	<b>Corrective Action</b>
<b>Develop more detailed procedures and deliver adequate training on reviewing documentation supporting ITIN applications to identify questionable documents.</b>	<ul style="list-style-type: none"><li>○ Internal guidance was updated to include more detailed procedures for identifying questionable documents.</li><li>○ Coordination with the Department of Homeland Security allowed IRS instructors to obtain training on identifying questionable documentation provided to support an ITIN application. The instructors subsequently trained all ITIN tax examiners.</li><li>○ Better tools were provided to tax examiners to assist them in identifying fraudulent documents. The tools included black lights, magnifying glasses, and a booklet containing examples of fraudulent documents.</li></ul>
<b>Expand the quality review process to include emphasis on whether employees are accurately identifying fraudulent documents.</b>	<ul style="list-style-type: none"><li>○ The quality review process was expanded and includes an emphasis on whether employees are identifying fraudulent documents.</li></ul>

<sup>7</sup> TIGTA, Ref. No. 2012-42-081, *Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications* (July 2012).



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<b>Recommendation</b>	<b>Corrective Action</b>
<b>Revise the criteria for identifying questionable applications to include the significance of the error.</b>	<ul style="list-style-type: none"><li>○ Internal guidance was updated to instruct tax examiners to flag an ITIN application for second review if they identify discrepancies with the applications and/or supporting documentation. Discrepancies include missing security features, erasures, smudges, misspelled words, altered photographs, <i>etc.</i> A second review is performed by a lead tax examiner, who determines whether the application should be suspended for insufficient supporting documentation.</li></ul>
<b>Establish a process to evaluate questionable applications to identify trends and schemes for referral.</b>	<ul style="list-style-type: none"><li>○ The Patterns and Trends Identification Desk (PTID) was established in August 2012 to identify trends and schemes. The PTID is staffed by two quality reviewers who collect data obtained from tax examiners when they see a group of applications that have consistent traits and/or questionable features. The data are analyzed for patterns and trends. If patterns or trends are identified, the information is elevated to the Austin Submission Processing Planning and Analysis staff. This staff determines if an Alert should be issued to tax examiners for them to be on the lookout for applications with specific characteristics. To date, nine Alerts have been issued.</li></ul>
<b>Require original documents or documents certified by the issuing agency to be provided in support of an ITIN application.</b>	<ul style="list-style-type: none"><li>○ On November 29, 2012, the requirement was finalized that anyone applying directly to the IRS for an ITIN must submit original identification documents and/or certified copies from the issuing agency for the primary, secondary, and dependent applicants.</li></ul>
<b>Discontinue the Certifying Acceptance Agent designation and require all documentation in support of an ITIN application be sent to the IRS for review and verification.</b>	<ul style="list-style-type: none"><li>○ Procedures were changed requiring original documents and/or certified copies from the issuing agency for all dependent applicants.<sup>8</sup> However, Certifying Acceptance Agents can submit copies of the documents they review for the primary and secondary applicants.</li><li>○ Requirements for Certifying Acceptance Agents were revised to require them to take formal forensic training to help them identify legitimate identification documents.</li></ul>
<b>Develop a process to identify and deactivate ITINs assigned to individuals who no longer have a tax filing requirement.</b>	<ul style="list-style-type: none"><li>○ ITINs issued after January 1, 2013, will expire after five years. Taxpayers who still need an ITIN after the five years will have to reapply. The IRS continues to explore options for deactivating ITINs assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement.</li></ul>

*Source: TIGTA auditors' analysis of actions taken in response to previous audit report.*

<sup>8</sup> See Appendix IV for details of the new ITIN application requirements.



## *Review and Verification of Individual Taxpayer Identification Number Applications Has Improved; However, Additional Processes and Procedures Are Still Needed*

The IRS has not completed corrective actions for the following two recommendations:

- **Analyze information included in the Real-Time System to identify indicators of questionable ITIN applications for the purpose of proactively identifying questionable applications during processing.**

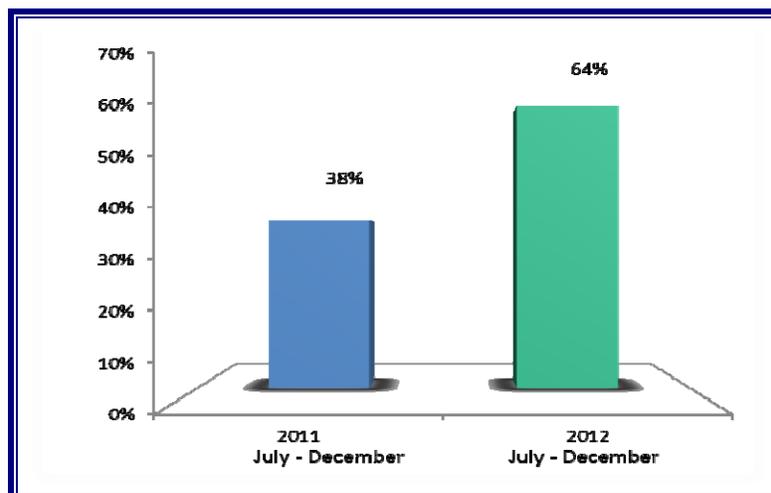
The IRS Information Technology organization has been providing data extracts of the Real-Time System to the ITIN Policy Office on a monthly basis since July 2012. The ITIN Policy Office has not analyzed these monthly extracts to identify patterns or trends that can be used to proactively identify questionable applications. IRS management noted that although the ITIN Policy Office was receiving these extracts, they experienced difficulties using the Real-Time System and the data were not always complete.

- **Establish organizational lines of responsibility, processes, and procedures for detecting, referring, and working ITIN application fraud schemes.**

The IRS has not developed a cross-functional process to work ITIN application fraud schemes. The ITIN Policy Office is currently working with Criminal Investigation, the Examination Division, and the PTID to develop such a process.

Nevertheless, Figure 2 shows that after the new application requirements and procedures were put into place in June 2012, the number of applications rejected as questionable increased from 226,011 for the period July through December 2011 to 340,659 for the same period in 2012. For the same six-month periods, the percentage of questionable applications rejected increased from 38 percent in 2011 to 64 percent in 2012.

**Figure 2: Comparison of ITIN Application Rejects Before and After the New Requirements Were Implemented**



Source: ITIN Production Report, Yearly Comparative Data for Calendar Years 2011 and 2012.



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**More Proactive Processes and Procedures Still Need to Be Established**

The IRS has yet to begin using the data from its Real-Time System to identify the patterns and trends of questionable ITIN applications. It has also not established organizational lines of responsibility, processes, and procedures for detecting, referring, and working ITIN application fraud schemes. These actions would allow the IRS to be more proactive in identifying and preventing the erroneous issuance of ITINs.

Our analysis of Real-Time System data shows that the data can be used in conjunction with updated application processing procedures to further improve the IRS’s ability to identify and prevent ITIN application fraud. For example, the information contained in the Real-Time System can be used to identify ITINs being assigned to individuals at the same address, which could be indicative of fraudulent applications. Figure 3 provides examples of addresses used on multiple ITIN applications processed during the period July through December 2012.<sup>9</sup>

**Figure 3: Most Frequently Used Addresses on ITIN Applications Processed From July–December 2012**

<b>Mailing Addresses Used on ITIN Applications</b>	<b>ITINS Assigned to Individuals Using These Addresses</b>
#1 Address, Atlanta, Georgia	1,010
#2 Address, Washington, D.C.	423
#3 Address, Indio, California	156
#4 Address, Raleigh, North Carolina	124
#5 Address, Auburndale, Florida	112
#6 Address, Indio, California	109
#7 Address, Salinas, California	108
#8 Address, Atlanta, Georgia	105
#9 Address, Cedar Rapids, Iowa	105
#10 Address, Bensenville, Illinois	96

*Source: Real-Time System extract of ITIN applications.*

<sup>9</sup> Atlanta, Georgia, and Indio, California, had multiple street addresses with multiple ITIN applications.



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ITIN Policy Office officials stated that they are initiating discussions with other IRS functional areas to establish organizational responsibilities. However, to date, no processes and/or procedures have been implemented to assign organizational responsibilities for working the ITIN application fraud schemes. The IRS noted that the identification of specific functional responsibility for working fraud schemes is needed and that it is working towards developing cross-coordinated processes and procedures.

The IRS Information Technology organization has been providing data extracts of the Real-Time System to the ITIN Policy Office on a monthly basis since July 2012. IRS management noted that although the ITIN Policy Office was receiving the extracts, they experienced difficulties using the Real-Time System and the data provided in the extracts were not complete. In addition, time constraints have also prevented the ITIN Policy Office from performing trend analysis of the Real-Time System extract information. The ITIN Policy Office has been heavily involved in developing the processes/procedures that were implemented in response to other TIGTA recommendations. Management indicated that the ITIN Policy Office continues to work with the Information Technology organization and ITIN Operations Department to perfect the data received in the extracts and has used information from the Real-Time System to support information included in ITIN alerts issued to Tax Examiners.

Once the Real-Time System data is analyzed and questionable characteristics of an ITIN application are identified, the IRS should establish a process to proactively flag applications with those characteristics identified as questionable. This proactive process should include alerting tax examiners and developing programming that flags applications with specific questionable characteristics (*i.e.*, same address used on multiple applications) when the application information is entered into the Real-Time System. This would ensure that questionable applications are proactively identified when processed. The only opportunity to identify an ITIN application based on fraudulent documentation is at the time the application is reviewed and verified.

## ***Recommendation***

**Recommendation 1:** The Commissioner, Wage and Investment Division, should ensure that programming is developed to flag ITIN applications that contain characteristics of previously identified questionable ITIN applications when input into the Real-Time System.

**Management's Response:** Flagging ITIN applications containing characteristics of previously identified questionable traits at the time of input will provide greater assurance that fraudulent applications are identified and stopped. The IRS will prepare a risk assessment that, in addition to determining the scope and costs of programming, will address other mitigating controls that can be implemented in the event the requested programming changes are not funded. Completion of the risk assessment and a determination of actions to implement will complete this corrective action.



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## ***Tax Examiners Raised Concerns That Productivity Goals Could Hinder the Identification of Questionable Applications***

Our prior TIGTA audit determined that management created an environment that discouraged tax examiners from identifying questionable ITIN applications. Although the IRS stated that the mission of the ITIN Program was to ensure that ITINs are issued timely to only qualifying individuals, IRS management's primary focus was on quickly processing the applications *rather than* on ensuring ITINs were issued only to qualifying individuals. Tax examiners were expected to review approximately seven ITIN applications per hour (an average of 8.5 minutes per application). The average review minutes per application was based on review times for the prior four quarters and did not include the additional time that a diligent tax examiner needed to evaluate and document questionable applications for referral.

During this audit, we conducted a survey of the tax examiners to assess the current ITIN unit employees' perceptions of how management regards the reviews of ITIN applications. The survey was available to all tax examiners who worked both the day and night shifts on November 14, 2012, and 153 tax examiners took the survey. Questions relating to tax examiner perception of management included:

- ***Is management focused more on the volume of ITINs assigned or ensuring that only qualified individuals are assigned ITINs?***

Fifty-five (36 percent) of 153 tax examiners still believe management is emphasizing production over ensuring that only qualified individuals are assigned ITINs. Ninety-five (62 percent) of 153 tax examiners believe that management's focus has changed to ensuring that only qualified individuals are assigned ITINs.<sup>10</sup> However, of these 95 tax examiners, eight qualified their responses by stating that this is true only because production goals have been suspended. The IRS suspended tax examiner production goals in July 2012 because of the numerous changes being made to the ITIN unit procedures. Tax examiners remain concerned that, when/if production goals are reinstated, management will go back to focusing on production rather than on the identification of questionable ITIN applications.

- ***Does management support revised policies and procedures to better identify questionable documents or questionable applications (including flagging the application when only ONE questionable item exists)?***

Of the 153 tax examiners, 111 (73 percent) believe that management is supportive of the current revisions for the review and identification of questionable applications.

The IRS needs to explore a number of options for measuring the success of the ITIN unit if the IRS does reinstate production goals (*i.e.*, tax examiners are required to review a specific number

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<sup>10</sup> The remaining three respondents did not respond to the question.



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of applications per hour). The goals should be based on recent productivity, including the time needed to sufficiently review applications to ensure that qualification requirements have been met. Once a measurement process is established, management should communicate the new goals so that the tax examiners understand that quality will not be sacrificed for production.

**The quality review process continues to discourage the identification of questionable ITIN applications**

In our prior TIGTA report, we determined that quality reviewers would assign an error to a tax examiner who incorrectly identified an ITIN application as questionable. ITIN Program guidelines on *Reviewing Supporting Identification Documentation* cautioned tax examiners to examine documents carefully to prevent unnecessary rejections or applications held in suspense. In contrast, the guidelines did not caution tax examiners to carefully review documents to identify fraudulent applications. A tax examiner was charged an error if the quality reviewer did not agree with the three errors identified by the tax examiner.<sup>11</sup> The charging of an error could negatively impact a tax examiner's performance rating, the length of their employment, and whether they are called to return to duty (for seasonal tax examiners).

The IRS has taken steps to update its procedures to place more emphasis on tax examiners identifying questionable identification documents associated with ITIN applications. Guidelines currently state that an error will be charged for either of the following:

- A valid identification document was processed as a questionable discrepancy.
- An identification document that has a questionable trait was processed as valid.

However, because production goals have been suspended, quality reviewers are not currently charging an error when the tax examiner identifies an ITIN application as being questionable when it was actually a valid document.

Survey results show that when asked if the quality review process discourages them from identifying questionable applications because they do not want to risk being charged an error, 79 (52 percent) of 153 respondents responded yes. They do not want to have an error charged because it could negatively impact their performance rating, and for seasonal tax examiners, it could affect whether they are called to return to duty. The survey responses combined with interviews we held with tax examiners in October 2012 found that some tax examiners believe it is better for them to *not* identify questionable documents and simply assign the ITINs to the applicants.

The IRS must remain diligent that its ITIN quality review process is not inadvertently discouraging tax examiners from identifying questionable applications. This will require

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<sup>11</sup> IRS guidelines previously defined a questionable application as one for which the tax examiner identifies three or more discrepancies on the application.



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effective analyses of the quality review data and consistent feedback to the tax examiners. This feedback could be provided during the tax examiners' required weekly meetings. IRS management informed us that team meetings were required to be held weekly. However, the team meetings have not always occurred weekly, and the content of the weekly meetings has not been consistent among the teams. As part of our survey, we asked tax examiners if their team had weekly meetings to discuss procedural changes. Only 98 (64 percent) out of 153 tax examiners responded that they had participated in weekly team meetings.

Weekly team meetings are essential for management to communicate procedural changes to the tax examiners, especially because tax examiners are given limited time to read issued updates. IRS management should ensure that the weekly team meetings occur and that the meetings include discussions on quality review trends as well as trends or patterns that are identified by the PTID and Real-Time System data.

### ***Recommendation***

***Recommendation 2:*** The Commissioner, Wage and Investment Division, should ensure that the quality review process continues to emphasize the importance of tax examiners' identification of questionable documents and that weekly team meetings are held with tax examiners to discuss ITIN application processing trends, patterns, and concerns.

***Management's Response:*** The ITIN Operations Department has incorporated this practice and will ensure that the team meetings continue to be held, where tax examiners may discuss ITIN application processing trends, patterns, and concerns.



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## **Appendix I**

### *Detailed Objectives, Scope, and Methodology*

Our overall objective was to assess the IRS's progress in identifying questionable ITIN applications. We also assessed the IRS's implementation of corrective actions agreed to in response to the TIGTA's previously issued ITIN report.<sup>1</sup> To accomplish our objectives, we:

- I. Assessed IRS actions taken to develop more detailed procedures and deliver adequate training to employees responsible for reviewing documentation supporting ITIN applications to identify questionable documents.
  - A. Met with the IRS ITIN Program Office to determine the status of implementing the recommendation.
  - B. Determined if the IRS coordinated with the Department of Homeland Security regarding training and processes it could provide to improve detection of fraudulent documents.
  - C. Determined if the training provided by the Department of Homeland Security was beneficial and clearly provided guidance on identifying false documents; in particular, documents from countries outside of the United States.
  - D. Determined if employees' ITIN training provided the proper amount of emphasis on identifying fraudulent applications.
  - E. Interviewed employees who received the training to determine if the training met their needs and if they believed the training helps them to better identify fraudulent ITIN applications.
- II. Assessed IRS actions taken to expand the quality review process to include adequate emphasis on whether employees were accurately identifying fraudulent documents.
  - A. Met with the IRS ITIN Program Office to determine the status of implementing the recommendation.
  - B. Interviewed quality review staff to determine how the quality review process works in the ITIN unit and identified any quality review projects and the applicable results.
- III. Assessed IRS actions taken to revise the criteria for identifying questionable applications to include the significance of an error.

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<sup>1</sup> TIGTA, Ref. No. 2012-42-081, *Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications* (July 2012).



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*Review and Verification of Individual Taxpayer Identification Number Applications Has Improved; However, Additional Processes and Procedures Are Still Needed*

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- A. Met with the IRS ITIN Program Office to determine the status of implementing the recommendation.
- B. Interviewed employees of the ITIN unit to determine the criteria they use to identify questionable applications and determined if they are following the new procedures.
- IV. Assessed IRS actions taken to establish a process to evaluate questionable applications to identify trends and schemes for referral.
  - A. Met with IRS ITIN Program Office to determine the status of implementing the recommendation.
  - B. Interviewed ITIN Program Office employees to determine what processes were put in place to identify trends and obtained the results of any projects implemented.
- V. Assessed IRS actions taken to develop business processes and procedures that include evaluating and analyzing information included in the Real-Time System<sup>2</sup> to identify indicators of questionable ITIN applications to proactively identify questionable applications during processing.
  - A. Met with the IRS ITIN Program Office to determine the status of implementing the recommendation.
  - B. Analyzed the reports to determine if they will provide useful data for the ITIN unit.
  - C. Evaluated extracts of the Real-Time System to identify multiple addresses used on ITIN applications.
  - D. Validated the information contained in the extracts to the Real-Time System. Key data fields from the extracts were compared to the information on the Real-Time System and general sanity checks were performed on the data.
- VI. Assessed IRS actions taken to establish organizational lines of responsibility, processes, and procedures for detecting, referring, and working potential ITIN application fraud schemes.
  - A. Met with the IRS ITIN Program Office to determine the status of implementing the recommendation.
  - B. Analyzed the procedures developed to determine if they will adequately address TIGTA's recommendation and if they will benefit the ITIN unit.

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<sup>2</sup> A web-based application used by ITIN tax examiners to process and record applicant submissions. Tax examiners review all applications and attached documents, then input the information into the Real-Time System.



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- VII. Assessed IRS actions taken to require only original documents or documents certified by the issuing agency to be provided in support of an ITIN application.
- A. Met with the IRS ITIN Program Office to determine the status of implementing the recommendation.
  - B. Monitored ITIN press release information and any related procedural changes on this item for Fiscal Year<sup>3</sup> 2013.
- VIII. Assessed IRS actions taken to discontinue the Certifying Acceptance Agent designation and require that all documentation in support of an ITIN application be sent to the IRS for review and verification.
- A. Met with the IRS ITIN Program Office to determine if they have made any decisions related to discontinuing the Certifying Acceptance Agent designation.
  - B. Monitored ITIN press release information and any related procedural changes on this item for Fiscal Year 2013.
- IX. Assessed IRS actions taken to develop a process to identify and deactivate ITINs assigned to individuals who no longer have a tax filing requirement.
- A. Met with the IRS ITIN Program Office to determine the status of implementing the recommendation.
  - B. Monitored the ITIN unit and checked for any updates related to this recommendation for Fiscal Year 2013 and beyond.
- X. Assessed the environment created by management relating to processes and procedures followed by tax examiners for identifying questionable ITIN applications.
- A. Developed and administered a survey of ITIN unit employees to obtain their perception of management's focus on identifying questionable ITIN applications.
  - B. Assessed allegations received regarding management actions since the completion of our prior review.
  - C. Assessed management's process to ensure that changes in the identification of questionable ITIN applications made in response to TIGTA's audit are being followed.

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<sup>3</sup> A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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**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 the following internal controls were relevant to our audit objective: the Internal Revenue Manual and the IRS's policies, procedures, and practices for processing Forms W-7, *Application for IRS Individual Taxpayer Identification Number*. We evaluated these controls by interviewing management, examining applicable information, and reviewing Form W-7 case files that were quality reviewed.



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## **Appendix II**

### *Major Contributors to This Report*

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## **Appendix III**

### *Report Distribution List*

Acting Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Services and Operations, Wage and Investment Division SE:W  
Director, Customer Account Services, Wage and Investment Division SE:W:CAS  
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP  
Austin Field Director, Submission Processing, Wage and Investment Division  
SE:W:CAS:SP:AU  
Deputy Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP:D  
Program Manager, ITIN Program Office, Wage and Investment Division SE:W:CAS:SP:ITIN  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division  
SE:W:S:PEI



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## **Appendix IV**

### *Individual Taxpayer Identification Number Application Requirements Effective January 1, 2013*

In response to concerns raised during our prior audit, the IRS issued a news release on June 22, 2012,<sup>1</sup> announcing interim changes to strengthen its procedures for issuing ITINs from June 22, 2012, until a final decision was made. ITINs would not be issued based on applications supported by notarized copies of documents. In addition, ITINs would not be issued based on applications submitted through Certifying Acceptance Agents unless they attach original documentation or copies of original documents certified by the issuing agency. The changes, which were effective immediately, were designed to strengthen and protect the integrity of the ITIN process while minimizing the impact on taxpayers.

Individuals applying directly to the IRS for ITINs are now required to submit original documentation (or copies certified by the issuing agency) to the IRS to support their applications for an ITIN. In addition to direct submission of original documents to the IRS, applicants may also have the documents for the primary and secondary taxpayers verified by some key IRS Taxpayer Assistance Centers, various U.S. Tax Attachés, and at Low-Income Taxpayer Clinics and Volunteer Income Tax Assistance Centers that use Certifying Acceptance Agents.

The figure on the following page provides the options an ITIN applicant has to submit documents when applying for an ITIN.



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**Options for ITIN Applicant's Submission of Documentation**

Applications Submitted to:	Criteria for Document Certification	Applicants Covered
IRS ITIN Operations Department (IRS's Austin, Texas, Campus <sup>2</sup> )	Direct applicant submission by mail.	Primary
	Original or copies certified by issuing agency.	Secondary
	Certify all approved document types.	Dependents
Participating IRS Taxpayer Assistance Centers	In-person submission for each applicant.	Primary
	Original or copies certified by issuing agency.	Secondary
	Certify passport and national identification cards only.	Dependents
	All other original documentation is mailed with Form W-7, <i>Application for IRS Individual Taxpayer Identification Number</i> .	
IRS Tax Attachés (London, Paris, Beijing, Frankfurt)	In-person submission for each applicant.	Primary
	Original or copies certified by issuing agency.	Secondary
	Certify all approved document types.	Dependents
Certifying Acceptance Agents	In-person submission for each applicant.	Primary
	Original or copies certified by issuing agency.	Secondary
	Certify all approved document types.	
	Dependent's original documentation is mailed with Form W-7.	
Educational Institutions (Colleges, Universities)	Applicants must obtain a certification letter from an approved institution of the Student and Exchange Visitor Program as a substitute for submission of the original identification documents with the Form W-7.	Primary
		Secondary
		Dependents

*Source: IRS.gov.*

Additionally, new ITINs will now be issued for a five-year period rather than an indefinite period. The IRS states that this change will help ensure that ITINs are being used for legitimate tax purposes.

<sup>2</sup> 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.



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**Appendix V**

*Management's Response to the Draft Report*

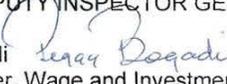


COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

April 16, 2013

MEMORANDUM FOR MICHAEL E. MCKENNEY  
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Peggy Bogadi   
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Review and Verification of Individual  
Taxpayer Identification Number Applications Has Improved;  
However, Additional Processes and Procedures Are Still Needed  
(Audit # 201340019)

We appreciate the opportunity to review your draft report on the IRS progress in identifying questionable Individual Taxpayer Identification Number (ITIN) applications. As the report recognizes, the IRS has made significant improvements to the program over the last year and will continue to make additional changes as necessary. We continue our dialogue with all stakeholders in this area to determine whether further refinements are necessary going forward.

The ITIN program is essential to effective tax administration. Designed specifically for tax administration purposes, the IRS created ITINs to provide tax identification numbers to foreign nationals, resident and nonresident aliens, and others who have filing or payment obligations under U.S. law but are not eligible to receive Social Security Numbers (SSN). Similarly, dependents that may be claimed on individual tax returns and are ineligible for SSNs may also be assigned ITINs, to permit the parents or guardians claiming the dependent to comply with reporting requirements.

Last year, when issues were raised on the ITIN process, the IRS took immediate steps to make program improvements. In June 2012, we initiated a comprehensive review of the ITIN program and implemented interim changes to tighten the procedures for issuing ITINs. On November 29, 2012, after completing our review, we announced updated procedures to strengthen the ITIN program. The new modifications and document standards further protect the integrity of the ITIN program by substantially improving controls to identify questionable ITIN applications and prevent ITINs from being issued for fraudulent or improper purposes while helping to minimize the burden



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for applicants. We appreciate that your report acknowledges these actions have significantly improved identification of questionable ITIN applications.

As noted in the report, we started receiving data extracts on a monthly basis from the ITIN Real-Time System (RTS) in July 2012. After resolving initial issues, we began using the extracts in the processing of applications and as the basis for the issuance of ITIN Alerts which share information on questionable or abusive trends with ITIN tax examiners, the Compliance function, and the Criminal Investigation Division. We recognize the value in making such information available to the tax examiners at the time ITIN applications are processed and are seeking enhancements to the system to improve the quality and usability of the data. We will also perform a risk assessment to identify other mitigating steps that can be taken.

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

Attachment



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Attachment

**RECOMMENDATION 1**

The Commissioner, Wage and Investment Division, should ensure that programming is developed to flag ITIN applications that contain characteristics of previously identified questionable ITIN applications when input into the Real-Time System.

**CORRECTIVE ACTION**

Flagging Individual Taxpayer Identification Number (ITIN) applications containing characteristics of previously identified questionable traits, at the time of input, will provide greater assurance that fraudulent applications are identified and stopped. We will prepare a risk assessment that, in addition to determining the scope and costs of programming, will address other mitigating controls that can be implemented in the event the requested programming changes are not funded. Completion of the risk assessment and a determination of actions to implement will complete this corrective action.

**IMPLEMENTATION DATE**

October 15, 2014

**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.

**RECOMMENDATION 2**

The Commissioner, Wage and Investment Division, should ensure that the quality review process continues to emphasize the importance of tax examiners' identification of questionable documents and that weekly team meetings are held with tax examiners to discuss ITIN application processing trends, patterns, and concerns.

**CORRECTIVE ACTION**

The ITIN operation has incorporated this practice, and will ensure that the team meetings continue to be held, where tax examiners may discuss ITIN application processing trends, patterns, and concerns.

**IMPLEMENTATION DATE**

Implemented and ongoing

**RESPONSIBLE OFFICIAL**

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



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**CORRECTIVE ACTION MONITORING PLAN**

N/A