



*Improvements Are Needed in the  
Identity Protection Specialized Unit to  
Better Assist Victims of Identity Theft*

**October 27, 2015**

**Reference Number: 2016-40-003**

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

**Redaction Legend:**

1 = Tax Return/Return Information

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## HIGHLIGHTS

### **IMPROVEMENTS ARE NEEDED IN THE IDENTITY PROTECTION SPECIALIZED UNIT TO BETTER ASSIST VICTIMS OF IDENTITY THEFT**

## Highlights

### **Final Report issued on October 27, 2015**

Highlights of Reference Number: 2016-40-003 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

#### **IMPACT ON TAXPAYERS**

As part of the IRS's strategy to reduce taxpayer burden caused by identity theft, the Identity Protection Specialized Unit (IPSU) was formed in October 2008. The IPSU is a dedicated unit to enable victims of identity theft to have their questions answered and obtain assistance in having their issues resolved quickly and effectively.

#### **WHY TIGTA DID THE AUDIT**

In May 2012, TIGTA reported that the IRS should reassess the role of the IPSU because it was not meeting its original purpose of providing taxpayers with a single assistant to work with each identity theft victim to answer questions and resolve his or her issues. This audit was initiated to follow up on the current effectiveness of the IPSU in meeting its goals. The objective of this review was to determine whether the IPSU results in a streamlined process to help resolve identity theft cases, including providing victims with a single point of contact.

#### **WHAT TIGTA FOUND**

The majority of identity theft victims are no longer provided with an IPSU single point of contact. The IRS indicated that budgetary constraints do not allow for a single employee to be assigned to each identity theft victim. However, the IRS has stated that it remains committed to continuing to provide victims of identity theft with the centralized IPSU hotline to obtain assistance. The IRS noted that obtaining assistance via contact with the hotline does not depend on the availability of a single customer

service representative, who may be unavailable because he or she is performing other casework.

In addition, required acknowledgement and case status letters were not always issued to taxpayers. Our review of a statistically valid sample of 51 IPSU cases from the 24,509 that were closed in Fiscal Year 2014 identified 19 (37 percent) cases for which the customer service representative either did not send or timely send the taxpayer one or more of the required letters.

Also, research is not always effectively conducted to identify and assist taxpayers who submit identity theft claim documentation without their Social Security Number. Our review of a statistically valid sample of 51 cases from a population of 2,612 individuals identified 18 (35 percent) for which IRS information could have been used to identify the Social Security Number. Instead, the IRS closed the case as not having sufficient information from the individual to enable the IRS to identify a corresponding Social Security Number.

Finally, a comprehensive process has not been established to ensure that IPSU customer service representatives timely address taxpayer voicemail messages.

#### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS ensure that required acknowledgement and case status letters are timely sent to victims of identity theft. In addition, the IRS should ensure that cases submitted without a complete Social Security Number are properly researched and that a process is developed whereby customer service representatives timely respond to taxpayers' voicemail messages.

The IRS agreed with our recommendations and plans to conduct ongoing quality and managerial reviews to identify opportunities to improve the timeliness of acknowledgements sent to taxpayers. The IRS stated that additional training was provided to employees on how to properly research cases for the full Social Security Number. In addition, the IRS plans to issue updated guidance with specific procedures that address voicemails related to identity theft.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

October 27, 2015

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

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Improvements Are Needed in the Identity Protection Specialized Unit to Better Assist Victims of Identity Theft (Audit # 201440024)

This report presents the results of our review to determine whether the Identity Protection Specialized Unit results in a streamlined process to help resolve identity theft cases, including providing victims with a single point of contact. This audit was included in our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenges of Taxpayer Protection and Rights and Providing Quality Taxpayer Service Operations.

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

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



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## *Abbreviations*

CSR	Customer Service Representative
CY	Calendar Year
FY	Fiscal Year
IPSU	Identity Protection Specialized Unit
IRS	Internal Revenue Service
ITAR	Identity Theft Assistance Request
SSN	Social Security Number



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## *Background*

In October 2008, the Internal Revenue Service (IRS) formed the Identity Protection Specialized Unit (IPSU) as part of its strategy to reduce taxpayer burden caused by identity theft. The IPSU is a dedicated unit for victims of identity theft to have their questions answered and obtain assistance in resolving their identity theft issues quickly and effectively. IPSU customer service representatives (CSR) located in the IRS's Fresno, California, and Andover, Massachusetts, Campuses handle taxpayer inquiries from multiple sources. These employees also work a dedicated identity theft telephone line ((800) 908-4490) available Monday through Friday, 7:00 a.m. to 7:00 p.m. (taxpayer's local time). The IRS indicated that the IPSU was created to reduce taxpayer burden by assisting taxpayers who are, or may become, identity theft victims by providing individualized assistance, including:

- ***A single CSR to work with each identity theft victim to answer questions and help resolve his or her issues.*** The CSR provides guidance to victims and acknowledges receipt of identity theft claims and supporting documentation, such as Form 14039, *Identity Theft Affidavit*. For example, the CSRs send victims a Letter 5073C, *Acknowledgment Letter for Identity Theft Documentation (Form 14039/Police Report and Federal or State Identification)*, within 30 days of the receipt date of their claim.

If the identity theft claim is tax related, the CSR also forwards the identity theft claim to the appropriate functional area for resolution. If the taxpayer's claim requires work by multiple IRS functional areas to resolve, the CSR will also forward an acknowledgement (Letter 4403C, *ID Theft – IPSU Acknowledgement/Resource Info/Point of Contact*)<sup>1</sup> to the taxpayer. The letter notifies the taxpayer that the IRS received his or her documentation and the case was assigned to an IRS function for resolution or that his or her account will be monitored by the IPSU. The letter also includes information about actions the taxpayer needs to take, such as continuing to file his or her tax return, and provides the IPSU toll-free number or an IPSU employee's telephone extension for future contacts.

- ***An IRS functional area for taxpayers to self-report identity theft before it affects their tax accounts.*** Taxpayers can contact the IPSU to request protection of their tax account because their Social Security Number (SSN) or Individual Taxpayer Identification Number has been misused to obtain goods or services or because their Personally Identifiable Information<sup>2</sup> has been compromised (for example, a stolen purse or wallet).

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<sup>1</sup> See Appendix V for an example of Letter 4403C.

<sup>2</sup> Any information that, either alone or in combination with other information, can be used to uniquely identify an individual.



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The CSRs are responsible for marking these potential identity theft victims' tax accounts with identity theft indicators. These indicators alert the IRS that identity theft may have occurred and allow a taxpayer to receive an Identity Protection Personal Identification Number.<sup>3</sup> Figure 1 provides a description of the types of identity theft cases processed by the IPSU CSR teams.

**Figure 1: Types of Identity Theft Cases Processed by the IPSU**

Case Category Code	Description
<b>IDT2</b>	The taxpayer submits Form 14039 to the IPSU. The CSR determines if the documentation is complete and sufficient to validate the taxpayer's identity and determines if there is an impact on his or her tax account. If there is a tax account impact, the CSR forwards the case to the appropriate function for resolution. If more than one function needs to take action, the CSR will also establish an IDTX case (described below).
<b>IDT4</b>	The taxpayer submits Form 14039. If the IPSU CSR determines that the documentation is complete and sufficient to validate the taxpayer's identity and that there is no impact on his or her tax account, the CSR will place an identity theft indicator on the taxpayer's tax account. If the documentation is insufficient, the CSR will correspond with the taxpayer to obtain any needed information.
<b>IDT5</b>	The taxpayer submits correspondence or calls the IRS with a question related to an IRS identity theft letter he or she received regarding an identity theft indicator that the IRS placed on his or her tax account. The CSRs are instructed to emphasize the guidance for identity protection provided in the specific letter. If the taxpayer's issue involves tax-related identity theft, the CSR transfers the case to the appropriate function for resolution.
<b>IDTX</b>	A tax-related identity theft case in which a CSR monitors the work of more than one function that is resolving the identity theft issues on the case. The IPSU CSR will monitor the tax account, provide the taxpayer with the CSR's name and extension, and forward the taxpayer's referrals to the appropriate function for resolution. The IPSU CSR will also contact the appropriate functional identity theft liaison for the status of the case on the 165 <sup>th</sup> day (or the next business day) from the IRS received date if the case has not been closed or there has been no communication between the IPSU and the functions. The IPSU CSR reminds the identity theft liaison that the 180 <sup>th</sup> day for resolution is approaching and either a resolution is needed to close the case or an interim letter should be provided to the taxpayer with a status update and new resolution date. Future contacts with the functional identity theft liaison must be completed every 60 days after the 180-day time frame has passed.

<sup>3</sup> An Identity Protection Personal Identification Number 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 SSN on fraudulent Federal income tax returns.



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Case Category Code	Description
<b>ITAR</b>	Identity theft cases that meet Taxpayer Advocate Service criteria. <sup>4</sup> The IPSU treats these taxpayers as top priority. Letter 4524C, <i>Identity Theft Assistance Request (ITAR)</i> , is issued to the taxpayer providing the IPSU CSR's name and extension for direct contact. The letter must be sent within five workdays of the taxpayer's documents being scanned in the Correspondence Imaging System <sup>5</sup> or the date a taxpayer submits correspondence to the Scan unit in response to a CSR request. The CSRs monitor these cases and contact taxpayers every 30 days to provide the status of his or her case resolution.
<b>Global Review</b>	IPSU CSRs review a taxpayer's account after an identity theft indicator is placed on the account to ensure that subsequent tax periods are not affected by the identity theft incident. The review is performed to make the taxpayer "whole." When an identity theft victim's account is determined to contain an open (unresolved) issue, the case is returned to the appropriate function for resolution. IPSU CSRs must follow up with the functional identity theft liaison every 60 days on Global Review cases being monitored.

*Source: IRS Accounts Management function personnel.*

The IRS reports that the IPSU received a total of 746,942 cases for Calendar Year (CY) 2014. From the week ending January 3, 2015, to that ending June 13, 2015, the IPSU received a total of 232,006 cases. Figure 2 shows IPSU case volumes with respect to the total case receipts at both locations for CY 2014.

<sup>4</sup> The Taxpayer Advocate Service coordinates with the Accounts Management function to ensure that cases are expedited in an effort to relieve taxpayer hardships. Hardships include instances in which taxpayers need their refund to retain housing, obtain food for self and family, pay bills, obtain medical treatment, or retain their job (will become unemployed due to lack of transportation).

<sup>5</sup> A system for scanning all Accounts Management function adjustments receipts into digital images. An electronic workflow delivers the cases to the CSRs who work the cases from those images. The Correspondence Imaging System moves adjustments from a paper to a paperless environment.



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**Figure 2: IPSU Case Receipts for CY 2014**

Case Category Code	Andover Campus Receipts	Fresno Campus Receipts
IDT2	74,475	5,731
IDT4	78,312	4,297
IDT5	430	10
IDTX	5,516	869
ITAR	18	10,368
Global Review	566,661	255
<b>Total</b>	<b>725,412</b>	<b>21,530</b>

*Source: Accounts Management function identity theft inventory records.*

**Prior Treasury Inspector General for Tax Administration review<sup>6</sup> found that the IPSU does not resolve identity theft cases**

In May 2012, we reported that the IRS formed the IPSU to reduce taxpayer burden by providing individualized assistance, including a single CSR to work with each identity theft victim to answer questions and resolve his or her issues. However, this is not how the IPSU was working. We found that the IPSU was not resolving identity theft cases and instead was monitoring victims' accounts. It has attempted to coordinate with the 16 different IRS functions to ensure that identity theft cases are being effectively worked. The report concluded that the IRS should reassess the role of the IPSU because it was not meeting its original purpose of providing taxpayers with a single assistor to work with each identity theft victim to answer questions and resolve his or her issues. The report also stated that the new Identity Theft Program needs to ensure that each identity theft victim is provided a contact number for the IRS employee who is working his or her case and who can answer questions and resolve issues.

This review was performed at the Accounts Management function's IPSU offices in Fresno, California, and Andover, Massachusetts, during the period August 2014 through June 2015. 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

<sup>6</sup> Treasury Inspector General for Tax Administration, Ref. No. 2012-40-050, *Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service* (May 2012).



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information on our audit objective, 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*

### ***The Majority of Identity Theft Victims Are No Longer Provided With an Identity Protection Specialized Unit Single Point of Contact***

The IPSU was initially formed to provide taxpayers with a central point of contact for the resolution of tax issues caused by identity theft, including a single CSR to work with each identity theft victim. In November 2014, the IRS indicated that budgetary constraints did not allow for a single employee to be assigned to each identity theft victim. However, the IRS stated that it remains committed to continuing to provide victims of identity theft with the centralized IPSU hotline to obtain assistance. The IRS noted that obtaining assistance via contact with the hotline does not depend on the availability of a single CSR, who may be unavailable because he or she is performing other casework.

### ***The IPSU limits monitoring to only cases worked by multiple IRS functions***

In addition to not providing a single CSR to work with a victim of identity theft, in May 2013, IPSU officials decided that the IPSU would no longer monitor identity theft cases worked by a single IRS function. The IPSU will limit case monitoring to only those cases worked by multiple functions. The IRS stated that its decision to monitor only multifunction cases is because those cases have a higher risk that actions will not be taken to assist the taxpayer. In an effort to mitigate this risk, the IPSU monitors these cases through resolution. For example, an IPSU CSR communicates with the taxpayer during the case resolution process and will contact the various functional areas working these types of cases to obtain the case status every 30 days and provide the status to the taxpayer. In addition, after identity theft caseworkers resolve a case, they complete and return a Form 14027B, *Identity Theft Case Referral*, to the IPSU. An IPSU CSR will then confirm that the identity theft caseworker performed all required actions in working and closing the case, such as inputting the appropriate closing indicator on the taxpayer's account and ensuring that all account issues were addressed.

The IRS's decision for the IPSU to limit monitoring to multifunction identity theft cases significantly reduced the number of cases monitored by the IPSU. For example, in CY 2013, the IRS reported that it processed 376,996 taxpayer-initiated identity theft incidents, and the IPSU monitored 70,020 (19 percent) of those cases during that time frame. Subsequent to limiting its monitoring activities in CY 2014, the IRS reported that it processed 319,421 taxpayer-initiated identity theft incidents, but the IPSU monitored only 16,771 (5 percent) of those cases, a 76 percent decrease from the prior year.



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**Identity theft assistance and compliance activities are being consolidated as part of the IRS's Identity Theft Victim Assistance directorate**

On May 4, 2015, the IRS announced the final phase of its plan to consolidate its identity theft assistance and compliance activities into a new organization called Identity Theft Victim Assistance. The IRS indicated that the new directorate aims to provide consistent treatment to victims of tax-related identity theft. The directorate is organizationally located in the IRS's Accounts Management function, centralizes identity theft victim assistance work, and will result in the realignment of approximately 1,700 employees. On July 1, 2015, IRS officials further stated that IPSU employees located in the Andover and Fresno Campuses will also be moved to the Identity Theft Victim Assistance directorate. They stated that once the realignment is fully completed, an analysis of all identity theft victim assistance processes will be performed, including IPSU case monitoring. The officials also stated that the IRS intends to complete this analysis and make decisions as early as October 2015. We plan to review the IRS's implementation of the Identity Theft Victim Assistance directorate as part of our Fiscal Year (FY) 2016 audit coverage.

***Required Acknowledgement and Case Status Letters Were Not Always Issued to Taxpayers***

The IPSU's process for issuing required acknowledgement and case status letters to taxpayers does not ensure that taxpayers are timely informed about the IRS's receipt of their supporting documentation or the status of their identity theft claims. Our review of a statistically valid sample<sup>7</sup> of 51 cases that were monitored by the IPSU from the 24,509 that were closed in FY 2014 identified 19 (37 percent) cases for which the CSR either did not send or did not timely send taxpayers one or more of the required letters. This includes:

- Seven cases for which the taxpayers were not sent the required acknowledgement letter confirming receipt of their identity theft claim. Based on the results of our sample, we project that 3,364 taxpayers<sup>8</sup> may not have been sent the required acknowledgement letters.
- Ten cases for which the taxpayers were not timely sent the required acknowledgement letter, *i.e.*, within 30 days of receipt of claim. Based on the results of our sample, we project that 4,806 taxpayers<sup>9</sup> may not have timely received the required acknowledgement letters.

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<sup>7</sup> To select our statistically valid sample, we used an expected error rate of 5 percent, a precision rate of 5 percent, and a confidence interval of 90 percent.

<sup>8</sup> Our projection, based on a 90 percent confidence interval, is that between 1,623 and 5,941 taxpayers could have been subjected to this error in FY 2014.

<sup>9</sup> Our projection, based on a 90 percent confidence interval, is that between 2,706 and 7,594 taxpayers could have been subjected to this error in FY 2014.



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IRS procedures require the employee receiving a Form 14039, police report, or other correspondence alleging identity theft to acknowledge receipt of the information from the taxpayer by sending Letter 5073C or another appropriate letter to the taxpayer within 30 days of receipt. For cases that meet Taxpayer Advocate Service criteria, *i.e.*, ITAR-monitored case, acknowledgement Letter 4524C must be sent to the taxpayer within five workdays of IRS receipt of the taxpayer’s information. In addition, a subsequent Letter 4524C must be sent to the taxpayer every 30 days. The letter provides an update to the taxpayer on his or her case.

When we brought to management’s attention that required letters were not issued or not timely issued, IPSU officials stated that when Forms 14039 are received in other functions, by the time the taxpayer correspondence is forwarded to the Scan unit and the IPSU receives the case, the 30-day requirement may have already passed. However, we did not find support for this explanation in our review of the 10 untimely acknowledgment letters. The taxpayer sent a Form 14039 to the IRS in five of the 10 cases. In three of the five cases, the Form 14039 was sent to other areas of the IRS and then forwarded to the Scan unit before the case could be created. All three Forms 14039 were scanned from one-to-17 days after the Scan unit received them.

**Recommendation**

**Recommendation 1:** The Commissioner, Wage and Investment Division, should ensure that required acknowledgement and case status letters are timely sent to victims of identity theft.

**Management’s Response:** The IRS agreed with this recommendation. The IRS is conducting ongoing quality and managerial reviews and stated that it will also perform additional reviews during annual site visits to identify opportunities to improve the timeliness of acknowledgements sent to taxpayers. Guidance will be provided based on the outcome of the reviews.

**Research Is Not Always Effectively Conducted to Identify and Assist Taxpayers Who Submit Identity Theft Claim Documentation**

Our review of statistically valid sample of 51 cases,<sup>11</sup> from a population of 2,612 individuals whose cases were closed in FY 2014 as not having sufficient information to enable the IRS to

<sup>10</sup> \*\*\*\*\*1\*\*\*\*\*  
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<sup>11</sup> The statistical sampling plan was based upon an expected error rate of 5 percent, a precision rate of 5 percent, and a confidence interval of 90 percent.



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identify a corresponding SSN, identified through research of IRS records 18 (35 percent) of the 51 individuals' SSNs. Each of these 2,612 individuals self-reported being a victim of identity theft and requested protection of his or her tax account. However, for each, the IRS closed their case as not having sufficient information from the individual to enable the IRS to identify a corresponding SSN.

Of the 18 taxpayers for whom our research of tax records identified an SSN, eight taxpayers (16 percent of the 51 cases reviewed) submitted complete documentation that would have allowed their identity theft claim to be processed if their SSN had been properly researched. Based on the results of our sample, we project that 410 taxpayers<sup>12</sup> may have been burdened as a result of the IRS's inadequate research to identify their associated SSN. Each of these taxpayers would be required to resubmit his or her identity theft claim documentation because the IRS did not conduct proper research.

IRS procedures require employees in the Scan unit or the IPSU CSRs to research systems such as the Integrated Data Retrieval System<sup>13</sup> to locate a taxpayer's SSN when the complete SSN is not provided by the taxpayer on submitted documentation. The taxpayer's SSN is needed to input an identity theft indicator on the taxpayer's account.

When we brought this issue to management's attention, IRS managers stated that they identified a training gap regarding the steps employees should take to research cases to identify the SSN using the various research tools available. The IRS also agreed that thorough research for the SSNs on the Integrated Data Retrieval System is not being completed by employees and the thoroughness of the research was limited by the skill level of the employees.

## ***Recommendation***

**Recommendation 2:** The Commissioner, Wage and Investment Division, should ensure that cases submitted without a complete SSN are properly researched.

**Management's Response:** The IRS agreed with this recommendation and has already taken steps to address this finding. The IRS stated that it has provided additional training to the IPSU and Image Control Teams when the issue was identified and that the Critical Filing Season Readiness Training will also be updated. The IRS is enhancing the Integrated Automation Technologies Tool to include the command codes for researching the SSNs. This enhancement is currently in development. Additionally, the IRS is considering the feasibility of revising Form 14039 to require the full Taxpayer Identification Number.

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<sup>12</sup> Our projection, based on a 90 percent confidence interval, is that between 212 and 690 taxpayers could have been subjected to this error in FY 2014.

<sup>13</sup> An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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## **Processes and Procedures Are Ineffective to Ensure That Taxpayer Voicemail Messages Are Timely Addressed**

A comprehensive process has not been established to ensure that IPSU CSRs timely address taxpayer voicemail messages. In CY 2013, IPSU management at the Andover Campus established an informal process to review *Voice Message Telephone Reports*<sup>14</sup> on a daily basis to ensure that taxpayer calls were returned. However, a review of the process showed that it does not ensure that taxpayers who left voicemail messages are timely assisted. For example, in response to concerns we raised in October 2014, IPSU managers identified 67 taxpayer voicemail messages that had not been deleted by the CSRs from their ASPECT<sup>15</sup> voicemail system. Our review of information recorded by management during its review of the messages identified that 32 messages appeared to warrant a call back. However, processes are not in place to determine if a call back was, in fact, made.

After raising our concerns, one operations manager located at the Andover Campus established a process for all of the department managers to monitor taxpayer messages weekly via review of the *Voice Message Telephone Report* and have their employees report to them the subject of the messages left on their voicemails. However, we determined that using the telephone report is an ineffective tool for determining if a CSR returned a taxpayer's voicemail message when warranted. The report only reflects voicemail messages that remain on the CSR's voicemail, and the CSRs can delete taxpayers' messages.

In addition, our discussion with one department manager and two front-line managers found that not all managers have a clear understanding of the *Voice Message Telephone Report*. For example, one manager stated that the report shows all voicemail messages for the day including messages employees deleted. Another manager stated that he does not receive the reports and does not report any information about the employees' messages to the department manager. Furthermore, management at the Fresno Campus confirmed that, although they review the number of voicemail messages on the weekly report, procedures have not been established requiring management's review of the reports.

IPSU procedures require the CSRs to respond to taxpayers' messages on a daily basis. However, the procedures do not require the CSR to update the identity theft case with information when the CSR returns a taxpayer's voicemail message. On a weekly basis, department managers at the Andover Campus are to provide the operations manager with a description of the voicemail messages that remain on employees' telephone voicemails. Employees also record the date the taxpayer's message was recorded along with the date the CSR returned the message. When CSRs do not timely return taxpayers' voicemail messages, taxpayers are likely to call other IRS

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<sup>14</sup> The IRS's *Messages Detail by Team* report, which shows the number of voice messages on an employee's telephone extension on any day.

<sup>15</sup> The IRS's telephone system that provides call routing capabilities, including queuing, reporting, and toll-free service.



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telephone numbers to obtain help with their identity theft cases. This diminishes the goal of the IPSU to reduce taxpayer burden on victims of identity theft.

### ***Recommendation***

***Recommendation 3:*** The Commissioner, Wage and Investment Division, should develop a process to ensure that the CSRs timely respond to taxpayers' voicemail messages, including requiring the CSRs to update the Correspondence Imaging System detailing the assistance provided to taxpayers in response to voicemail messages.

***Management's Response:*** The IRS agreed with this recommendation and is issuing updated guidance with specific procedures that address voicemail related to identity theft. The procedural updates will include requirements to document actions in the Correspondence Imaging System.



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## Appendix I

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

Our overall objective was to determine whether the IPSU results in a streamlined process to help resolve identity theft cases, including providing victims with a single point of contact. To achieve our objective, we:

- I. Determined whether the IPSU results in a streamlined process to help resolve identity theft cases.
  - A. Determined whether the IPSU efficiently resolves identity theft cases.
    1. Using the statistical sample of 100 identity theft cases selected during a previous Treasury Inspector General for Tax Administration audit,<sup>1</sup> we compared the average days to close a case monitored by the IPSU to the average days to close a case not monitored by the IPSU to determine if IPSU monitoring results in identity theft tax accounts being worked more timely.
    2. Selected a statistically valid sample<sup>2</sup> of 51 Correspondence Imaging System cases from the universe of 24,509 IDTX<sup>3</sup> and ITAR cases closed in FY 2014. We used an expected error rate of 5 percent, a precision rate of 5 percent, and a confidence interval of 90 percent. We evaluated IPSU controls over processing and monitoring cases to determine if:
      - a. Acknowledgment Letter 4403C, *ID Theft – IPSU Acknowledgement/Resource Info/Point of Contact*, was timely sent to the victim.
      - b. Required interim letters were sent to the victim.
      - c. Letter 4524C, *Identity Theft Assistance Request (ITAR)*, was forwarded to taxpayers within the required five workdays of the taxpayers' documents being scanned into the Correspondence Imaging System for ITAR cases.

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<sup>1</sup> For more information on this sample, see the previous report: Treasury Inspector General for Tax Administration, Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (March 2015).

<sup>2</sup> Our contracted statistician assisted with developing sampling plans and projections. We assessed the reliability of the data systems used in our audit prior to select our samples by evaluating whether the data fields contained appropriate information and ensuring that we had accurate record counts. Based on these tests, we determined that the data were sufficiently reliable for the purposes of our audit.

<sup>3</sup> See Figure 1 of this report for a description of this IRS category code.



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- B. Determined whether identity theft cases processed by the IPSU were accurate.
1. Using the statistically valid sample selected in Step I.A.2, determined if:
    - a. Required interim letters were sent to the victim.
    - b. Identity theft indicators were placed on taxpayers' accounts, as required, indicating that the IRS received the taxpayer's documentation.
    - c. The identity theft closing code was accurately placed on the taxpayer's account.
  2. From the universe of 108,320 SSNs with an IDT4 case closed on the Correspondence Imaging System during FY 2014, performed a 100 percent match to the Individual Master File<sup>4</sup> to determine if taxpayers with an IDT4 had a corresponding Transaction Code 971, Action Code 504 (taxpayer-identified, non-tax-related identity theft indicator), on their account. This test could not be performed as planned because a Transaction Code 971, Action Code 504 should not be placed on a taxpayer's account if the documentation submitted was incomplete. The individual cases have to be reviewed to determine if the documentation submitted was incomplete. Instead, we selected statistically valid samples of two universes of closed IDT4 cases from the Correspondence Imaging System. We validated that the data we received were accurate and reliable by comparing the data from the extracts to the IRS's Correspondence Imaging System. We found that the data could be relied on for this review. We performed the following tests of the IDT4 closed cases:
    - a. Analyzed a statistically valid sample of 51 cases from a population of 2,612 individuals whose cases were closed in FY 2014 and the IRS recorded the identity theft claim under an SSN of all zeros. We used an expected error rate of 5 percent, a precision rate of 5 percent, and a confidence interval of 90 percent.
    - b. Analyzed a statistically valid sample of 51 cases from a population of 14,053 IDT4 cases closed in FY 2014 and an identity theft indicator was not on the account. We used an expected error rate of 5 percent, a precision rate of 5 percent, and a confidence interval of 90 percent.
  3. Interviewed IPSU management to assess the justification for discontinuing the monitoring of single-function cases and for the IDTX clean-up process. We determined whether taxpayers were notified that the IPSU was no longer monitoring their identity theft cases.

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<sup>4</sup> The IRS database that maintains transactions or records of individual tax accounts.



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- II. Determined whether the IPSU provides identity theft victims with a single point of contact.
  - A. Interviewed IRS management to determine why Letter 4403C does not include the CSR's name and contact information.
  - B. Determined why controls have not been established to ensure that the CSRs timely return taxpayers' telephone calls and the reasons for the IPSU not including in its quality review process reviewers listening to a sample of taxpayer messages left for the CSRs and following up to determine whether calls were returned.
  - C. Determine the current method used for ensuring that the CSRs are returning taxpayer calls.
  - D. Assessed the CSRs use of the Multiple Case Control Listing to ensure that only one CSR is working on a victim's account.

**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 processes for working and monitoring identity theft claims by the IPSU and use of the Multiple Case Control Listing to eliminate multiple employees monitoring the same taxpayer case. We evaluated these controls by interviewing personnel, reviewing identity theft claims, and reviewing the Multiple Case Control Listings.



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**Appendix II**

*Major Contributors to This Report*

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)  
W. Allen Gray, Director  
Jamelle L. Pruden, Audit Manager  
Pamela DeSimone, Lead Auditor  
Robert Howes, Senior Auditor  
Jonathan Lloyd, Senior Auditor  
Jerome Antoine, Auditor  
Kathy Coote, Auditor  
Ann Ring, Auditor



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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 SE  
Director, Customer Account Services, Wage and Investment Division SE:W:CAS  
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Director, Office of Audit Coordination OS:PPAC:AC  
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**

*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 – Potential; 9,131 taxpayers (see page 7).

**Methodology Used to Measure the Reported Benefit:**

The IPSU’s process for issuing required acknowledgement and case status letters to taxpayers does not ensure that taxpayers are timely informed about the IRS’s receipt of their supporting documentation or the status of their identity theft claims. Our review of 51 IPSU-monitored cases from the 24,509 that were closed in FY 2014 identified 19 (37 percent) cases for which the CSR either did not send or did not timely send taxpayers one or more of the required letters. This includes:

- Seven cases for which the taxpayers were not sent the required acknowledgement letter confirming receipt of their identity theft claim and any supporting documentation. Based on the results of our sample, we project that 3,364 taxpayers<sup>1</sup> may not have been sent the required acknowledgement letters.
- Ten cases for which the taxpayers were not timely sent the required acknowledgement letter, *i.e.*, within 30 days of receipt of claim. Based on the results of our sample, we project that 4,806 taxpayers<sup>2</sup> may not have timely received the required acknowledgement letters.
- \*\*\*\*\*1\*\*\*\*\*  
\*\*\*\*\*1\*\*\*\*\*  
\*\*\*\*\*1\*\*\*\*\*3\*\*\*\*\*.

<sup>1</sup> Our projection, based on a 90 percent confidence interval, is that between 1,623 and 5,941 taxpayers could have been subjected to this error in FY 2014.

<sup>2</sup> Our projection, based on a 90 percent confidence interval, is that between 2,706 and 7,594 taxpayers could have been subjected to this error in FY 2014.

<sup>3</sup> \*\*\*\*\*1\*\*\*\*\*  
\*\*\*\*\*1\*\*\*\*\*.



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IPSU procedures require that the employee receiving a Form 14039, *Identity Theft Affidavit*, police report, or other correspondence alleging identity theft acknowledge receipt of the information from the taxpayer by sending Letter 4403C, *ID Theft – IPSU Acknowledgement/Resource Info/Point of Contact*, or other appropriate letter to the taxpayer within 30 days of receipt. For cases that involve multiple IRS functions to resolve, a subsequent status letter is to be sent to the taxpayer every 30 days. The letter provides an update to the taxpayer on his or her case.

**Type and Value of Outcome Measure:**

- Taxpayer Burden – Potential; 410 taxpayers (see page 8).

**Methodology Used to Measure the Reported Benefit:**

We researched IRS records for 51 cases from a population of 2,612 individuals whose cases the IRS closed in FY 2014 as not having sufficient information from the individual to enable the IRS to identify a corresponding SSN. Our research identified 18 (35 percent) of the 51 individuals' SSNs. Each of these 2,612 individuals self-reported being a victim of identity theft and requested protection of their tax account. Of the 18 taxpayers for which an SSN was identified, eight (16 percent of the 51 cases reviewed) taxpayers submitted complete documentation that would have allowed their identity theft claim to be processed had their SSN been properly researched. Based on the results of our sample, we project that 410 taxpayers<sup>4</sup> experienced the burden of not having their claim properly researched. Each of these taxpayers would have been required to resubmit their identity theft claim documentation because the IRS did not conduct proper research.

IRS procedures require employees in the IRS Scan unit or the IPSU CSRs to research systems such as the Integrated Data Retrieval System<sup>5</sup> to locate a taxpayer's SSN when the complete SSN is not provided by the taxpayer on the documentation submitted. The taxpayer's SSN is needed to open a case on the Correspondence Imaging System<sup>6</sup> so that a CSR can review the documentation and input an identity theft indicator on the taxpayer's account.

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<sup>4</sup> Our projection, based on a 90 percent confidence interval, is that between 212 and 690 taxpayers could have been subjected to this error in FY 2014.

<sup>5</sup> An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

<sup>6</sup> A system for scanning all Accounts Management function adjustments receipts into digital images. An electronic workflow delivers the cases to the CSRs who work the cases from those images. The Correspondence Imaging System moves adjustments from a paper to a paperless environment.



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**Appendix V**

*Internal Revenue Service Letter 4403C,  
ID Theft – IPSU Acknowledgement/Resource  
Info/Point of Contact*

Department  
of the  
Treasury

Transmittal Number	Date of Issue
13-08	08/05/2013

Originating Office	Form Number
SE:W:CAS:AM:PPM(IS)	4403C

IDRS  
CORRESPONDEX

Internal  
Revenue  
Service

Title: ID Theft - IPSU Acknowledgement/Resource Info/Point of Contact

Number of Copies Original	Distribution to: 1 to TP	Former Letter 4403C (Rev. 01-13)
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OMB Clearance Number -	Expires	IMF
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Letters Considered in Revision:

Dear [-30V]

WHY WE'RE SENDING YOU THIS LETTER

A Thank you for contacting the IRS Identity Protection Specialized Unit.  
A We assigned your case for monitoring purposes and are providing you  
A information and actions you may need to take. Please continue to file  
A all federal tax returns as you normally would.

B Thank you for contacting the IRS. We assigned your case for monitoring  
B purposes and are providing you information about actions you may need  
B to take. Please continue to file all federal tax returns as you  
B normally would.

C Thank you for contacting the IRS. We received your documentation and  
C assigned your case. We are providing you information about actions you  
C may need to take. Please continue to file all federal tax returns as  
C you normally would.

C



*Improvements Are Needed in the Identity Protection Specialized Unit to Better Assist Victims of Identity Theft*

WHAT YOU SHOULD DO NOW

D If you received an IRS notice or letter requesting information  
D regarding a tax account issue and haven't responded, please respond  
D immediately to the address provided in the notice or letter. If you  
D haven't provided requested documentation, you should include legible  
D documents to verify your identity and provide evidence of identity  
D theft. Acceptable documents and evidence include copies of the  
D following:

- D 1. A legible copy of a valid U.S. federal or state government-issued  
D identification such as a social security card, passport, driver's  
D license, state identification card, etc. AND
- D 2. A police report indicating identity theft as the issue, or a  
D completed Form 14039, Identity Theft Affidavit. You can obtain a  
D copy of Form 14039 at [www.irs.gov](http://www.irs.gov) (key phrase: Identity Theft).

D You should monitor your financial accounts. If you notice any  
D suspicious or unusual activity on any of your financial accounts,  
D report it immediately by doing the following:

1. Contact your financial institution(s).
2. Contact the fraud department of one of the three major credit  
bureaus:  
Equifax                      Experian                      TransUnion  
800-525-6285              888-397-3742              800-680-7289  
[www.equifax.com](http://www.equifax.com)              [www.experian.com](http://www.experian.com)              [www.transunion.com](http://www.transunion.com)
3. Report any fraudulent activity to your local police or sheriff's  
department. Get a copy of the police report, which is called an  
"identity theft report", which is allowed under the Fair Credit  
Reporting Act (FCRA). Make sure the report lists the accounts with  
the suspicious activity. Keep the phone number of your investigator  
handy and give it to creditors and others who require proof that  
you were a victim of identity theft. Credit card companies and  
banks may require you to show the report in order to verify that  
you were a victim of identity theft.
4. File a complaint with the Federal Trade Commission (FTC) in one of  
the following ways:
  - Call FTC's Identity Theft Hotline: 1-877-438-4338
  - Go online to [www.ftc.gov/idtheft](http://www.ftc.gov/idtheft)
  - Write to:              Identity Theft Clearinghouse  
                                 Federal Trade Commission  
                                 600 Pennsylvania Avenue NW  
                                 Washington, DC 20580

5. Contact the Social Security Administration (SSA) at 1-800-772-1213  
and/or visit the SSA web site regarding "Identity Theft and Your  
Social Security Number": -- [www.ssa.gov/pubs/10064.html](http://www.ssa.gov/pubs/10064.html)

Important! The IRS doesn't initiate contact or request personal  
information through email. If you receive an unsolicited email  
communication claiming to be from the IRS, please forward the



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original message to: phishing@irs.gov. Complete instructions are available at [www.irs.gov](http://www.irs.gov) (keyword: phishing).

WHERE TO GET MORE INFORMATION OR ASSISTANCE

The enclosed Publication 4535, Identity Theft Prevention and Victim Assistance, provides more information.

E If you have general questions regarding identity theft or the status  
E of your account issue, please call [01 30V] at  
E 1-800-908-4490, extension [02 6V] between the hours of [03 10V] and  
E [04 14V].

E  
F If you have general questions regarding identity theft or the status  
F of your account issue, you can call us toll free at 1-800-908-4490.

F  
G If you have questions, you can call us toll free at  
G [05 23V].

G  
H If you have questions, you can contact the office where we've  
H transferred your case by calling [06 20V] at [07 12V]  
H between the hours of [08 10V] and [09 14V].

H  
I [10 385V]

I  
J If you need assistance specific to the tax account issue, you can  
J contact the telephone number printed on your original notice or letter  
J as the employees at that number will be most familiar with the account  
J issue.

J  
The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. If you believe you are eligible for TAS assistance, call 1-877-777-4778, or for individuals who are deaf, hard of hearing, or have a speech disability, call 1-800-829-4059. For more information go to

[www.irs.gov/advocate](http://www.irs.gov/advocate).

Sincerely yours,  
[11 35S]  
[12 35S]

Enclosure:  
Publication 4535

-----  
NOTE: This letter should only be input by Accounts Management Identity Protection Specialized Unit (IPSU).  
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NOTE: Paragraph A is to be used when the taxpayer has contacted IPSU directly and IPSU will be monitoring [Case does meet the Multi-Function Criteria (MFC)].  
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-----  
NOTE: Paragraph B is to be used when the taxpayer did NOT  
-----



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contact IPSU directly - BUT IPSU will be monitoring (Case  
does meet the MFC).

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NOTE: Paragraph C is to be used when IPSU will NOT monitor BUT  
acknowledging receipt of identity theft documentation is  
required (Case does not meet MFC).

-----

NOTE: Paragraph E is to be used when IPSU is monitoring and is  
the Point of Contact (POC) during the monitoring process  
(Case does meet MFC).

-----

NOTE: Paragraph G and H is to be used when the case will NOT be  
monitored by IPSU, BUT the identity theft case has been  
transferred/transshipped to the function required to  
resolve (Case does not meet MFC).

-----

NOTE: Include the applicable time zone in fill-in 04 and 09.

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Letter 4403C (Rev. 06-2013)

Source: IRS intranet.



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**Appendix VI**

*Management's Response to the Draft Report*



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

OCT 08 2015

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 – Improvements Are Needed in the Identity Protection Specialized Unit to Better Assist Victims of Identity Theft (Audit # 201440024)

Thank you for the opportunity to review and provide comments on the subject draft audit report. Identity theft (IDT) is one of the fastest growing crimes in America. It is a persistent and evolving threat facing the United States tax system and the taxpaying public it serves, and its harm on victims cannot be overstated. The IRS continues to search for and utilize opportunities to improve the taxpayer experience for taxpayers who are victimized by this crime. The IRS has approximately 3,000 people working directly on IDT-related cases, and we have trained more than 35,000 employees who regularly work with taxpayers, so that these employees have the tools to help with IDT situations should they arise. Taxpayers who are victimized by IDT are provided with a single point of contact at the IRS via a special toll-free telephone line.

We appreciate your insight and recommendations on our efforts to streamline the process to help resolve IDT cases. We have recently completed the centralization of our victim assistance work under our new Identity Theft Victim Assistance organization, consolidating work that was being done by four different parts of the IRS into one business operating division. This new structure eliminates operational redundancies and provides end-to-end accountability and responsibility for IDT victim assistance by aligning policy and operations within the same organization.

We have re-engineered our IDT reporting and resolution processes to close cases more efficiently and accurately. In FY 2013 and FY 2014, taxpayers who became identity theft victims received their refunds and had their account issues resolved in roughly 120 days, far more quickly than in previous years when cases could take over 300 days to resolve. Many cases are currently resolved in less than 90 days. However, some



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*Improvements Are Needed in the Identity Protection Specialized Unit to Better Assist Victims of Identity Theft*

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cases are more complex and can take as much as 180 days or more to resolve. We continue to look for ways to shorten the time to resolve identity theft cases and ease the burden that identity theft places on these victims. Your report discusses the decrease in multi-function case monitoring. The decrease in inventory, increase in efficient case processing and, centralization of this inventory work has greatly diminished the need for this type of monitoring.

In addition to helping taxpayers who have been victimized by this crime, we continue to focus on prevention, by further enhancing our ability to detect and stop IDT refund fraud at the point of filing to prevent taxpayers from becoming victims, and by taking actions to assist taxpayers in safeguarding their tax accounts from being compromised and prevent future victimization. We've also developed communications that educate taxpayers about the steps they can take to protect their personal information and decrease their chances of becoming victimized – everything from changing passwords periodically to checking their credit report annually and using anti-spam software on their personal computers.

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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*Improvements Are Needed in the Identity Protection Specialized Unit to Better Assist Victims of Identity Theft*

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Attachment

**Recommendations**

**RECOMMENDATION 1**

The Commissioner, Wage and Investment Division, should ensure that required acknowledgement and case status letters are timely sent to victims of identity theft.

**CORRECTION ACTION**

We agree with this recommendation. We are conducting ongoing quality and managerial reviews. We will also perform additional reviews during annual site visits to identify opportunities to improve the timeliness of acknowledgements sent to taxpayers. Guidance will be provided based on the outcome of the reviews.

**IMPLEMENTATION DATE**

October 15, 2016

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 2**

The Commissioner, Wage and Investment Division, should ensure that cases submitted without a complete SSN are properly researched.

**CORRECTION ACTION**

We agree with this recommendation and have already taken steps to address this finding. We have provided additional training to the Identity Protection Specialized Units and Image Control Teams when the issue was identified. The Critical Filing Season Readiness Training will also be updated. We are enhancing the Integrated Automation Technologies Tool to include the command codes for researching social security numbers. This enhancement is currently in development. Additionally, we are considering the feasibility of revising Form 14039, *Identity Theft Affidavit*, to require the full taxpayer identification number.

**IMPLEMENTATION DATE**

December 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.

**RECOMMENDATION 3**

The Commissioner, Wage and Investment Division, should develop a process to ensure that CSRs timely respond to taxpayers' voicemail messages, including requiring CSRs to update the Correspondence Imaging System detailing the assistance provided to taxpayers in response to voicemail messages.

**CORRECTION ACTION**

We agree with this recommendation and are issuing updated guidance with specific procedures that address voicemail related to Identity Theft. The procedural updates will include requirements documenting actions in the Correspondence Imaging System.

**IMPLEMENTATION DATE**

December 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.