



*Centralization of Identity Theft Victim  
Assistance Reduced Case Closure  
Time Frames and Tax Account Errors*

**June 6, 2017**

**Reference Number: 2017-40-036**

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

### **CENTRALIZATION OF IDENTITY THEFT VICTIM ASSISTANCE REDUCED CASE CLOSURE TIME FRAMES AND TAX ACCOUNT ERRORS**

## Highlights

### **Final Report issued on June 6, 2017**

Highlights of Reference Number: 2017-40-036 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

#### **IMPACT ON TAXPAYERS**

Identity theft for the purpose of committing refund fraud occurs when an individual uses another person's name and Taxpayer Identification Number to file a fraudulent tax return. Refund fraud adversely affects the ability of innocent taxpayers to file their tax returns and timely receive their tax refunds, often imposing significant financial and emotional hardship.

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

This audit was initiated as part of our continued assessment of IRS assistance to victims of identity theft. In July 2015, the IRS centralized multiple functions working to assist identity theft victims into one directorate called the Identity Theft Victim Assistance (IDTVA) Directorate. The goal is to improve the taxpayer's experience working with the IRS to resolve his or her identity theft case. In March 2015, TIGTA reported that the IRS took an average of 278 days to close taxpayer-initiated identity theft cases. In addition, employees did not correctly resolve 11 percent of the cases, resulting in the victim receiving an incorrect refund amount.

#### **WHAT TIGTA FOUND**

TIGTA's review of 51,749 taxpayer-initiated identity theft refund cases closed by the IDTVA Directorate between August 1, 2015, and May 25, 2016, identified that case closure time frames improved. The cases were closed in an average of 166 days, which is 112 days (40 percent) less than the 278 days reported in TIGTA's prior review. The improved timeliness is attributable to clearer lines of responsibility in

the IDTVA Directorate and improved case processing guidance.

In addition, TIGTA identified improvement in the number of identity theft case resolution errors. TIGTA's review of the 51,749 case resolutions identified that for 3,419 (7 percent) of the tax accounts, an error was made by the employee working the case resulting in the taxpayer receiving an incorrect refund amount. In these instances, the IRS had to reopen the case and take corrective action to issue the correct refund to the taxpayer. The 7 percent error rate we identified in this review is lower than the 11 percent error rate TIGTA reported in its prior review.

The IRS's efforts to centralize victim assistance under a single directorate, along with its enhanced procedures and processes, contributed to the improvements that TIGTA identified. However, one area was identified in which further improvements can be achieved. IDTVA Directorate managers are not consistently conducting required monthly reviews of employees' identity theft casework. TIGTA's analysis of managerial reviews for 12 IDTVA Directorate employees working in three IRS offices identified that the reviews were not completed as required for 10 (83 percent) of the employees.

#### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS ensure that managerial reviews are conducted in compliance with internal guidelines.

The IRS agreed with the recommendation and plans to reinforce with its managers the need to ensure that reviews are conducted as required. In addition, department managers will continue to complete the monthly reviews to verify waivers exist for each employee.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 6, 2017

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

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

**SUBJECT:** Final Audit Report – Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors  
(Audit # 201640015)

This report presents the results of our review to determine whether the centralization of the Internal Revenue Service's identity theft functions improved assistance to identity theft victims. This audit was included in our Fiscal Year 2016 Annual Audit Plan and addresses the major management challenge of Providing Quality Taxpayer Service Operations.

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

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



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*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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*Table of Contents*

[Background](#).....Page 1

[Results of Review](#).....Page 5

[Identity Theft Case Closure Time Frames Have Improved](#).....Page 5

[Identity Theft Tax Account Case Resolution Errors Have Decreased](#) .....Page 6

[Recommendation 1:](#).....Page 7

**Appendices**

[Appendix I – Detailed Objective, Scope, and Methodology](#) .....Page 8

[Appendix II – Major Contributors to This Report](#).....Page 11

[Appendix III – Report Distribution List](#).....Page 12

[Appendix IV – Management’s Response to the Draft Report](#) .....Page 13



*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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*Abbreviations*

IDTVA	Identity Theft Victim Assistance
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

## Background

In July 2015, the Internal Revenue Service (IRS) created the Identity Theft Victim Assistance (IDTVA) Directorate<sup>1</sup> to combine the skills of employees working in multiple functions into one directorate to resolve identity theft cases, including those that are initiated by the taxpayer.<sup>2</sup> The goal of the Directorate is to improve the taxpayer's experience when working with the IRS to resolve his or her identity theft case. The IDTVA Directorate's teams are located in eight IRS campuses.<sup>3</sup> Figure 1 shows the staffing in each campus as of February 2017.

**Figure 1: Number of IDTVA Directorate Employees by Campus**

Campus	Permanent	Seasonal	Total
Fresno, California	360	22	382
Atlanta, Georgia	185	5	190
Andover, Massachusetts	156	14	170
Kansas City, Missouri	180	5	185
Brookhaven, New York	122	3	125
Philadelphia, Pennsylvania	57	6	63
Memphis, Tennessee	13	0	13
Austin, Texas	203	17	220
<b>Total</b>	<b>1,276</b>	<b>72</b>	<b>1,348</b>

Source: Treasury Integrated Management Information System.

The IDTVA Directorate has three main functions:

- **IDTVA-I-Identity Protection Specialized Unit** – This unit plays an integral role in the daily operations of identity theft victim assistance with responsibilities that include processing Form 14039, *Identity Theft Affidavit*, received from taxpayers who are at risk of becoming a victim. It should be noted that the Identity Protection Specialized Unit does not resolve identity theft cases but monitors cases worked by other functions within

<sup>1</sup> The IDTVA Directorate is in the Wage and Investment Division's Identity Protection Strategy and Oversight organization.

<sup>2</sup> A taxpayer-initiated identity theft case is created when a taxpayer contacts the IRS to report that, after filing a tax return, he or she received a notice indicating that the return was rejected because someone (an identity thief) already filed a return using the same Social Security Number and name.

<sup>3</sup> The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

and outside of the IDTVA Directorate to ensure that all required adjustments are made to the taxpayer’s account.

The following two IDTVA Directorate functions resolve the identity theft cases:

- ***IDTVA–Accounts Management*** – This unit resolves tax-related identity theft cases initiated by taxpayers who, after filing their tax return, received a notice indicating that their return was rejected because someone (an identity thief) already filed a return using their Social Security Number and name. IDTVA–Accounts Management resolves the majority of IDTVA cases that result in a refund to the taxpayer.
- ***IDTVA–Compliance*** – This unit resolves tax-related identity theft cases identified when taxpayers respond to compliance function notices proposing a change to their tax liability, such as notices from the Automated Underreporter Program.<sup>4</sup>

**Prior Treasury Inspector General for Tax Administration (TIGTA) reviews identified long delays in case resolution and tax account errors**

In March 2015,<sup>5</sup> we reported that identity theft victims continue to experience long delays waiting for the IRS to resolve their cases and issue their refunds. Our review of a statistically valid sample of 100 identity theft tax accounts resolved by the Accounts Management function between October 1, 2012, and September 30, 2013, identified that the IRS took an average of 278 days to resolve the tax accounts. Our report also identified that IRS employees did not correctly resolve 11 of the 100 tax accounts, resulting in the victim receiving an incorrect refund amount. Figure 2 provides recommendations and IRS corrective actions reported in our March 2015 and September 2013<sup>6</sup> reports.

**Figure 2: Prior TIGTA Recommendations and IRS Corrective Actions**

Recommendation	IRS Corrective Action
The Commissioner, Wage and Investment Division, should develop processes and procedures to ensure that case closing actions and account adjustments are accurate.	The IRS agreed with this recommendation. The IRS indicated that a case closure review process is in place to ensure timely detection of error trends so they can be addressed and corrected. On October 1, 2013, a unique Specialized Product Review Group was launched specifically for the purpose of measuring the accuracy of identity theft paper adjustments.

<sup>4</sup> The Automated Underreporter Program matches taxpayer income and deductions submitted on information returns by third parties, e.g., employers, banks, or brokerage firms, against amounts reported by taxpayers on their individual income tax returns to identify discrepancies. For Tax Years 2009 through 2013, the program identified an annual average of 24 million individual tax returns that contained such discrepancies.

<sup>5</sup> TIGTA, Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (Mar. 2015).

<sup>6</sup> TIGTA, Ref. No. 2013-40-129, *Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft* (Sept. 2013).



*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

Recommendation	IRS Corrective Action
The Commissioner, Wage and Investment Division, should ensure that assistors assigned to identity theft cases work these cases exclusively and are provided with ongoing training and the ability to perform all actions to work these cases to conclusion.	The IRS agreed with this recommendation. The IRS's Accounts Management function has assistors dedicated exclusively to working identity theft inventory cases and answering identity theft telephone lines. All identity theft caseworkers have the capability to perform all necessary actions needed to complete the processing of a case.
The Commissioner, Wage and Investment Division, should develop clear and consistent processes and procedures for assistors to follow to ensure that taxpayer accounts are correctly updated when cases are resolved.	The IRS agreed with this recommendation. The IRS will continue to develop the existing processes and procedures to ensure that all appropriate actions are taken on identity theft victims' accounts. Internal guidelines are continually revised to improve the applicable procedures and to introduce newly identified processes. The IRS worked closely with a group of identity theft experts from several sites to clarify and organize the flow and the overall ease of use of these guidelines.

Source: TIGTA report numbers 2015-40-024 and 2013-40-129.

**IDTVA case processing**

IDTVA internal guidelines outline actions to better assist the taxpayer and ensure end-to-end account resolution. For example, one employee will take responsibility for resolving a victim's case. Guidelines also state that all issues should be worked by the same employee to prevent duplication of work and incorrect account adjustments.<sup>7</sup> Two key internal controls were also established to facilitate the timely and accurate processing of identity theft cases. Specifically, IDTVA Directorate managers are required to:

- Review the weekly *Multiple Control Case Listing* to identify cases in which two or more employees are working on the same taxpayer's identity theft case.
- Review the weekly *Unpostables Listing* of incorrect account adjustments to identify transactions that employees attempted to post to taxpayers' accounts that were not accepted.

**An IRS reengineering team reviewed IDTVA processes and procedures in an effort to further enhance the taxpayer's experience**

In September 2015, subsequent to the IDTVA Directorate stand-up, an IRS reengineering team initiated a review of all IDTVA processes and procedures with a continued focus on enhancing the taxpayer's experience via communication improvements and reductions in case resolution

<sup>7</sup> An incorrect account adjustment is one in which an employee incorrectly worked the tax case. For example, the employee did not correctly compute the tax due.



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*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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time frames. This initiative resulted in significant changes to further improve assistance to victims of identity theft, including:

- Revising the Form 14039 to eliminate preliminary work necessary to identify taxpayers and affected individuals.
- Automating the Identity Protection Specialized Unit's case review process and redesigning processes to eliminate unproductive work.
- Expanding the use of the Correspondence Imaging System<sup>8</sup> to reduce delays in routing cases to the correct employee.
- Revising letters to provide clear, concise information to taxpayers (and eliminating numerous letters).
- Reducing unnecessary case reassignments.

### **Program and managerial reviews**

The IDTVA Directorate uses the National Quality Review System to monitor, measure, and improve the directorate's performance. Reviews conducted as part of the National Quality Review System evaluate a statistical sample of closed cases to determine if taxpayers were timely notified and accurate tax account adjustments and closing actions were made. National Quality Review System reviews are ongoing. The IRS reports review results on a monthly basis.

In addition to the reviews performed as part of the National Quality Review System, IDTVA Directorate managers are required to perform reviews to evaluate employees' performance with assigned duties. Specifically, managers are required to complete two reviews of closed cases per month for each employee. Managers use these data to provide input to document employee performance and identify employee training needs.

This review was performed at the IDTVA Directorate office in Fresno, California, and at the IDTVA–Accounts Management and IDTVA–Compliance units located at the Atlanta, Georgia, Campus during the period April 2016 through February 2017. 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.

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<sup>8</sup> The Correspondence Imaging System automates the controlling and organizing of taxpayer-generated correspondence.



*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

*Results of Review*

**Identity Theft Case Closure Time Frames Have Improved**

Our review of 51,749 taxpayer-initiated identity theft refund cases closed by the IDTVA Directorate between August 1, 2015, and May 25, 2016, identified that cases were closed on average in 166 days. This case closure time frame is 112 days (40 percent) less than the 278 days we previously reported in March 2015. Employees advise taxpayers to allow the IRS up to 180 days to resolve their identity theft case. The IRS notes that some cases are more complex and can take as much as 180 or more days to resolve. The IRS calculates the 180 days generally from the date it received the taxpayer's complete and legible documentation to the date his or her case is closed in the Correspondence Imaging System.

A total of 36,721 (71 percent) cases of the 51,749 cases were closed within the 180-day time frame that the IRS uses to measure timeliness of case closures. The majority of the remaining 15,028 (29 percent) cases were initiated before the IDTVA Directorate stood-up. IDTVA Directorate management acknowledged that some cases we evaluated were aged and explained that many of these cases were assigned to different functional areas within the IRS. However, once the IDTVA Directorate was established, these cases were worked and resolved in the IDTVA Directorate. Figure 3 provides the number of days the IDTVA Directorate took to resolve the 51,749 cases that we evaluated.

**Figure 3: Days Taken to Resolve Identity Theft Accounts**

<b>Days to Close</b>	<b>Accounts</b>	<b>Percentage</b>
0-180	36,721	71
181-200	3,499	7
201-220	2,672	5
221-240	1,899	4
241-260	1,187	2
261-280	1,111	2
Over 281	4,660	9

*Source: Our analysis of identity theft cases resolved from August 1, 2015, to May 25, 2016.*

We attribute the improved case resolution timeliness to clearer lines of responsibility in the IDTVA Directorate and improved case processing guidance. For example, as we previously



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*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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noted, internal guidelines require a single employee to resolve all issues related to a taxpayer's identity theft case and tax account. The lack of a single employee assigned to resolve a victim's case was a concern we reported in our March 2015 audit. In March 2015, we also reported that cases for the 100 accounts we reviewed were assigned to an average of seven different assistors prior to the case being resolved. These frequent case transfers contributed to case inactivity and processing delays. Other examples of improved guidance include:

- A matrix was developed in October 2016 for tax examiners and managers to better determine which function, such as Examination or Accounts Management, can best work a case.
- Transfer of cases to another IDTVA Directorate function now requires tax examiners to check the Integrated Data Retrieval System<sup>9</sup> for multiple open control bases<sup>10</sup> on the taxpayer's account and requires the same employee to resolve all issues to prevent duplication of work and incorrect adjustments to the account.
- The Identity Protection Specialized Unit monitors victim cases that require transfer both within or outside of the IDTVA Directorate until the case is resolved.

### **Identity Theft Tax Account Case Resolution Errors Have Decreased**

Our review of the 51,749 tax accounts resolved by the IDTVA Directorate identified that for 3,419 (7 percent) of the accounts, an error was made by the employee working the case resulting in the taxpayer receiving an incorrect refund amount. As a result, the IRS had to reopen the case and take corrective action to issue the correct refund to the taxpayer. However, this 7 percent error rate is 4 percent less than the 11 percent error rate we reported in our March 2015 report. IDTVA Directorate personnel stated that several processes were implemented in the IDTVA Directorate to reduce case resolution errors, including:

- Identity theft subject matter experts review closed cases to identify errors.
- IDTVA Directorate managers spot-checking cases on an as-needed basis to ensure that cases do not contain unresolved issues and conduct a 100 percent review of closed cases when error trends are identified or new procedures are released.

### **Managerial reviews are not consistently conducted**

Although the IDTVA Directorate has reduced the number of case resolution errors, we found that managerial reviews of employees' casework are not completed as required. Our analysis of

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<sup>9</sup> An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

<sup>10</sup> An entry on a tax account that indicates correspondence, an adjustment, or other action.



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*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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managerial reviews for 12 judgmentally<sup>11</sup> selected IDTVA Directorate employees at the Fresno, California; Andover, Massachusetts; and Austin, Texas, campuses for March, April, and May 2016 identified that managers did not always follow procedures when reviewing employees' work. For the 12 employees, we identified that managerial reviews were not completed as required for 10 (83 percent) employees. For example:

- Seven employees – a team lead conducted one or more of the reviews. Internal guidelines state that managers must complete two reviews of closed cases per month for each employee. Another individual can conduct the reviews if acting in an official manager capacity. After bringing this issue to the IRS's attention, managers stated they were unaware that the two monthly reviews had to always be conducted by a manager. They stated it was their understanding that they could have a technical lead complete one or more of the reviews if the lead is acting in an official manager capacity. However, the team leads for these seven employees were not acting for the manager.
- Three employees – although the manager conducted the reviews, the required number of monthly reviews was not completed during the three-month period. If reviews cannot be conducted for reasons such as an extended manager illness, furlough, or absence, a review waiver should be written to explain the reason. It should be noted that although a waiver was submitted for one employee for March and April 2016, the waiver did not sufficiently explain the reason the reviews were not completed. The department manager signed the waiver, which stated that reviews were not conducted during March and April with no further explanation provided.

When managers do not follow the quality review process, the risk increases that taxpayer cases will not be accurately resolved, which creates an additional burden for victims of identity theft.

## ***Recommendation***

**Recommendation 1:** The Commissioner, Wage and Investment Division, should ensure that managerial reviews are conducted in compliance with internal guidelines.

**Management's Response:** The IRS agreed with this recommendation and plans to reinforce with its managers the need to ensure that reviews are conducted as required. Department managers will continue to complete the monthly Embedded Quality Review System reviews to verify the required reviews/waivers exist for each employee. Operation managers will perform quarterly Embedded Quality Review System reviews to verify that the required reviews have been completed.

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<sup>11</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



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*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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## Appendix I

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

The overall objective was to determine whether the centralization of the IRS's identity theft functions improved assistance to victims. To accomplish our objective, we:

- I. Determined if the centralization of identity theft functions in the IDTVA Directorate improved processing and resolution time for cases.
  - A. Validated the universe of 51,749 tax accounts for which the IDTVA Directorate resolved the refund case or refund offset case using an identity theft marker for taxpayer-initiated cases with an IDTVA miscellaneous code.
    1. Traced a random sample of 15 accounts from the universe of 51,749 Individual Master File<sup>1</sup> accounts with an identity theft marker for taxpayer-initiated cases, along with the appropriate miscellaneous code, to the Integrated Data Retrieval System.<sup>2</sup> This step was completed to validate the accuracy of our analysis that identified the 51,749 accounts. We determined that the data were sufficiently reliable for purposes of this report.
    2. From the Correspondence Imaging System case data extract, traced a random sample of 25 cases identified as taxpayer-initiated to the Individual Master File to validate the completeness of the Individual Master File that we used for the audit. We confirmed that all 25 of the Individual Master File accounts are marked with an identity theft marker indicating taxpayer-initiated case, along with the appropriate miscellaneous code and other codes (codes identifying a duplicate return or cancelled refund, *etc.*). We determined that the data were sufficiently reliable for purposes of this report.
    3. Provided a random sample of five accounts with an identity theft marker for taxpayer-initiated cases (Step I.A.1.) and a random sample of five accounts with an identity theft marker for taxpayer-initiated cases with a miscellaneous code (Step I.A.2.) to the IRS to obtain agreement on the accuracy of our universe of 51,749 taxpayer-initiated accounts.
  - B. Computed average time to resolve the cases by calculating days from receipt of the duplicate tax return (account transaction code identifying a duplicate return or amended return) and the Refund Pay Date (cycle date) associated with the final

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<sup>1</sup> The IRS database that maintains transactions or records of individual tax accounts.

<sup>2</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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*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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- refund (account transaction code identifying a system-generated or manual refund). We shared our results with the IRS to obtain agreement.
- C. Obtained and evaluated the written results of the mapping process review accomplished by the reengineering team in September 2016.
- II. Determined whether the IDTVA Directorate accurately resolved identity theft cases and identified employee errors that resulted in an erroneous refund to the taxpayer or a delay in case resolution.
- A. Used Enterprise Guide<sup>3</sup> to identify accounts in which the employee committed an error resulting in an erroneous refund to the taxpayer. These errors were identified as accounts that had a third refund or a refund cancellation after the second refund. We designed the Enterprise Guide query to avoid counting a second refund to the innocent taxpayer due to the IRS issuing a split refund. (A split refund to the taxpayer is not an indication of an employee error.)
1. Selected a random sample of 25 accounts with a third refund or a refund cancellation after the second refund and researched the Integrated Data Retrieval System to verify Enterprise Guide analyses that identified accounts with a third refund or refund cancellation.
  2. For the 25 accounts in Step II.A.1., reviewed the account history that preceded the third refund to determine the reasons for the error.
- B. For the universe of tax accounts with a refund cancellation code after the second or third refund, queried the Individual Master File Other Transaction Table to identify taxpayer accounts containing an account code showing that a refund confirmation was received from the Bureau of the Fiscal Services indicating that the refund was released despite IRS attempts to cancel it. (We did not count refund cancellations associated with a split refund to an identity thief.)
1. Determined the number of refund cancellations that were posted after the refund confirmations from the Bureau of the Fiscal Services and calculated the value of the refunds associated with this condition.
- C. Compared the total error rate (erroneous refund and case delay) to the 11 percent error rate reported in the March 2015 audit report.<sup>4</sup>
- D. Selected a judgmental sample<sup>5</sup> of four employees from each of the Andover, Austin, and Fresno IDTVA Directorate operations and reviewed the managerial reports for

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<sup>3</sup> Enterprise Guide is a point-and-click, menu-and-wizard-driven tool used to analyze data and publish results.

<sup>4</sup> TIGTA, Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (Mar. 2015).

<sup>5</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



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*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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March, April, and May 2016 to determine if the required managerial reviews were completed and if managers identified the same errors that we identified.

- E. Determined if the IRS launched, on October 1, 2013, a unique Specialized Product Review Group for the purpose of measuring the accuracy of identity theft paper adjustments. (March 2015 audit's third recommendation.)

**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 IRS's policies, procedures, and guidelines used by the IDTVA Directorate to work and control identity theft cases. We evaluated these controls by analyzing case closure time frames, determining accuracy rates, interviewing management, and reviewing policies and procedures.



*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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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  
Janelle L. Pruden, Audit Manager  
Shaymoria Baldwin, Lead Auditor  
Kathy Coote, Auditor  
Edgar Moon, Auditor



*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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**Appendix III**

*Report Distribution List*

Commissioner  
Office of the Commissioner – Attn: Chief of Staff  
Deputy Commissioner for Services and Enforcement  
Director, Customer Account Services, Wage and Investment Division  
Director, Identity Theft Victim Assistance  
Director, Office of Audit Coordination



*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

**Appendix IV**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

MAY 12 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Centralization of Identity Theft Victim Assistance Reduced Case Closure Time Frames and Tax Account Errors (Audit # 201640015)

Thank you for the opportunity to review and provide comments on the subject draft report. The dramatic rise in tax-related identity theft (IDT) during the first part of this decade presented unique challenges for the IRS in how victims of such fraud could be assisted quickly and with as little burden to them as possible. As the scope of IDT became better defined, it became clear that victim assistance activities should be streamlined under one chain of command. In July 2015, we centralized multiple functions working to assist identity theft victims into one directorate called the Identity Theft Victim Assistance (IDTVA) Directorate. This combined responsibility for both program policy and execution, with the goal of improving the experience of taxpayers working with us to resolve their accounts that had been affected by IDT.

We appreciate your acknowledgement that, on average, accounts were taking 112 fewer days to resolve than the time reported in March 2015. This represents a 40 percent improvement in case processing time. We agree with your attribution of this improvement to having clearer lines of responsibility in the IDTVA Directorate and improved case processing guidance. It is also important to note, at an enterprise level, that the IRS has taken substantial actions to combat tax-related IDT and significantly improve our abilities to identify IDT fraud at the time returns are filed and during processing. This permits us to stop fraudulent returns before they post to tax accounts and, thus, greatly reduce the chance for individuals to be victimized. Indeed, our Security Summit Initiative and our continually evolving IDT filters and other IDT prevention measures have contributed to a nearly 50 percent decline in the number of IDT victims this past filing season.



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*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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As noted, the closures during the period addressed in this review, August 1, 2015 through May 25, 2016, included a substantial number of cases that had been started prior to our consolidation of IDTVA activities. As these older cases have closed, our performance results have commensurately reflected a continued decline in the number of days needed for case resolution and closure. We also note that your sample addressed only those cases where the victim filed a return claiming a refund after an undetected fraudulent return had posted to their accounts. These are the most complex types of cases to resolve as they require reversing transactions to remove the effects of the fraudulent return from the taxpayer's account and reconciling the account so that it reflects the correct return. In these cases, additional steps must also be taken to ensure any electronic deposit information attributed to the fraudulent return is removed to prevent the legitimate refund from being issued to the fraudster's account. Our inventory also includes accounts where taxpayers were victimized but filed returns that either claimed no refund or reported a balance due. Those accounts are less complex and generally close more quickly. Had the sample review included those returns, the 166 day average time to close would have been lower.

Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact James P. Clifford, Acting Director, Customer Account Services, Wage and Investment Division, at (470) 639-3504.

Attachment



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*Centralization of Identity Theft Victim Assistance  
Reduced Case Closure Time Frames and Tax Account Errors*

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Attachment

**Recommendation**

**RECOMMENDATION 1**

The Commissioner, Wage and Investment Division, should ensure that managerial reviews are conducted in compliance with internal guidelines.

**CORRECTIVE ACTION**

We agree with this recommendation and will reinforce with our managers the need to ensure reviews are conducted as required. Department managers will continue to complete the monthly Embedded Quality Review System (EQRS) reviews to verify the required reviews/waivers exist for each employee. Operation managers will perform quarterly EQRS reviews to verify that the required reviews have been completed.

**IMPLEMENTATION DATE**

June 15, 2017

**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.