



*Identity Protection Personal
Identification Numbers Are Not
Provided to All Eligible Taxpayers*

September 24, 2014

Reference Number: 2014-40-086

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

IDENTITY PROTECTION PERSONAL IDENTIFICATION NUMBERS ARE NOT PROVIDED TO ALL ELIGIBLE TAXPAYERS

Highlights

**Final Report issued on
September 24, 2014**

Highlights of Reference Number: 2014-40-086 to the Internal Revenue Service Deputy Commissioner for Operations Support and Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Tax-related identity theft continues to be one of the biggest challenges facing the IRS. To provide relief to victims of identity theft, the IRS began issuing Identity Protection Personal Identification Numbers (IP PIN) to eligible taxpayers in Fiscal Year 2011. Use of an IP PIN provides relief to taxpayers because it allows the IRS to process the tax returns without delay and helps prevent the misuse of taxpayers' Social Security Numbers on fraudulent tax returns.

WHY TIGTA DID THE AUDIT

The IP PIN helps the IRS verify a taxpayer's identity and accept his or her electronically filed or paper tax return. This audit was initiated to assess the IP PIN criteria and processes to determine whether the IRS is improving its assistance to victims of identity theft.

WHAT TIGTA FOUND

For Processing Year 2013, the IRS issued over 770,000 IP PIN notices to taxpayers for use in filing their tax returns. This number increased to over 1.2 million for Processing Year 2014. The IRS also started a limited pilot in January 2014 whereby taxpayers who obtained an electronic filing PIN through an IRS authentication website and live in the District of Columbia, Florida, or Georgia were provided an opportunity to obtain an IP PIN. In addition, taxpayers who used their IP PIN to file their tax returns claiming a refund in Processing Year 2013 had their returns

processed in a time frame similar to the general population of return filers claiming a refund.

Although the program expanded, the IRS did not provide an IP PIN to 532,637 taxpayers who had an identity theft indicator on their tax account indicating that the IRS resolved their case. The IRS also did not provide an IP PIN to 24,628 taxpayers whose Personally Identifiable Information had been lost, breached, or stolen by/from the IRS.

IRS programming errors resulted in 32,274 taxpayers not timely receiving an IP PIN and the issuance of 13,220 IP PIN notices to deceased taxpayers. In addition, the IP PIN notice issued to 759,446 taxpayers for Processing Year 2013 does not provide taxpayers adequate instructions on the use of the number and its importance on a tax return.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS 1) ensure that IP PINs are consistently issued, 2) revise IP PIN issuance criteria to make eligible those taxpayers who have had their Personally Identifiable Information lost, breached, disclosed, or stolen and have authenticated themselves, 3) ensure that the finalized IP PIN criteria are provided to the Applications Development function before each filing season, 4) ensure that IP PIN criteria are accurately programmed, and 5) revise the IP PIN issuance notice to explain the effect on processing a recipient's tax return and refund when the number is not included on their filed tax return.

The IRS agreed with the recommendations. However, its corrective action for one of the recommendations does not adequately address the concerns raised. The IRS indicates that individuals whose Personally Identifiable Information was compromised are eligible to receive an IP PIN. However, the IRS's website for its online IP PIN application still has not been updated to inform these individuals of this option.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 24, 2014

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT
COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Identity Protection Personal Identification
Numbers Are Not Provided to All Eligible Taxpayers
(Audit # 201440036)

This report presents the results of our review to assess the Identity Protection Personal Identification Number criteria and processes to determine whether the Internal Revenue Service is improving its assistance to victims of identity theft. This review addresses the major management challenge of Providing Quality Taxpayer Service Operations and is part of our discretionary audit coverage.

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

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

AD	Applications Development
CP	Computer Paragraph
e-file(d)	Electronically file(d)
IP PIN	Identity Protection Personal Identification Number
IRS	Internal Revenue Service
PGLD	Privacy, Governmental Liaison, and Disclosure
PII	Personally Identifiable Information
PY	Processing Year



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Background

Tax-related identity theft continues to be one of the biggest challenges facing the Internal Revenue Service (IRS). To provide relief to victims of identity theft, the IRS began issuing Identity Protection Personal Identification Numbers (IP PIN) to eligible taxpayers in Fiscal Year¹ 2011. An IP PIN is a six-digit number assigned to eligible taxpayers that allows their tax returns/refunds to be processed without delay and helps prevent the misuse of their Social Security Numbers on fraudulent Federal income tax returns. For Processing Year² (PY) 2013, the IRS issued over 770,000 IP PIN notices to taxpayers for use in filing their tax returns. The number of IP PIN notices increased to over 1.2 million for PY 2014.

IP PINs are issued before each filing season,³ and taxpayers who receive these numbers are instructed by the IRS to use them on their electronically filed (e-filed) and paper tax returns to confirm their identity. The IRS will issue victims of identity theft a new IP PIN each year for use in filing their tax return. The yellow highlighted section in Figure 1 shows where primary filers should enter their IP PIN on Tax Year⁴ 2013 Form 1040, *U.S. Individual Income Tax Return*.⁵

Figure 1: Excerpt From Form 1040 With IP PIN Area Highlighted in Yellow

Sign Here Joint return? See instructions. Keep a copy for your records.	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Your signature	Date	Your occupation	Daytime phone number
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>

Source: IRS.gov

The IP PIN helps the IRS verify a taxpayer's identity and, as a result, accept his or her e-filed or paper tax return. For e-filed tax returns filed with an incorrect or missing IP PIN, the tax return will be rejected until it is submitted with the correct IP PIN or the taxpayer files on paper. If the same conditions occur on a paper return, the IRS will delay the processing of the tax return and any refund due to determine if the tax return was filed by the legitimate taxpayer.

¹ 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.

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

³ The period from January through mid-April when most individual income tax returns are filed.

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

⁵ This section of the Form 1040 is the same for Tax Year 2012.



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The Privacy, Governmental Liaison, and Disclosure office is responsible for developing criteria used to identify taxpayers who should receive an IP PIN

The Privacy, Governmental Liaison, and Disclosure (PGLD) office, located within the IRS's Deputy Commissioner for Operations Support office, oversees the IP PIN process, including determining which taxpayers are provided an IP PIN. For example, annually the PGLD office provides the IRS Information Technology organization's Applications Development (AD)⁶ function with the specific criteria to identify those taxpayers who will be issued an IP PIN. The AD function is responsible for developing the programming that will be used to review tax accounts to identify those taxpayers who meet the PGLD criteria.

Assignment of an IP PIN

Each year in December, the IRS mails IP PINs to taxpayers who are confirmed by the IRS as victims of identity theft. These taxpayers previously received either an IRS letter or notice notifying them that an identity theft indicator was placed on their tax account. Most tax returns filed using the identity of a confirmed victim are flagged during tax return processing and sent for additional screening before any tax refund is issued. This screening is designed to detect tax returns filed by identity thieves who attempt to reuse a victim's identity in subsequent years and to prevent the issuance of fraudulent tax refunds. The identity theft indicator also allows the IRS to track the types of identity theft incidents (IRS-identified or taxpayer-initiated)⁷ and the actions taken by employees on taxpayers' accounts.

The IRS sends Notice Computer Paragraph (CP) 01A, *We assigned you an Identity Protection Personal Identification Number*, that contains the IP PIN. Issuance of this notice and IP PIN is a systemic process based on identifying those tax accounts with certain identity theft indicators. Not all taxpayers whose tax accounts have an identity theft indicator will receive an IP PIN. For example, the IRS should not send an IP PIN to those individuals who are deceased or for whom mail was previously returned undeliverable.⁸

The IRS also proactively provides an IP PIN to taxpayers who have an increased exposure to the possibility of identity theft. For example, if a taxpayer calls the IRS to report a lost or stolen wallet or purse, the IRS will provide an IP PIN if the taxpayer successfully authenticates his or her identity by providing one or more valid Federal or State Government-issued forms of identification⁹ and Form 14039, *Identity Theft Affidavit*, or a legible copy of a police report

⁶ The AD function is responsible for developing systems that manage taxpayer accounts from the initial filing of a tax return, interactions with taxpayers, and potential audit and collection activities.

⁷ IRS-identified cases are those for which the IRS proactively identified the taxpayer as a potential identity theft victim. Taxpayer-initiated cases are those for which taxpayers initiated contact with the IRS; for example, to report that after filing a tax return they received a notice indicating that it was rejected because someone else (an identity thief) had already filed a tax return using the same Social Security Number and name. A taxpayer may have more than one incident if the identity thief uses the stolen identity to file a fraudulent tax return for multiple tax years.

⁸ If mail has been returned as undeliverable, this implies that the IRS does not have a good address for the taxpayer.

⁹ Forms of identification include a Social Security card, passport, driver's license, or State identification card.



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indicating identity theft as the issue. In another example, the IRS started a limited pilot in January 2014 whereby taxpayers who obtained an e-file PIN through an IRS authentication website and live in the District of Columbia, Florida, or Georgia were provided with an opportunity to obtain an IP PIN. The District of Columbia and these two States were selected for the pilot because they have the highest per-capita percentages of tax-related identity theft. As part of this pilot, the IRS issued an IP PIN to 9,934 taxpayers in PY 2014.¹⁰

Replacement IP PINs are provided to taxpayers who report that they lost their original IP PIN

Subsequent to IRS issuance of an IP PIN, taxpayers who lose or misplace their IP PIN can contact the IRS to request a replacement IP PIN. For PY 2013, we identified 75,121 taxpayers who were issued an IP PIN but filed a tax return with a valid replacement IP PIN. Unlike the original IP PIN issued to taxpayers prior to a filing season, the IRS issues the same six-digit IP PIN as the replacement number to all taxpayers who lose their original IP PIN based on the month they contact the IRS. For example, the replacement IP PINs differed for each month from January 2013 to May 2013. From June to December 2013, the same replacement IP PIN was provided to taxpayers who called the IRS saying they lost their IP PIN.

In addition, IRS procedures require customer service representatives to explain to callers requesting a replacement IP PIN that the use of the replacement IP PIN will cause a delay in processing their tax return and in issuing refunds. Tax returns using replacement IP PINs are systemically accepted by the IRS but are not processed normally. These returns are subjected to further scrutiny to verify that the tax return was submitted by the legitimate taxpayer.

For PY 2014, the IRS implemented an automated IP PIN retrieval process. Taxpayers can authenticate themselves using an online authentication tool found on the IRS's website (www.irs.gov) and, if successfully authenticated, their original IP PIN will be provided. This improvement is intended to allow the IRS to process the taxpayer's tax return without delay. If the taxpayer cannot pass authentication or chooses to not use the online tool, the taxpayer can still use the IRS's customer service line to obtain a replacement IP PIN.

This review was performed with information obtained from the Information Technology organization's AD function in Lanham, Maryland, and the PGLD office in Kansas City, Missouri, during the period August 2013 through June 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹⁰ As of April 24, 2014.



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Results of Review

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The IRS did not provide an IP PIN to 557,265 taxpayers for PY 2013. These taxpayers were either confirmed by the IRS as being a victim of tax-related identity theft or had their Personally Identifiable Information (PII)¹¹ lost, breached, disclosed, or stolen by/from the IRS. Specifically:

- 532,637 taxpayers with an identity theft indicator on their tax account indicating that the IRS confirmed they were a victim of identity theft, resolved their case, and corrected their tax account (*i.e.*, updated their address). PGLD officials indicated that the IP PINs were not sent to these taxpayers because the PGLD office was not confident that IRS employees outside of the Wage and Investment Division's Accounts Management function correctly updated these tax accounts with the innocent taxpayer's address. The IRS's internal guidelines require *all* employees working identity theft cases to verify the legitimate taxpayer's address prior to marking a tax account as resolved with an indicator.

At the end of our review, a PGLD executive stated that there were other reasons why these victims were not issued an IP PIN. PGLD officials provided documentation showing decisions to not provide an IP PIN to some of these taxpayers. However, our review of this documentation found that it did not support the IRS's decisions to exclude these taxpayers from receiving an IP PIN.

- 24,628 taxpayers with an identity theft indicator on their tax account indicating that their PII was lost, breached, disclosed, or stolen by/from the IRS. For example, a taxpayer's case file containing PII is lost while being shipped from one IRS location to another. The IRS, recognizing that there is a risk to this taxpayer, mails Letter 4281C, *Incident Management Breach Notification Letter*, advising the taxpayer of the data loss and informing him or her that the IRS does not know if the information will be misused. Although the letter provides instructions on how the taxpayer can obtain free credit monitoring for one year, it does not offer the taxpayer the opportunity to contact the IRS to authenticate their identity and become eligible to obtain an IP PIN.

PGLD officials stated they did not provide an IP PIN because these individuals have not been a victim of tax-related identity theft. However, it should be noted that this position

¹¹ PII refers to information that can be used to distinguish or trace an individual's identity, such as name or Social Security Number, alone or when combined with other personal or identifying information that is linked or linkable to a specific individual, such as date and place of birth or mother's maiden name.



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is not consistent with actions the IRS takes to proactively provide an IP PIN to taxpayers who have an increased exposure to the possibility of identity theft. For example, taxpayers who report a lost or stolen wallet and taxpayers who obtain an e-file PIN from the IRS's authentication website are provided the opportunity to authenticate and obtain an IP PIN.

In addition, we found that PGLD officials could not provide complete documentation detailing the criteria used to identify taxpayers to be sent an IP PIN. Excluding eligible taxpayers from the IP PIN program will delay IRS processing of their tax returns and receipt of their tax refund. PGLD officials indicated that for PY 2014, the IRS considered expanding the offering of IP PINs to those eligible taxpayers who were omitted from the program in PY 2013. These taxpayers would have been provided the opportunity to register, authenticate themselves, and obtain an IP PIN. However, shortly before notifications were scheduled to be mailed to these taxpayers, the IRS canceled the letters. Even if the IRS mailed these letters, the need for these taxpayers to again authenticate themselves is not consistent with other taxpayers whose cases were worked and confirmed as a victim of identity theft. For example, taxpayers whose cases are worked and confirmed as victims of identity theft are issued an IP PIN each year and do not have the additional burden of having to once again authenticate themselves.

Use of IP PINs when filing tax returns reduces burden on victims of identity theft

Taxpayers who used an IP PIN to file their tax return in PY 2013 had their returns processed in a time frame similar to the general population of return filers. Use of the IP PIN resulted in these taxpayers' returns and refunds being processed without delay. Figure 2 provides a comparison of the time frames for processing refund returns filed with a valid IP PIN to those for processing all other tax returns (*i.e.*, the general population of tax return filers) claiming a refund.

**Figure 2: Comparison of Processing Times for Tax Returns
With a Valid IP PIN to All Other Tax Returns Claiming a Refund**

Type of Tax Return	Average Days
Paper tax return using an IP PIN	37 days
General population paper tax return	36 days
E-filed tax return with an IP PIN	27 days
General population e-filed tax return	26 days

Source: Our analysis of all Tax Year 2012 refund returns recorded in the Individual Master File¹² during Calendar Year 2013.

¹² The IRS database that maintains transactions or records of individual tax accounts.



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Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Ensure that IP PINs are consistently issued to victims of identity theft. The criteria used to identify or exclude taxpayers to receive an IP PIN should be documented each year.

Management's Response: The IRS agreed with this recommendation. The IRS has documented the criteria to be used for issuing IP PINs to victims of identity theft. The IRS also stated that it will continue to analyze accounts and adjust the criteria annually, when appropriate, to ensure that the IP PIN assignment is consistent with the documented criteria.

Recommendation 2: Revise IP PIN issuance criteria to make eligible those taxpayers who have had their PII lost, breached, disclosed, or stolen and have authenticated themselves. Letter 4281C should be revised to include instructions on how these taxpayers can authenticate themselves to obtain an IP PIN.

Management's Response: The IRS agreed with this recommendation and stated that taxpayers who have had their PII lost, breached, disclosed, or stolen are currently eligible to receive an IP PIN via the online IP PIN application. Letter 4281C, *Incident Management Breach Notification*, for mailings on or after January 2015 has been revised to include information about the IP PIN and includes a link to the web page where taxpayers may register and obtain an IP PIN.

Office of Audit Comment: Although the IRS indicates that these individuals are eligible to receive an IP PIN, our review of the IRS's website for its online IP PIN application determined that it still has not been updated to inform these taxpayers of their eligibility to obtain an IP PIN. These taxpayers are unaware of their ability to obtain an IP PIN until the IRS notifies them beginning in January 2015.

Programming Errors Resulted in Taxpayers Not Timely Receiving Identity Protection Personal Identification Numbers

Our review of the computer programming code used by the AD function to identify taxpayers to be issued an IP PIN found errors relating to the criteria used to identify eligible taxpayers as well as those taxpayers who should not receive an IP PIN (*e.g.*, deceased taxpayers). These errors resulted in taxpayers not timely receiving IP PINs and the IRS incorrectly issuing IP PIN notices to deceased taxpayers. For example, we identified that:

- The PGLD office provided the AD function with specific criteria to identify taxpayers to receive an IP PIN who had certain identity theft indicators on their tax accounts. However, the AD function incorrectly programmed its code to only check the most recent



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indicator placed on a tax account rather than researching the entire account to identify an identity theft indicator placed on the account at any time. This error resulted in some taxpayers not receiving an IP PIN prior to the start of the 2013 Filing Season. On February 4, 2013, the IRS detected this error and mailed a second batch of IP PINs—88,255 additional IP PINs. IRS officials stated that this second mailing included IP PINs for 32,274 taxpayers who should have received their IP PIN during the first mailing and 55,981 who had become eligible subsequent to the first mailing.

- The AD function programmed its code to prevent an IP PIN from being issued to deceased identity theft victims but did not suppress the CP01A notices from being issued. As a result, 13,220 IP PIN notices were mailed to deceased taxpayers. Although a notice was issued, an IP PIN was not included with the notice. The programming error resulted from the AD function receiving multiple requests from the PGLD office providing additional IP PIN requirements. The requests were often informally communicated via e-mail or discussed in meetings. The PGLD office did not provide the AD function with documentation detailing the finalized IP PIN requirements, and the programming requirements document was prepared incorrectly by the AD function.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 3: Ensure that finalized IP PIN criteria are provided to the AD function prior to each filing season outlining the requirements to be used to identify and exclude taxpayers from receiving an IP PIN.

Management's Response: The IRS agreed with this recommendation. The finalized IP PIN criteria were provided to the AD function on May 14, 2014. The IRS will continue to provide updates to the AD function when criteria are changed.

The Deputy Commissioner for Operations Support should:

Recommendation 4: Establish a process to ensure that IP PIN criteria are accurately programmed by the AD function.

Management's Response: The IRS agreed with this recommendation. The IRS believes that the IP PIN functionality was accurately programmed according to the requirements provided, but agrees that a stricter adherence to its prescribed engineering and solution design processes would help ensure programming accuracy. The IRS will ensure that these practices are followed.

Office of Audit Comment: We disagree with the IRS's statement that the AD function accurately programmed the IP PIN criteria. As stated in the report, errors in the computer programming code that the AD function used resulted in the IRS issuing IP PINs to 32,274 taxpayers after the start of the 2013 Filing Season. The errors also



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resulted in the IRS unintentionally issuing 13,220 IP PIN notices to deceased taxpayers. We continue to believe that the Customer Account Services Director should establish a process to ensure that IP PIN criteria are accurately programmed so that eligible taxpayers receive an IP PIN and ineligible individuals do not.

The Identity Protection Personal Identification Number Notice Does Not Provide Adequate Instructions

IRS Notice CP01A does not provide taxpayers with adequate instructions on how to use their IP PIN and the importance of using it on their tax return. For example, the notice does not:

- Provide information regarding the effect on the processing of the taxpayer's tax return and issuance of any refund due if the IP PIN is not used on their tax return. For example, if the primary taxpayer does not use his or her IP PIN when filing a tax return, IRS processing of their return and any refund due will be delayed. This delay results from the IRS having to perform research to determine if the return is fraudulent and filed by an identity thief or is the legitimate taxpayer's tax return.
- Provide an explanation to taxpayers whose dependents received an IP PIN that these are not to be listed on their tax return. In fact, neither the e-filed or paper tax return contains an entry line for an IP PIN issued to a dependent. The IRS issues IP PINs to dependents whose Social Security Numbers have been used on a false tax return or whose identifying information was lost or stolen.
- Provide an explanation to those taxpayers who are a secondary filer (spouse) that if they are filing a paper tax return that their IP PIN is not to be listed on their tax return because the paper tax return does not contain an entry line (e-filed tax returns have an entry line that the spouse enters their IP PIN).
- Inform taxpayers who received an IP PIN that they do not need to use the IP PIN if they are not required to file a tax return.

For PY 2013, the IRS issued a total of 759,446¹³ CP01A notices to taxpayers. PGLD officials stated that IRS Notice CP01A was intended to deliver the IP PIN, provide basic information, and cannot cover every scenario involving use of the IP PIN. The notice directs taxpayers who lost their IP PIN to an IRS website with additional information about the notice and a link to a Frequently Asked Questions section. The officials also stated that they are attempting to address the issue of identity theft indicators and IP PINs for dependents.

We agree that the notice cannot cover every scenario relating to the IP PIN. However, adequate information for a taxpayer to understand how to use the IP PIN and the importance of using it on a tax return are the key to reducing taxpayer burden. When taxpayers receive an IP PIN and are

¹³ Total IP PINs issued minus the ones issued to deceased taxpayers (772,666 – 13,220).



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not provided sufficient information and/or cannot understand the actions they are asked to take, these individuals may have to research the IRS's website, visit a Taxpayer Assistance Center, and/or call the IRS's customer service line.

Recommendation

The Commissioner, Wage and Investment Division, should:

Recommendation 5: Revise IRS Notice CP01A to clearly detail the effect an IP PIN has on the processing of a recipient's tax return and issuance of any refund due when the issued IP PIN is not included on the filed tax return. Revisions should also include key information relating to use of an IP PIN for dependents, secondary filers, and taxpayers without a filing requirement.

Management's Response: The IRS agreed with this recommendation. The IRS will revise Notice CP01A, *We assigned you an Identity Protection Personal Identification Number*, to explain the effect that IP PINs have on recipient's tax return processing and will include information relating to the use of IP PINs for dependents, secondary filers, and taxpayers without a filing requirement.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the IP PIN criteria and processes to determine whether the IRS is improving its assistance to victims of identity theft.

- I. Determined the IRS policy for determining which taxpayers qualify for an IP PIN.
 - A. Interviewed the PGLD office to identify the criteria and process they used to issue IP PINs.
 - B. Researched the Internal Revenue Manual.¹
 - C. Reviewed IRS testimony, its identity theft strategy, and guidance on its public website to identify IRS policy for issuing an IP PIN.
 - D. Reviewed the types of taxpayers to whom the IRS has issued an IP PIN and the justifications for doing so.
- II. Assessed the PY² 2013 IP PIN criteria and processes to determine whether victims who should have received an IP PIN were provided one and whether ineligible taxpayers were omitted (*i.e.*, not provided an IP PIN).
 - A. Obtained the list of taxpayers who received an IP PIN for PY 2013.
 - B. Assessed the PGLD office's eligibility criteria to determine whether they include all taxpayers who were eligible for an IP PIN. We determined that the IRS's criteria are not adequate. We also identified the criteria that should have been used
 - C. Compared the criteria that the PGLD office submitted to the Information Technology organization for the programming code used to query the Individual Master File³ and generate the IP PIN list to determine if the request was correctly programmed.
 - D. Using the IP PIN criteria that the IRS should have used (identified in II.B), identified the population of taxpayers who were eligible to receive an IP PIN according to IRS policy and determined whether only these taxpayers received an IP PIN. This population is called the "Eligibility List." We used an extract from the IRS's Individual Master File. We validated that the data we received were accurate and

¹ The IRM is the primary, official source of IRS "instructions to staff" relating to the organization, administration, and operation of the Service. It details the policies, delegations of authorities, procedures, instructions, and guidelines for daily operations for all divisions and functions of the Service.

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

³ The IRS database that maintains transactions or records of individual tax accounts.



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- reliable by comparing the data from the extract to the IRS's Integrated Data Retrieval System.⁴ An auditor independent of the data analysis validated the analysis by reviewing the logic and rerunning the queries. We found that the data could be relied on for this review.
- E. Assessed the risks of different taxpayers using the same IP PIN and taxpayers using an IP PIN that was not issued.
 - F. Obtained and assessed the PY 2014 criteria to determine if the criteria are appropriate to ensure that eligible taxpayers receive an IP PIN and are comparable to the PY 2013 criteria.
 - G. Determined whether the IRS previously issued notices to deceased taxpayers.
- III. Determined whether recipients used their IP PIN when filing their Tax Year⁵ 2012 return and whether the IP PIN worked as intended. We used data from our Data Center Warehouse⁶ for PY 2013. We validated that the data we received were accurate and reliable by comparing the data from the Data Center Warehouse to the IRS's Integrated Data Retrieval System. An auditor independent of the data analysis validated all the analysis by reviewing the logic and rerunning the queries. We found that the data could be relied on for this review.
- A. Determined the population of taxpayers who received an IP PIN and entered it on a Tax Year 2012 tax return in PY 2013.
 - B. Determined the population of taxpayers who received an IP PIN but did not use it on a Tax Year 2012 tax return in PY 2013.
 - C. Evaluated the clarity of the CP01A notice, which is used to provide taxpayers their IP PIN and instructions for using it.
 - D. Assessed the effect of the programming error that caused the IRS to mail 88,255 IP PINs late, on February 4, 2013. For these taxpayers, we determined whether a tax return was filed on their tax account without an IP PIN.
 - E. Determined the processing time of tax returns with refunds for tax accounts that have no identity theft indicator and the processing time of tax returns that have IP PINs. We calculated the processing time using the tax return received date to the refund issue date.

⁴ The IDRS is a large-scale computer system integrated with other IRS data systems and designed to provide instantaneous visual access to certain taxpayer accounts.

⁵ A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

⁶ Centralized storage and administration of files (which provides access to IRS data).



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- IV. Assessed the replacement IP PIN process.
 - A. Assessed the process used by the IRS to provide eligible taxpayers a replacement IP PIN for instances in which they lost their IP PIN.
 - B. Determined if the IRS properly notified taxpayers when original IP PINs were issued that there would be a possible delay associated with the use of a replacement IP PIN.
 - C. Evaluated the information provided by IRS telephone assistors when taxpayers call the toll-free lines requesting a replacement IP PIN. We evaluated the script used by telephone assistors.
 - D. Determined the difference in the processing time of returns processed with replacement IP PINs versus returns processed with the original IP PINs.
 - E. Determined why the IRS issues the same replacement IP PIN number to all taxpayers based on the month they call for a replacement IP PIN.
 - F. We determined how many taxpayers used the incorrect IP PIN that was listed in the Internal Revenue Manual as the March 2013 IP PIN replacement number.
- V. Assessed the risk of employee fraud and the risks to taxpayers and tax administration. We documented fraud risks related to IP PINs issued to identity thieves.

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: the PGLD office's IP PIN criteria and processes for providing assistance to victims of identity theft. We evaluated these controls by interviewing personnel, reviewing documentation, and performing data analysis of taxpayer accounts with identity theft indicators and tax returns filed with and without IP PINs and with replacement IP PINs.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement
Deputy Commissioner, Wage and Investment Division SE:W
Chief Technology Officer OS:CTO
Director, Corporate Data OS:CTO:AD:CP
Director, Privacy, Governmental Liaison, and Disclosure OS:P
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Privacy, Governmental Liaison, and Disclosure OS:P
 Corporate Data OS:CTO:AD:CP



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Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Actual; 557,265 taxpayer accounts affected (see page 4).

Methodology Used to Measure the Reported Benefit:

The IRS did not provide an IP PIN to 557,265 eligible taxpayers for PY¹ 2013. The following taxpayers were not provided an IP PIN even though their tax accounts had similar identity theft indicators as taxpayers to whom the IRS issues IP PINs.

- 532,637 taxpayers had an identity theft indicator on their tax account indicating an employee resolved the case and corrected the account to reflect the innocent taxpayers' information.
- 24,628 taxpayers had an identity theft indicator on their tax account indicating that their PII was lost, breached, disclosed, or stolen and the IRS was aware of the loss. The IRS mailed Letter 4281C, *Incident Management Breach Notification Letter*, advising these taxpayers of the data loss but did not offer them the chance to authenticate and obtain an IP PIN.

Type and Value of Outcome Measure:

- Taxpayer Burden – 13,220 taxpayers (see page 6)

Methodology Used to Measure the Reported Benefit:

The IRS inadvertently mailed IP PINs to the addresses of 13,220 deceased taxpayers. The IRS programming code prevented an IP PIN from being created for deceased identity theft victims but did not suppress the Notice CP01A, *We assigned you an Identity Protection Personal Identification Number*, from being issued. Sending unnecessary IRS notices to surviving spouses and grieving families increases their burden.

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



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Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 759,446 taxpayers (see page 8).

Methodology Used to Measure the Reported Benefit:

For PY 2013, the IRS issued a total of 759,446² CP01A notices to taxpayers. The notice does not provide taxpayers with adequate instructions on the importance of using the IP PIN on their tax return. For example, the notice does not:

- Provide information regarding the effect on the processing of the taxpayer's tax return and issuance of any refund due if the IP PIN is not used on the tax return. For example, if the primary taxpayer does not use his or her IP PIN when filing a tax return, IRS processing of the return and any refund due will be delayed. This delay results from the IRS having to perform research to determine if the return is fraudulent and filed by an identity thief or is the legitimate taxpayer's tax return.
- Provide an explanation to taxpayers whose dependents received an IP PIN that these are not to be listed on a filed tax return. In fact, neither the e-filed or paper tax return contains an entry line for an IP PIN issued to a dependent. The IRS issues IP PINs to dependents whose Social Security Numbers have been used on a false tax return or whose identifying information was lost or stolen.
- Provide an explanation to those taxpayers who are a secondary filer (spouse) on a paper tax return that their IP PIN is not to be listed on the tax return because the paper tax return does not contain an entry line (but e-filed tax returns do).
- Inform taxpayers who received an IP PIN that they do not need to use the IP PIN if they are not required to file a tax return.

We agree that the notice cannot cover every scenario relating to the IP PIN. However, the lack of adequate information for a taxpayer to understand why he or she received an IP PIN, how to use it or when not to use it, and the benefits of being in the IP PIN program are key to reducing taxpayer burden. When taxpayers receiving an IP PIN are not provided sufficient information or cannot understand the actions they are asked to take, these individuals may have to research the IRS's website, visit a Taxpayer Assistance Center, or call the IRS's customer service line.

² Total IP PINs issued minus the ones issued to deceased taxpayers (772,666 – 13,220).



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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

SEP 03 2014

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Identity Protection Personal Identification
Numbers Are Not Provided to All Eligible Taxpayers
(Audit # 201440036)

Thank you for the opportunity to respond to the subject draft audit report and provide comments. Identity theft impacting tax administration remains one of the most serious challenges facing the IRS, and the harm it inflicts on innocent taxpayers is an issue we take very seriously.

One of our major initiatives to assist victims of identity theft is the Identity Protection Personal Identification Number (IP PIN). The IP PIN is a unique identifier that authenticates a return filer as the legitimate taxpayer at the time the return is filed and prevents delays in processing the taxpayer's return. For the 2012 Filing Season, we issued IP PINs to approximately 250,000 taxpayers who had specific identity theft markers on their tax accounts. We verified the presence of this IP PIN at the time of filing and rejected returns associated with a taxpayer's account where an IP PIN had been assigned but was missing. For the 2013 Filing Season, we enhanced our programming to increase efficiency, and expanded the IP PIN program to more than 770,000 taxpayers. For the 2014 Filing Season, we issued over 1.2 million IP PINs.

The use of the IP PIN by taxpayers has been a major success, and as is noted in the audit report, protects taxpayers from being victims of identity theft while allowing their tax return to be processed in a time period similar to returns submitted without an IP PIN. Our records indicate that less than one percent of taxpayers issued an IP PIN are a victim of identity theft again.

The reason for the extremely low recurrence rate of identity theft is that we apply a strict set of parameters to accounts that are determined eligible for an IP PIN. The key factor is the high degree of assurance that the address where the IP PIN is mailed is for the legitimate taxpayer. If we are in doubt as to the accuracy of an address of record, we do not issue an IP PIN on that account. While the audit identifies over 500,000 accounts



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that could have received an IP PIN, we counter that our cautious approach in issuing the IP PIN is vital to protecting taxpayers. Sending an IP PIN to an address that is not verified as belonging to the legitimate taxpayer means that the individual committing the identity theft could now be in possession of the IP PIN. Another important safeguard that protects victims when an IP PIN is not assigned is that accounts with identity theft indicators are flagged for additional scrutiny for all subsequently filed returns. For the accounts identified in the audit as eligible for an IP PIN, those accounts are still protected by the series of account filters designed to protect against fraud.

The second group of taxpayers identified in the audit as eligible for an IP PIN are individuals who have been notified that their personal information was disclosed or lost by the IRS. These taxpayers are notified of the disclosure or loss via a Letter 4281 C, *Breach Notification Letter*. The audit suggests that the IRS should offer an IP PIN to these taxpayers. Beginning in January 2014, we began a pilot program that allowed taxpayers to voluntarily receive an IP PIN via an on-line application. For the 2015 processing year, we plan to mail a Notice Computer Paragraph (CP) 01F, *You may be eligible for an Identity Protection Personal Identification Number*, to these taxpayers notifying them that they can "opt-in" to receive an IP PIN through the IP PIN web application. We feel this solution will offer the protection for taxpayers impacted by a disclosure or data loss.

The audit also addresses the notification letter used for the IP PIN. The Notice CP01A, *We've Assigned You an Identity Protection Personal Identification Number*, is used to provide the IP PIN to taxpayers prior to the filing season. The audit team recognizes that the notice cannot address every possible scenario that a taxpayer might face and we concur with their assessment. That being said, we continually analyze our notices to ensure that they provide the best information to allow the taxpayer to successfully use the IP PIN to file a tax return. As we have done every year since the introduction of the IP PIN, we will seek to improve the Notice CP01A going forward.

The IP PIN is part of a larger strategic effort by the IRS to combat identity theft impacting tax administration. Along with programs designed to identify fraud before a return is processed and a robust communication effort designed to assist taxpayers in protecting their personal information, the IRS is fighting identity theft in many ways. We will continue to look for innovative ways to reduce identity theft. Our pilot program utilizing electronic authentication methods to obtain a replacement IP PIN or, in some cases, an initial IP PIN has shown promise. As resources allow, we will continue these efforts and develop additional new ways to protect taxpayers.

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

Attachment



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Attachment

Recommendations

The Deputy Commissioner for Operations Support should:

RECOMMENDATION 1

Ensure that IP PINs are consistently issued to victims of identity theft. The criteria used to identify or exclude taxpayers to receive an IP PIN should be documented each year.

CORRECTIVE ACTION

We have documented the criteria to be used for issuing Identity Protection Personal Identification Numbers (IP PIN) to victims of identity theft. We will continue to analyze accounts and adjust the criteria annually, when appropriate, to ensure the IP PIN assignment is consistent with the documented criteria.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

Revise IP PIN issuance criteria to make eligible those taxpayers who have had their PII lost, breached, disclosed, or stolen and have authenticated themselves. Letter 4281C should be revised to include instructions on how these taxpayers can authenticate themselves to obtain an IP PIN.

CORRECTIVE ACTION

Taxpayers who have had their personally identifiable information lost, breached, disclosed, or stolen are currently eligible to receive an IP PIN via the on-line IP PIN application. Letter 4281C, *Incident Management (IM) Breach Notification*, for mailings on or after January 2015, has been revised to include information about the IP PIN and includes a link to the web page where taxpayers may register and obtain an IP PIN.

IMPLEMENTATION DATE

February 15, 2015

RESPONSIBLE OFFICIAL

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



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CORRECTIVE ACTION MONITORING PLAN

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

Recommendations

The Deputy Commissioner for Operations Support should:

RECOMMENDATION 3

Ensure that finalized IP PIN criteria are provided to the AD function prior to each filing season outlining the requirements to be used to identify and exclude taxpayers from receiving an IP PIN.

CORRECTIVE ACTION

The finalized IP PIN criteria were provided to the Applications Development (AD) function on May 14, 2014. We will continue to provide updates to the AD function when criteria are changed.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 4

Establish a process to ensure that IP PIN criteria are accurately programmed by the AD function.

CORRECTIVE ACTION

We believe that the IP PIN functionality was accurately programmed according to the requirements provided, but agree that a stricter adherence to our prescribed engineering and solution design processes would help ensure programming accuracy. We will ensure these practices are followed.

IMPLEMENTATION DATE

July 15, 2015

RESPONSIBLE OFFICIAL

Associate Chief Information Officer, Enterprise Services, Information Technology



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CORRECTIVE ACTION MONITORING PLAN

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

Recommendation

The Deputy Commissioner for Operations Support should:

RECOMMENDATION 5

Revise IRS Notice CP01A to clearly detail the effect an IP PIN has on the processing of a recipient's tax return and issuance of any refund due when the issued IP PIN is not included on their filed tax return. Revisions should also include key information relating to use of an IP PIN for dependents, secondary filers, and taxpayers without a filing requirement.

CORRECTIVE ACTION

We will revise Notice Computer Paragraph 01A, *We assigned you an Identity Protection Personal Identification Number*, to explain the effect IP PINs have on recipient tax return processing, and will include information relating to the use of IP PINs for dependents, secondary filers, and taxpayers without a filing requirement.

IMPLEMENTATION DATE

March 15, 2015

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.