

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

September 2, 2020

Reference Number: 2020-40-067

TIGTACommunications@tigta.treas.gov | www.treasury.gov/tigta | 202-622-6500

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1 = Tax Return/Return Information
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HIGHLIGHTS: Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File



Final Audit Report issued on September 2, 2020
Reference Number 2020-40-067

Why TIGTA Did This Audit

This follow-up audit was initiated to evaluate the IRS's controls to authenticate requests received from individuals seeking to represent taxpayers and access taxpayer information. The audit also evaluated IRS efforts to implement Provision 2302 of the Taxpayer First Act. This provision requires the IRS to publish guidance to establish uniform standards for the acceptance of taxpayers' electronic signatures, which are meant to validate taxpayer authorizations to disclose their information or grant a power of attorney to taxpayer representatives.

Impact on Taxpayers

Taxpayers can grant a power of attorney to individuals (*i.e.*, representatives) who are given the authority to represent a taxpayer before the IRS. These representatives can be an attorney, certified public accountant, or enrolled agent. Internal Revenue Code Section 6103(c) also allows taxpayers to authorize a representative to access their returns and return information. Therefore, the IRS must implement controls to authenticate the validity of the authorization forms to ensure that the taxpayer signed the form. Without these controls, identity thieves could submit fraudulent authorization forms to steal the taxpayers' information.

What TIGTA Found

The IRS has not made sufficient progress developing an online Third-Party Authorization Tool to verify and accept taxpayers' e-signatures on authorization forms. In addition, the IRS did not meet the Taxpayer First Act deadline (January 1, 2020) to publish guidance on standards for verifying taxpayers' e-signatures on Form 2848, *Power of Attorney and Declaration of Representative*, and Form 8821, *Tax Information Authorization*.

TIGTA's review of 20 authorizations that the IRS confirmed as fraudulent in Calendar Years 2018 and 2019 identified 11 authorizations, associated with 1,546 Taxpayer Identification Numbers (TIN), that were not added to the Dynamic Selection List as required. This list includes TINs that are at risk of tax-related identity theft and should be monitored for use in the filing of tax returns submitted to the IRS.

TIGTA's review of Centralized Authorization File (CAF) numbers assigned from February 7 through November 2, 2019, identified that tax examiners continue to erroneously assign multiple CAF numbers to the same representative at the same address. Tax examiners assigned 290 CAF numbers to 188 representatives with the same name and address.

In addition, IRS processes do not identify and remove authorizations that belong to representatives who are deceased, are incarcerated, or had their Preparer Tax Identification Number revoked by the IRS Return Preparer Office. Finally, tax examiners are not rejecting Forms 2848 received from representatives who do not provide the bar jurisdiction, license, or enrollment number for the professional credential reported. TIGTA estimates that 136,264 representatives may have reported a professional credential that they do not have.

What TIGTA Recommended

TIGTA made 12 recommendations to the IRS, including to 1) develop an alternate solution for verifying taxpayers' e-signatures on Forms 2848 and 8821, 2) add the 1,546 TINs to the Dynamic Selection List, 3) perform a one-time clean-up of the CAF to identify all representatives with multiple CAF numbers and remove CAF numbers that were erroneously assigned, 4) develop procedures to conduct initial and periodic suitability checks of representatives to determine if they are deceased or incarcerated, and 5) remove their authorizations in the CAF as appropriate and develop procedures for tax examiners to verify professional credentials claimed by representatives on Form 2848.

The IRS agreed with nine of the 12 recommendations. Its corrective actions will not address two recommendations. TIGTA remains concerned that, without an IRS process to verify a representative's claimed professional credential on Form 2848, the IRS will continue to miss a significant fraud indicator on the form.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 2, 2020

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File (Audit # 201940026)

This report presents the results of our review to evaluate the Internal Revenue Service's (IRS) controls to authenticate third-party authorization requests to access taxpayer data. This review is part of our Fiscal Year 2020 Annual Audit Plan and addresses the major management and performance challenge of *Security Over Taxpayer Data and Protection of IRS Resources*.

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

Copies of this report are also being sent to the IRS managers affected by the report's 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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Background

Taxpayers can grant a power of attorney to individuals (*i.e.*, representatives) who are given the authority to represent a taxpayer before the Internal Revenue Service (IRS). These representatives can be an attorney, certified public accountant, enrolled agent, enrolled actuary, or unenrolled tax return preparer.¹ Immediate family members or officers of a taxpayer organization may also be representatives.² In addition, Internal Revenue Code Section (§) 6103(c)³ allows taxpayers to authorize a designee to receive or review their return or return information. Figure 1 details the two forms that taxpayers may use to grant these authorizations.

Figure 1: Authorization Forms

Form Number and Name	Authorization Granted	Requirements for Processing
Form 2848, <i>Power of Attorney and Declaration of Representative</i>	Authorizes a representative to perform acts specified in 26 Code of Federal Regulations § 601.502(c)(1) and (2), including authorization to represent a taxpayer before the IRS (includes signing returns and making agreements with the IRS). Representatives may request, receive, and submit forms such as Form 1040, <i>U.S. Individual Income Tax Return</i>, and Form W-2, <i>Wage and Tax Statement</i>, among others.	Form must include elements such as the taxpayer’s Social Security Number (SSN), name, address, and dated signature. The form must have the representative’s name, address, acts authorized, designation under which he or she is authorized to practice before the IRS, type of tax or tax forms, specific period(s), and representative’s signature.
Form 8821, <i>Tax Information Authorization</i>	Permits a third-party designee to receive returns and return information. The designee may request the same form types as a power of attorney. Representational conduct by the designee is not authorized by this form.	Form must include basic identifying information for the taxpayer such as SSN, name, address, and dated signature. In addition, the form must include the designee’s name and address.

Source: Form instructions in the Internal Revenue Manual.

The powers granted by these forms can be revoked at any time by the taxpayer or can be withdrawn by the representative/designee (hereafter called representative). In addition, oral consent does not substitute for a power of attorney or a legal designation. When the taxpayer provides oral consent for a third party to access his or her tax information, discussions are limited to the issue for which oral consent is given.

¹ 26 C.F.R. § 601.502(b).

² Representatives are governed by Circular 230, *Regulations Governing Practice before the Internal Revenue Service*, Title 31 Code of Federal Regulations, Subtitle A, Part 10.

³ Internal Revenue Code § 6103 (c), *Disclosure of returns and return information to designee of taxpayer*.



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Processing Forms 2848 and 8821

Tax examiners in the IRS's Centralized Authorization File (CAF) units located in Philadelphia, Pennsylvania; Memphis, Tennessee; and Ogden, Utah, process Forms 2848 and 8821. These CAF units process authorization requests for taxpayers (individuals and businesses) residing in the United States. The Philadelphia CAF unit also processes authorizations submitted by or on behalf of international taxpayers. Figure 2 provides the number of forms processed by each CAF unit in Fiscal Year 2019.⁴

**Figure 2: Number of Forms 2848 and 8821
Processed by Each CAF Unit in Fiscal Year 2019**

Processing Site	Receipts	Closures	Percentage of Closures Worked
Memphis	1,762,049	1,721,773	44%
Ogden	1,731,913	1,725,418	44%
Philadelphia	496,129	491,864	12%
Totals	3,990,091	3,939,055	100%

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

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

Forms are processed by the CAF units on a first-in, first-out basis, regardless of the method (mail or fax) used to submit the authorization. Tax examiners are required to verify the following five elements when processing an authorization request:

1. The form has the taxpayer's handwritten signature and is dated. Only a handwritten signature can be accepted. An electronically signed, printed, or stamped signature does not meet this requirement.
2. The representative's designation under which he or she is authorized to practice before the IRS (*e.g.*, certified public accountant, attorney) and licensing jurisdiction/number (if applicable) are included, and the representative signed and dated the Form 2848. This required element only applies to Form 2848.
3. The tax year, tax period, and type of tax (*e.g.*, Form 1040) for which the taxpayer is authorizing the representative is listed. The CAF unit will not process future tax years or periods listed that exceed three years from December 31 of the year that the CAF unit receives the form. For example, the CAF unit will not process a Form 8821 received in January 2018 if the tax period requested is Tax Year 2022.

⁴ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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4. There is identifying information for the taxpayer for whom the form is being submitted, including name, address, and Taxpayer Identification Number (TIN).⁵ The presence of two of the three identifiers is sufficient as long as the TIN is provided on the authorization and is valid (*i.e.*, matches IRS records).
5. There is identifying information for the representative, including name and address. For representatives that have a CAF number, this number is provided along with their name and address. If a CAF number is not provided, the tax examiner should research to determine if one exists prior to assigning one.

Once this information is confirmed, tax examiners determine the representative's status with the IRS. Form 2848 authorizations submitted by a suspended, disbarred, or ineligible representative require the tax examiner to contact the Office of Professional Responsibility⁶ to verify the status. If this office confirms the status, the form is rejected and a rejection notice is sent to the Office of Professional Responsibility as well as the taxpayer.

CAF units assign CAF numbers to taxpayer representatives

IRS guidelines require tax examiners to process Forms 2848 and 8821 within five business days from receipt.⁷ Once the required verification is completed, either a CAF number will be assigned to the representative listed on the form or the tax examiner will issue the taxpayer a Letter 861C, *Power of Attorney Tax Information Authorization and/or U.S. Estate Tax Returns (Forms 2848, 8821 or 706) Incomplete for Processing*,⁸ requesting additional information. The CAF units issued 346,977 of these letters in Fiscal Year 2019.

The CAF number allows the IRS to identify the representative along with the taxpayers for whom the IRS has processed authorizations in the CAF. Multiple CAF numbers are permitted to be assigned to a representative to differentiate between multiple office addresses or related entities. In addition, a representative can have a CAF number but not be actively (*i.e.*, within the last seven years) representing a taxpayer. Figure 3 provides the number of representatives in the CAF as of November 2, 2019.

Figure 3: Number of Representatives in the CAF

Attribute	Number
Representatives in the CAF	2,664,798
Representatives in the CAF With No Active Authorizations	1,934,937
Taxpayers Represented	10,474,405

Source: Treasury Inspector General for Tax Administration (TIGTA) extract of the CAF, as of November 2, 2019.

⁵ A nine-digit number assigned to taxpayers for identification purposes. Depending on the nature of the taxpayer, the TIN is either an Employer Identification Number, an SSN, or an Individual TIN.

⁶ The Office of Professional Responsibility is responsible for all matters related to practitioner conduct, discipline, and practice before the IRS under Circular 230.

⁷ Forms 2848 and 8821 are shifted electronically among the CAF units to reduce processing time.

⁸ Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return.



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Taxpayer First Act § 2302 – Standards for Taxpayer Electronic Signatures

Section 2302 of the Taxpayer First Act,⁹ signed into law in July 2019, requires the IRS to publish guidance to establish uniform standards for the acceptance of taxpayers' electronic signatures, which are meant to authorize disclosure to a tax practitioner or power of attorney granted by a taxpayer. Such guidance must be published by January 1, 2020.

Results of Review

In August 2018,¹⁰ we reported that IRS management had not implemented sufficient processes to authenticate the validity of Forms 2848 and Forms 8821. Specifically, tax examiner reviews of these forms did not include steps to verify that the legitimate taxpayer submitted or signed the form to authorize access to his or her tax information. The IRS agreed to take corrective actions to address six of our recommendations and partially agreed with the recommendation to correspond with representatives assigned multiple CAF numbers. This review confirmed that the IRS completed corrective actions to address the following three recommendations:

- Revoked 194 authorizations in the CAF for which taxpayers responded to the IRS's Survey Letter 6018, *Request Verification of 3rd Party Access to Tax Information*. These taxpayers stated in their response that they did not authorize the representative listed in the letter to access their tax account or they no longer want to be represented.
- Implemented programs to send confirmation letters to samples of taxpayers who have an authorization in the CAF. The IRS issued confirmation letters to 6,444 taxpayers in Calendar Year 2019, and 2,791 taxpayers responded. The purpose of these letters is to identify fraud indicators in CAF authorizations. For example, the IRS sent a letter to a sample of taxpayers who are represented by 10 or more third parties because it believes some authorizations for "highly represented" taxpayers may be fraudulent. We reviewed a judgmental sample¹¹ of 136 of the 1,043 responses in which the taxpayer stated that he or she did not authorize the representative or no longer wanted to be represented and determined that the IRS revoked the authorization in each case.

The IRS also implemented additional fraud prevention and detection processes and procedures in response to recommendations made by its Lean Six Sigma Organization.¹² These actions improved authentication procedures for representatives who call the IRS and established procedures for revoking fraudulent authorizations that are identified by IRS Criminal Investigation.

- Removed the refund indicator from all 72,095 authorizations in the CAF that would have inappropriately allowed representatives to receive a taxpayer's refund.

However, the IRS still has not implemented effective processes to ensure that all TINs associated with confirmed fraudulent CAF authorizations are provided to the Return Integrity and Compliance Services (RICS) organization. In addition, actions have not been taken to address

⁹ Pub. L. No. 116-25.

¹⁰ TIGTA, Ref. No. 2018-40-062, *Improved Procedures Are Needed to Prevent the Fraudulent Use of Third-Party Authorization Forms to Obtain Taxpayer Information* (Aug. 2018).

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

¹² The Lean Six Sigma Organization is in the Wage and Investment Division. Its mission is to support the Wage and Investment Division's strategy of improving service to the taxpayer by leading process improvement initiatives.



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representatives incorrectly assigned multiple CAF numbers as well as to ensure that tax examiners do not issue multiple CAF numbers to representatives at the same office location.

Sufficient Progress Has Not Been Made to Authenticate Taxpayers' Electronic Signatures on Authorization Forms

Our review identified that the IRS has not made sufficient progress developing an online Third-Party Authorization Tool to verify and accept taxpayers' e-signatures on authorization forms. In addition, the IRS did not meet the Taxpayer First Act deadline (January 1, 2020) to publish guidance on standards for verifying taxpayers' e-signatures on Forms 2848 and 8821. The IRS did publish internal guidelines on its public website on December 3, 2019, to provide form owners with procedures to implement e-signature methods for their respective forms. However, the guidelines do not provide standards for e-signatures on Forms 2848 and 8821. This omission was noted by the National Association of Enrolled Agents, which represents about 58,000 tax professionals who help taxpayers meet their tax obligations.

The National Association of Enrolled Agents published its study, *Creating a Taxpayer-Focused IRS*, on January 15, 2020, citing the long process that tax practitioners must follow to have a power of attorney or disclosure authorization form processed into the CAF. This paper states that the Taxpayer First Act's deadline (January 1, 2020) for the IRS to establish standards for taxpayers' electronic signatures on Forms 2848 and 8821 has come and gone. Our discussions with representatives of this association confirmed their concerns that the IRS's new guidelines do not address Forms 2848 and 8821, which are the forms used most often by enrolled agents to assist taxpayers.

When we raised our concerns to Privacy, Governmental Liaison, and Disclosure¹³ management that the guidelines issued in December 2019 do not address Forms 2848 or 8821 or the requirement in the Taxpayer First Act, management stated that the guidelines are the first step in a multistep process to provide e-signature capabilities on forms, including those that involve practitioner authorizations, and to ensure compliance with e-signature requirements and policies. Management added that form owners are responsible for updating internal guidelines as they adopt an e-signature method for their form that meets the new guidelines. Further, Customer Account Services¹⁴ management stated that they plan to meet with the Office of Professional Responsibility, which sets the policy for Forms 2848 and 8821, to develop an e-signature solution for these forms.

Customer Account Services management further stated that the IRS is planning to develop a system called "Tax Pro Account." The goal of this system is to strengthen security over the process for representatives to access taxpayers' account information. Specifically, the system will provide a secure online self-service portal for tax professionals with a complementary interface to the Online Account application for taxpayers. This system will meet the requirements of the Taxpayer First Act and is consistent with the IRS's new electronic signature guidelines. However, Information Technology organization management stated that analysis of business and security requirements for Tax Pro Account is not yet complete. Figure 4 shows the

¹³ The Privacy, Governmental Liaison, and Disclosure office administers privacy and records policies, procedures, and initiatives and coordinates privacy and records-related actions throughout the IRS.

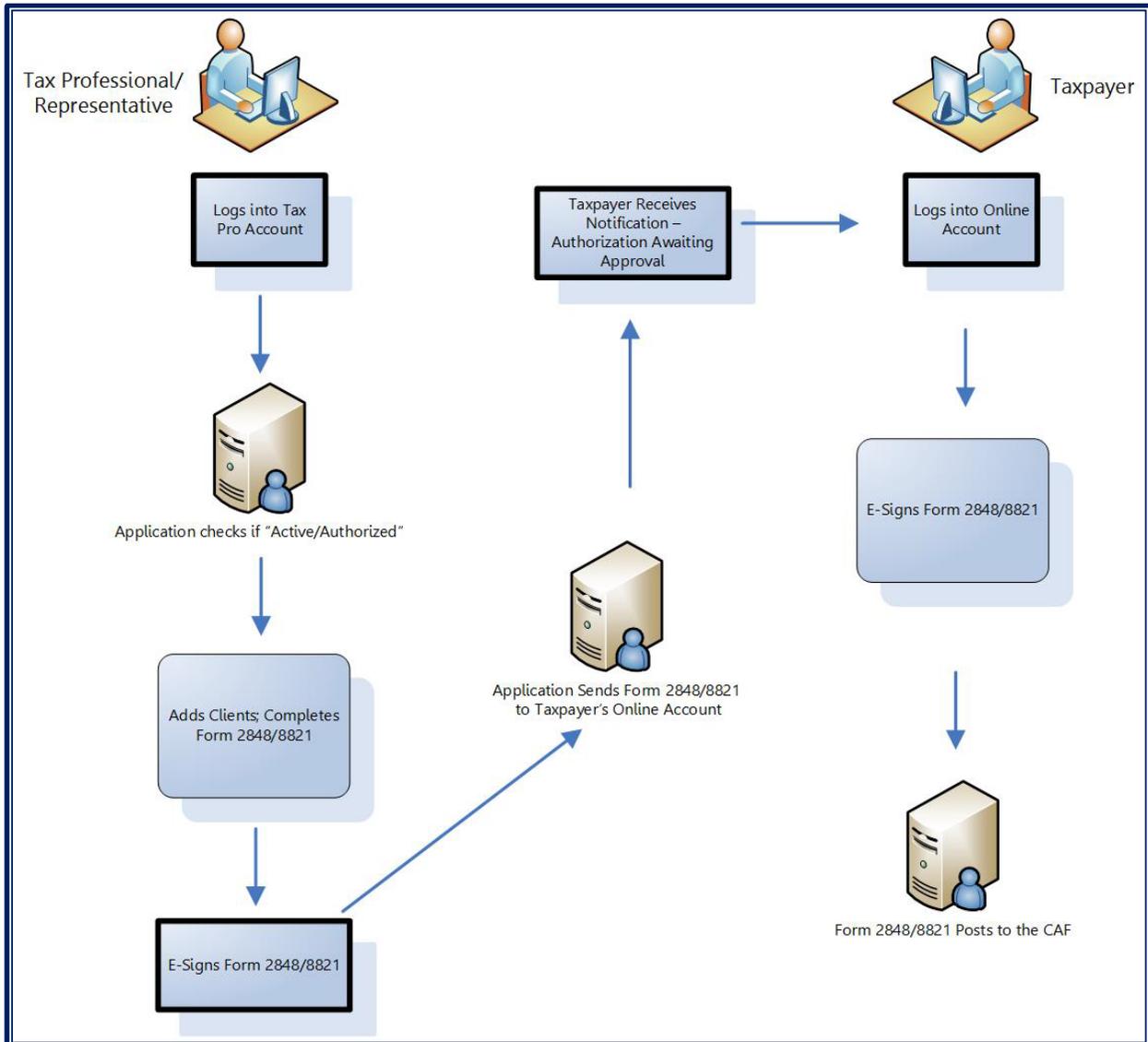
¹⁴ The Customer Account Services function is in the Wage and Investment Division.



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process that the IRS envisions for representatives and taxpayers to submit Forms 2848 and 8821 with e-signatures via Tax Pro Account.

Figure 4: Process for Submitting Forms 2848 and 8821 Through Tax Pro Account



Source: TIGTA analysis of the proposed Forms 2848/8821 e-signature process.

Based on the IRS's Integrated Modernization Business Plan, the target delivery date for Form 2848 in Tax Pro Account is the third quarter of Fiscal Year 2022, and the target delivery date for Form 8821 in Tax Pro Account is the second quarter of Fiscal Year 2023. To date, the IRS has conducted extensive research with tax professionals to identify opportunities for digital service improvements and is designing the concept of how Tax Pro Account will function. Once the design phase is complete, the IRS must complete the development, testing, and deployment phases.

Finally, we previously reported delays in IRS efforts to develop a system similar to Tax Pro Account. In August 2018, we reported that management submitted a work request to develop a Third-Party Authorization Tool in January 2017. This tool was intended to strengthen security



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over the process for representatives to access taxpayers' account information. The tool's security features would include multifactor authentication that requires the individual submitting the authorization to pass authentication before submitting an authorization form to the IRS. However, in June 2017, the IRS Strategic Development Executive Steering Committee did not approve the Third-Party Authorization Tool for funding, and in September 2017, the work request was cancelled.

An alternate solution is needed to verify taxpayers' e-signatures on Forms 2848 and 8821

The IRS is several years away from deploying the Tax Pro Account system. Web application development for this system was scheduled to begin in the third quarter of Fiscal Year 2020. However, funding was not allocated to this project, which will lead to further delays. These delays and other concerns raised by officials in the National Association of Enrolled Agents warrant an alternate solution for verifying taxpayers' e-signatures on Forms 2848 and 8821. This alternate solution can be used until Tax Pro Account is deployed. It can also be used to verify taxpayers' e-signatures after Tax Pro Account is deployed because a significant number of taxpayers and their representatives will not use Tax Pro Account. Officials in the National Association of Enrolled Agents stated that many taxpayers and their representatives will be unable to pass the Tax Pro Account's multifactor authentication process. However, the IRS has not made sufficient progress developing an alternate solution for accepting taxpayers' e-signatures.

Identity Assurance management stated that the Information Technology organization is considering alternate solutions to verify taxpayers' e-signatures on IRS forms. However, Information Technology officials informed us that they have no estimated time frame for developing an alternate process because they are still attempting to understand the business requirements for verifying taxpayers' e-signatures. Understanding the business requirements, also known as stakeholder specifications, of a new system is a crucial first step in designing the system because business requirements describe the characteristics of the new proposed system from the viewpoint of the system's end users.

Recommendation 1: The Commissioner, Wage and Investment Division, should coordinate with the Information Technology organization to develop an alternate solution for verifying taxpayers' e-signatures on Forms 2848 and 8821. This includes identifying the business requirements for the new system.

Management's Response: The IRS agreed with this recommendation. IRS management has a team developing an interim solution for verifying taxpayers' e-signatures until the Tax Pro Account system is functional. Additional coordination is ongoing with the Information Technology organization to define business requirements for the new system.



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Taxpayer Identification Numbers Associated With Confirmed Fraudulent Authorizations Were Not Added to the Dynamic Selection List

Our review of 20 CAF authorizations¹⁵ that the IRS confirmed as fraudulent in Calendar Years 2018 and 2019 identified 11 authorizations associated with 1,546 TINs¹⁶ that were not added to the Dynamic Selection List (DSL) as required. The DSL is a list of TINs that the IRS determined are at risk of tax-related identity theft (*i.e.*, TINs from data breaches, associated with fraudulent CAF authorizations). Once added to the DSL, the TINs are monitored for use in the filing of tax returns submitted to the IRS. Those tax returns identified are sent for further screening and verification.

In our prior review, we also identified TINs that were not added to the DSL. We recommended that the IRS develop a process to ensure that all TINs associated with confirmed fraudulent CAF authorizations are forwarded to the RICS organization, which is responsible for adding TINs to the DSL. The IRS agreed to our recommendation and established processes. However, this review identified that the processes are not effective.

Management stated that the majority of the 1,546 TINs we identified were not added to the DSL because the Incident Response Team¹⁷ did not include them on the Incident Response Team's SharePoint site. The RICS organization retrieves TINs from this SharePoint site. In addition, management stated that some of the TINs that we identified belong to dependents, and the RICS organization did not add dependents' TINs to the DSL in Calendar Years 2018 and 2019 (it began adding them in March 2020). In our discussion with Incident Response Team members, they could not explain why they did not place the TINs we identified on the Incident Response Team SharePoint site. Moreover, we could not trace the suspicious authorizations received by the CAF Headquarters analyst to the authorizations on the Incident Response Team's SharePoint site.

Some functions' internal guidelines were not updated to alert employees of the requirement to submit suspicious CAF authorizations to the suspicious CAF authorization mailbox

In our August 2018 report, we recommended that the IRS develop procedures for all functions involved with investigating and responding to fraudulent authorization requests and stolen CAF numbers to timely share their findings and report them to CAF management. These procedures should provide steps for functions to share compromised CAF numbers throughout the IRS. To address our recommendation, management issued a Service-wide alert to all employees on June 18, 2018, outlining new procedures to report suspicious CAF activity to the suspicious CAF authorization mailbox (*W&I SUSP Auth). The Wage and Investment Division Commissioner also issued a Service-wide memorandum on November 26, 2018, reminding

¹⁵ We judgmentally selected 20 authorizations from the 40 confirmed fraudulent CAF authorizations identified by the IRS in Calendar Years 2018 and 2019.

¹⁶ The IRS added 146 of these TINs to the Business Master File Employer Identification Number Dynamic Selection List after we identified them. The Business Master File is the IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes

¹⁷ This team includes representatives from multiple functions such as the Accounts Management function; the RICS organization; the Privacy, Governmental Liaison, and Disclosure office, and Criminal Investigation. The team researches suspicious authorizations received from the CAF Headquarters analyst to determine if the authorization is fraudulent.



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employees of the procedures to timely share information about fraudulent authorization requests and stolen CAF numbers Service-wide. Finally, Wage and Investment Division management also updated their internal guidelines with procedures on how to report suspicious CAF authorizations to the suspicious CAF authorization mailbox. However, other business units that could identify fraudulent authorizations, such as the Small Business/Self-Employed Division, did not update their internal guidelines.

When we raised this issue to Wage and Investment Division management, they stated they plan to issue a reminder communication within 180 days to ensure that employees are aware that the *W&I SUSP Auth mailbox is available for all employees' use. Finally, Wage and Investment Division management stated they are exploring adding a link for the mailbox to the Service-Wide Electronic Research Portal. This portal is designed to provide employees from all IRS functions with intranet access to the Internal Revenue Manual and other reference materials and to retrieve frequently referenced documents required to perform their jobs.

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Add the 1,546 TINs that we identified to the DSL to allow detection of potential identity theft returns filed using the TINs.

Management's Response: The IRS agreed with this recommendation and loaded 1,399 TINs into the appropriate DSL on June 25, 2020, at a "High" risk level. The remaining 147 TINs were previously added to the DSL.

Recommendation 3: Include in the reminder communication a request for function heads to update Internal Revenue Manual guidance for their employees to ensure that they are aware of the *W&I SUSP Auth mailbox and how to use it to report suspicious CAF number activity. This includes updating the guidance for all compliance functions with procedures for reporting suspicious authorizations and stolen CAF numbers.

Management's Response: The IRS agreed with this recommendation and plans to issue a reminder to reinforce Service-wide awareness and use of the *W&I SUSP Auth mailbox. Guidance regarding the mailbox is already included in Internal Revenue Manuals.

Management Is Still Not Identifying Tax Examiners Who Erroneously Assign Multiple Centralized Authorization File Numbers to Representatives

Our review of CAF numbers assigned from February 7 through November 2, 2019, identified that tax examiners assigned multiple CAF numbers to the same representative at the same address. Tax examiners assigned 290 CAF numbers to 188 representatives with the same name and address. When we raised this issue to management, they issued an alert on February 5, 2020, reminding CAF employees to avoid assigning more than one CAF number to the same individual or business entity at the same address.

The Internal Revenue Manual states that a representative's request for a CAF number must contain a different name or address than a previously assigned CAF number. In addition, tax examiners are required to research a representative's record by name to determine if he or she already has a CAF number before assigning a new one. The intent is to reduce the volume of CAF numbers that fraudsters can exploit to access taxpayers' information.



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We reported this same deficiency in our August 2018 report. In this prior report, we identified that CAF numbers were assigned to 17,485 representatives who submitted multiple authorization requests with the same representative name and address. We recommended that the IRS ensure that tax examiners follow internal guidelines which require them to limit the issuance of CAF numbers to one CAF number per representative at each office. The IRS agreed with the recommendation, stating that it clarified internal guidelines to ensure that employees research the CAF to prevent the issuance of multiple CAF numbers. Management stated that the problem would not recur because the multiple CAF numbers we identified were assigned by a now-defunct online authorization process.

Management has not removed the multiple CAF numbers assigned to the representatives identified in our prior report

IRS management has not completed corrective actions to address the multiple CAF numbers assigned to some representatives, as we recommended in our prior report. As previously discussed, our prior review identified that multiple CAF numbers are assigned to 17,485 representatives who submitted multiple authorization requests with the same representative name and address. We recommended that management correspond with these representatives to inform them that they are permitted to have only one CAF number per location. Management partially agreed with our recommendation and stated that they planned to review the list of representatives with multiple CAF numbers to identify those numbers that were being used. They also planned to determine if there is a need for the multiple numbers and identify those that could be removed.

Management noted that they performed their own analysis, similar to the analysis we conducted, and created a new list of about 16,000 representatives with multiple CAF numbers as of September 2019. Management further explained that they considered the list of representatives provided by TIGTA to be old and too large because it contained inactive representatives. Therefore, they planned to reduce the list to only those representatives with activity during the past seven years because management did not want to waste resources corresponding with inactive representatives. In addition, management stated that they did not have the resources to manually delete the CAF authorizations for more than 17,000 representatives. Instead, they plan to send confirmation letters to only 3,000 of these representatives. Management did not provide a time frame for when they would issue these letters or information on how or why they selected the 3,000 representatives. As of April 27, 2020, two years after we first reported this issue, a complete list identifying representatives with multiple CAF numbers has not been finalized and no actions have been taken to revoke the multiple CAF numbers erroneously assigned to the same representatives.

The Commissioner, Wage and Investment Division, should:

Recommendation 4: Perform a one-time clean-up of the CAF to identify all representatives with multiple CAF numbers and remove CAF numbers that were erroneously assigned.

Management's Response: The IRS agreed with this recommendation. IRS management plans to initiate a maintenance request for a clean-up of the CAF to identify representatives with multiple and/or inactive number assignments and remove them when appropriate. However, this work will require Information Technology resources that are subject to resource constraints and competing priorities.



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

Recommendation 5: Develop a process to continually identify and address tax examiners erroneously assigning multiple CAF numbers to a representative at the same address.

Management’s Response: The IRS agreed with this recommendation. In conjunction with actions taken to address Recommendation 4, IRS management plans to associate identified duplicate CAF numbers with tax examiner(s) that created the record(s) and take appropriate action to address the errors.

Improvements Are Needed to Ensure the Accuracy of the Centralized Authorization File

Our review identified that IRS processes do not identify and remove authorizations that belong to representatives who are deceased, are incarcerated, or had their Preparer Tax Identification Number¹⁸ (PTIN) revoked by the IRS Return Preparer Office. We reviewed the 259,904 CAF records for representatives who have a PTIN in the CAF, as of November 2, 2019, to determine if they are deceased, are incarcerated, or had their PTIN revoked. We were unable to conduct the same analysis for the remaining 2,404,894 representatives in the CAF because their PTIN is not in the CAF. Many representatives do not have or need a PTIN because they do not prepare tax returns. In addition, the IRS does not require representatives to provide their SSN on authorization forms due to privacy concerns raised by the return preparer community. In addition, taxpayers would have the ability to view a representative’s SSN if it was on Forms 2848 or 8821. Without the SSN, however, neither we nor the IRS could research IRS systems to determine if the representatives were deceased or incarcerated. Our review identified:

- ***2,657 representatives who are deceased.*** These representatives represent 34,998 taxpayers. In addition, the IRS processed a total of 39 authorization forms between Calendar Years 2013 and 2019 for which the authorization was processed more than 30 days after the decedent’s date of death. The CAF still showed these authorizations were in “good standing” as of March 30, 2020. *****1 and 3*****
*****1 and 3*****
*****1 and 3*****
*****1 and 3*****.

When we raised our concerns to CAF management, they stated that they do not have processes to systemically update the CAF for deceased representatives but plan to explore options to regularly reconcile decedent information with CAF authorizations to identify those who should be removed.

- ***114 representatives who were incarcerated for the full year in Calendar Year 2019.*** These representatives represent 2,620 taxpayers. IRS management stated that IRS Chief Counsel provided the opinion that the requirements for a valid power of attorney, as set in current law¹⁹ and the Department of the Treasury’s Circular 230, do not preclude an incarcerated individual from representing a taxpayer or addressing other matters before the IRS. In addition, CAF management noted that the Taxpayer Bill of Rights affords

¹⁸ A PTIN must be obtained by all return preparers who are compensated for preparing, or assisting in the preparation of, all or substantially all of a Federal tax return, claim for refund, or other tax form submitted to the IRS unless the form is specifically exempted. The PTIN program requires return preparers who have an SSN to provide it. We used these SSNs to identify representatives who are deceased, are incarcerated, or had their PTIN revoked.

¹⁹ 31 U.S.C. § 330, 26 C.F.R. §§ 601.501–509, and 31 C.F.R. Part 10.



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

each taxpayer "... the right to retain an authorized representative of their choice to represent them in their dealings with the IRS." Finally, CAF management stated that the reason a representative is in prison is important. For example, a mother may still want her son to be her representative, even if the son is incarcerated. Thus, the CAF unit will revoke third-party authorizations only for incarcerated representatives if the IRS is explicitly notified by the taxpayer to do so.

Some prisoners who have an authorization in the CAF could be involved in fraud schemes. The fraud that the IRS has identified in the CAF warrants a suitability check to determine if the representative is incarcerated and whether the taxpayer wants to be represented by the prisoner.

- ***191 representatives whose PTIN was revoked by the Return Preparer Office.*** These representatives represent 4,654 taxpayers. The Return Preparer Office revokes a PTIN for individuals who are incarcerated or enjoined²⁰ from preparing tax returns. CAF management stated that they revoke a third-party authorization for a representative with a revoked PTIN only if notified by the Return Preparer Office because this office is responsible for revoking PTINs. However, management did not implement a process to receive notification from the Return Preparer Office in these cases.

Representatives access sensitive taxpayer information and pose similar risks as participants in other IRS programs such as the e-File Provider and Enrolled Agent Programs. These programs check their applicants to determine if they are incarcerated or using a decedent's identity. In response to our November 2019 report,²¹ the IRS agreed to assess the risk to tax administration of performing inconsistent suitability checks on individuals seeking to participate in IRS programs. To implement initial and periodic suitability checks on taxpayer representatives, the IRS should revise Forms 2848 and 8821 to require the representative's SSN.

Security over taxpayer data and protecting taxpayers' rights are two of the IRS's top management and performance challenges. IRS managers must ensure that controls are in place to prevent the unauthorized disclosure of taxpayer information. This includes implementing controls to identify and timely remove the CAF authorizations of representatives who are deceased, are in prison, or had their PTIN revoked by the Return Preparer Office.

The Commissioner, Wage and Investment Division, should:

Recommendation 6: Develop procedures to conduct initial and periodic suitability checks of representatives to determine if they are deceased or incarcerated, and remove their authorizations in the CAF as appropriate.

Management's Response: The IRS agreed with this recommendation and stated it has a process in place to identify deceased practitioner records for removal from the CAF. Weekly listings of deceased practitioners identified by the Office of Professional

²⁰ The court may enjoin an individual from preparing tax returns if the tax return preparer has continually or repeatedly: (1) engaged in conduct subject to penalties under Internal Revenue Code §§ 6694 and 6695, (2) engaged in conduct subject to criminal penalties, (3) misrepresented his or her eligibility to practice before the IRS or his or her experience and education as an income tax return preparer, (4) guaranteed the payment of a tax refund or the allowance of a tax credit, or (5) conducted other fraudulent or deceptive actions that substantially interfere with the proper administration of Internal Revenue laws.

²¹ TIGTA, Ref. No. 2020-40-005, *Improvements Are Needed to Ensure That Consistent Suitability Checks Are Performed for Participation in Internal Revenue Service Programs* (Nov. 2019).



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Responsibility are provided to the CAF unit so that their records may be marked accordingly. However, management plans to determine an appropriate suitability review strategy for incarcerated practitioners and take appropriate actions.

Recommendation 7: Coordinate with the Return Preparer Office to receive notification for cases in which a return practitioner's PTIN is revoked, and determine if the practitioner's CAF authorization(s) should be removed.

Management's Response: The IRS agreed with this recommendation and has initiated coordination between the Return Preparer Office, the Office of Professional Responsibility, and the CAF team to identify revoked PTINs with associated CAF numbers. IRS management plans to perform research and analysis to determine if CAF numbers should be revoked and implement necessary procedures based on the results of the analysis.

Recommendation 8: Research the 191 representatives whose PTINs are revoked and remove their CAF authorizations as appropriate.

Management's Response: The IRS disagreed with this recommendation. IRS management stated that a CAF authorization can only be revoked upon direction from the taxpayer, the representative, or the Office of Professional Responsibility. Coordination between the Return Preparer Office, the Office of Professional Responsibility, and the CAF team has been initiated to identify revoked PTINs with associated CAF numbers. This coordination will involve a review of a current list of revoked PTINs that may or may not specifically include the 191 representatives.

Office of Audit Comment: The 191 representatives pose a risk to the 4,654 taxpayers they are authorized to represent, who may not know that the Return Preparer Office revoked their representative's PTIN. In addition, the Return Preparer Office does not revoke a PTIN without just cause. The IRS's review of the current list of revoked PTINs should therefore include the 191 representatives.

Recommendation 9: Revoke the authorizations for the 2,657 representatives who are deceased.

Management's Response: The IRS agreed with this recommendation and plans to include the 2,657 deceased representatives in the weekly listings the Office of Professional Responsibility provides to the CAF team that identifies representatives to be marked deceased and authorizations revoked. The Office of Professional Responsibility began sending the weekly listings to the CAF unit on June 1, 2020.

Recommendation 10: Confirm with the taxpayers associated with the 114 representatives who were incarcerated during Calendar Year 2019 whether the taxpayers want to retain or revoke the authorizations.

Management's Response: The IRS disagreed with this recommendation. IRS management stated that, upon the advice of Counsel, it could not disclose to taxpayers that their representative had been incarcerated. Alternatively, the Office of Professional Responsibility will review the prisoner list provided by the Return Preparer Office, which captures representatives with revoked PTINs if there is also an associated CAF number.



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IRS management plans to implement procedures and take appropriate actions based on that review.

Office of Audit Comment: Management's alternative corrective action, if implemented, will address our recommendation.

Representatives' Professional Credentials Are Not Verified When Processing Forms 2848

Tax examiners are not rejecting Forms 2848 received from representatives who do not provide the bar jurisdiction, license, or enrollment number for the professional credential (*e.g.*, attorney, certified public accountant, enrolled agent) reported on the form. Our review of 566,421 Forms 2848 processed into the CAF, as of May 4, 2019,²² identified 247,072 forms (43.6 percent) for which the credential's jurisdiction, license, or enrollment number was not in the CAF. The CAF has the jurisdiction, license, or enrollment number for the remaining 319,349 authorizations. Our review of a statistical sample of authorizations from these two populations identified that many representatives may be reporting professional credentials that they do not have. For example:

- Our review of a statistical sample of 51 representatives from the population of 247,072 identified 19 (37.3 percent) representatives for whom we could not confirm their credential via research of the applicable State Board of Public Accountancy website, Bar Jurisdiction website, or IRS list of enrolled agents. Based on our results, we estimate that 92,046 representatives²³ may have falsely reported a professional credential.
- Our review of a statistical sample of 65 representatives from the population of 319,349 identified nine (13.8 percent) representatives for whom we could not confirm their credential via research of the applicable State Board of Accountancy website, Bar Jurisdiction website, or IRS list of enrolled agents. Based on our results, we estimate that 44,218 representatives²⁴ may have reported a professional credential that they do not have.

The Form 2848 instructions require representatives to provide the bar jurisdiction, license, or enrollment number for the professional credential reported on the authorization form. Therefore, the 247,072 records in the CAF without this number may have resulted from the representative not providing their number or the tax examiner not inputting it in the CAF. When we raised this issue to management, they stated that their procedures do not require CAF employees to verify a professional credential claimed by a representative on Form 2848. Management further stated that because of the high volumes of authorizations processed each year, taking time to verify representatives' claimed professional credentials would slow down the processing of the authorizations and exceed the capabilities of CAF unit tax examiners who

²² CAF data were available as of May 4, 2019, when our analysis was performed.

²³ Our sample was selected using a 95 percent confidence interval, 5 percent error rate, and ± 4 percent precision factor. When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 59,613 and 128,275.

²⁴ Our sample was selected using a 95 percent confidence interval, 5 percent error rate, and ± 4 percent precision factor. When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 20,862 and 78,760.



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process the authorizations. However, the IRS is missing an opportunity to identify a fraud indicator on the form when it does not verify the professional credential.

Recommendation 11: The Commissioner, Wage and Investment Division, should develop procedures for tax examiners in the CAF units to verify professional credentials claimed by representatives on Form 2848.

Management's Response: The IRS disagreed with this recommendation and stated that Form 2848 is signed under penalties of perjury, whereby the professional declares the veracity of the information they provide, including the status of licensing credentials.

Office of Audit Comment: The response disregards the importance of the type of professional credential as it relates to specific levels of access to taxpayer information as well as the ability to represent a taxpayer in front of the IRS. Furthermore, the IRS is inconsistent in its verification of professional credentials. In this instance, it relies on the fact a representative signs under the penalty of perjury, yet it performs these exact verifications for PTIN holders listed on searchable *Directory of Federal Tax Return Preparers with Credentials and Select Qualifications* who also sign the PTIN application under the penalties of perjury.

Some Employees Have Unneeded Access Privileges on the Centralized Authorization File

Our review of 672 employees,²⁵ who have CAF access privileges that allow them to change or add taxpayer authorizations, identified 364 (54 percent) employees who were not assigned to the CAF unit as of March 12, 2020. Further analysis of the 364 employees identified 115 who initiated actions to modify one or more CAF authorizations between January 2, 2020, and February 29, 2020. IRS records indicate that some of these employees have job titles such as mail clerk, file supervisor, facilities management and security assistant, or computer assistant, which do not require them to change or add taxpayer authorizations to the CAF.

When we brought this issue to management's attention, they stated that:

- 293 of the 364 employees we identified were granted CAF access privileges in November 2019 because they were needed to help process aged CAF authorizations. On April 24, 2020, we requested information from management supporting the time frame these individuals assisted in processing CAF inventory. As of May 21, 2020, management had not provided this information. A total of 109 of these employees used their access to modify one or more CAF authorizations between January 2, 2020, and February 29, 2020.
- 63 of the 364 employees were granted CAF access privileges because their jobs require them to perform research or programming relative to the CAF. However, management did not explain why individuals who perform research and programming need to change or add taxpayer authorizations to the CAF. *****1 and 3*****
*****1 and 3*****.

²⁵ The list of employees resulted from an IRS match between monthly Integrated Data Retrieval System Security Profile Report data for employees with CAF access privileges and employee personnel data.



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- 8 of the 364 employees we identified are not in the office due to the coronavirus pandemic. Thus, management stated that they are unable to confirm, at this time, why they have unneeded CAF access. Management added that these employees may have previously worked in a CAF unit, and their access was not removed when they were assigned to another function. Management also stated that it will refer these eight employees to IDRS Security to have the employees' CAF access privileges removed from their profiles. Four of the eight employees modified *****1*****
*****|*****.

Internal procedures state that employees should be given only the system access privileges needed to perform their assigned duties. The procedures also require managers to implement access controls to provide protection from unauthorized alteration, loss, or disclosure of information. In addition, managers of Integrated Data Retrieval System (IDRS) users are responsible for administration of IDRS security in their unit and must immediately notify the unit security representative²⁶ when an IDRS user no longer needs a particular system access.

Management stated that the Information Technology security function monitors employees' use of the IDRS. However, we determined that the Information Technology function does not monitor employee access to the CAF, nor is it responsible for this process. CAF management is responsible for removing employee access to the CAF when the employee leaves the CAF unit to work in another function and to restrict the access privileges of current employees to only those needed to perform assigned duties. Our discussions with CAF management found that they were unaware of their responsibility and, thus, did not restrict CAF access based on the principle of least privilege or revoke employees' access privileges when they left the CAF unit.

Recommendation 12: The Commissioner, Wage and Investment Division, should ensure that CAF management reviews all employee access privileges on the CAF and removes the privileges of former CAF unit employees as well as unneeded privileges of current CAF unit employees.

Management's Response: The IRS agreed with this recommendation. IRS management stated that all managers are required to review their team's IDRS access and remove any employees not on their team and remove any unauthorized command codes. This restricts CAF privileges to only employees in the CAF unit. In addition, IRS management plans to perform a semiannual review of all employees with the CAF command codes to further verify that the command code access is appropriate.

²⁶ The unit security representative is an individual assigned by their business organization to implement and administer IDRS security at the IDRS unit level.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the IRS's controls to authenticate third-party authorization requests to access taxpayer data. To accomplish our objective, we:

- Determined if the CAF unit and other functions implemented sufficient corrective actions to address the recommendations in our prior report.
 - Reviewed documentation to analyze the IRS's confirmation letter results.
 - Evaluated the Data Center Warehouse CAF extract to determine if the IRS deleted the 194 authorizations in the CAF for which taxpayers responded to the IRS's initial survey letter stating that they did not authorize the representative in the letter to access their tax account.
 - Evaluated the updated guidance in the Wage and Investment Division's Taxpayer Treatment Guide to ensure that procedures to add compromised TINs to the DSL are included and clearly documented.
 - Evaluated the revised guidance and interviewed involved functions to ensure that the process for sharing compromised CAF numbers throughout the IRS is known and followed.
 - Determined if CAF numbers are assigned only to representatives who submitted multiple authorization requests with the same representative name and address. We identified multiple CAF numbers issued to the same representative since February 7, 2019, which is the date the IRS reported that it completed its corrective action.
 - Analyzed the results of the IRS's efforts to identify representatives with multiple CAF numbers and the reasons that the IRS determined the CAF numbers should be retained or removed.
- Determined whether CAF employees' access to the CAF is restricted based on the principle of least privilege.
- Verified the professional credentials claimed by taxpayer representatives on Forms 2848 and 8821. In order to project our results, we selected two statistically valid samples from the population of 566,421 representatives who claimed a professional credential in the CAF. We selected 51 from a population of 247,072 representatives for which the claimed credential's jurisdiction, license, or enrollment number was not in the CAF and 65 from the population of 319,349 representatives for whom the CAF had the jurisdiction, license, or enrollment number. We used a stratified sampling technique to evaluate representatives for whom the jurisdiction, license, or enrollment number was documented in the CAF or missing in the CAF. Our contracted statistician assisted with developing our sampling plans and projections.
- Evaluated the IRS's efforts to implement the Taxpayer First Act § 2302 – Standards for Taxpayer Electronic Signatures.



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Performance of This Review

This review was performed at the CAF units in Philadelphia, Pennsylvania, and Ogden, Utah, during the period July 2019 through May 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Russell Martin, Assistant Inspector General for Audit (Returns Processing and Account Services); Allen Gray, Director; Paula Johnson, Audit Manager; Edgar Moon, Lead Auditor; Robert Howes, Senior Auditor; Laura Christoffersen, Auditor; Kathy Coote, Auditor; and Audrey Graper, Auditor.

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of data in the CAF. We evaluated the data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: policies and procedures over the processing of authorizations for third-party representatives. We evaluated these controls by observing CAF unit employees, reviewing the Internal Revenue Manual, interviewing IRS management, and evaluating applicable documentation and reports.



Appendix II

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 Privacy and Security – Actual; 1,546 taxpayer accounts associated with confirmed fraudulent CAF numbers that the IRS did not add to its DSL (see Recommendation 2).

Methodology Used to Measure the Reported Benefit:

Our review identified that 1,546 taxpayers' TINs associated with confirmed fraudulent CAF numbers were not added to the DSL. IRS management stated that the majority of these TINs were not added to the DSL because the Incident Response Team did not add them to its SharePoint site. The Return Integrity and Compliance Services function is responsible for retrieving the TINs from this SharePoint site and adding them to the DSL. Incident Response Team members could not explain to us why they did not place the TINs on the Incident Response Team SharePoint site.

Type and Value of Outcome Measure:

- Taxpayer Privacy and Security – Potential; 42,272 taxpayers who are represented by an individual who is deceased, is incarcerated, or had their PTIN revoked (see Recommendation 6).

Methodology Used to Measure the Reported Benefit:

Our review identified that IRS processes did not identify and remove CAF authorizations that belong to:

- 2,657 representatives who are deceased. The 2,657 representatives represent 34,998 taxpayers in the CAF.
- 114 representatives who were incarcerated for the full year in Calendar Year 2019. The 114 representatives represent 2,620 taxpayers in the CAF.
- 191 representatives whose PTIN was revoked. The 191 representatives represent 4,654 taxpayers in the CAF.

Representatives access sensitive taxpayer information and pose similar risks as participants in other IRS programs such as the e-File Provider and Enrolled Agent Programs. These programs check their applicants to determine if they are incarcerated or using a decedent's identity. The total number of taxpayers was calculated by adding all three categories: 34,998 + 2,620 + 4,654 = 42,272)



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 136,264 representatives who do not have the professional credential that they claimed on a taxpayer authorization in the CAF (see Recommendation 11).

Methodology Used to Measure the Reported Benefit:

Tax examiners are not rejecting Forms 2848 received from representatives who do not provide the jurisdiction, license, or enrollment number for the professional credential (*e.g.*, attorney, certified public accountant, enrolled agent) reported on the form. The incomplete records we identified resulted from the representatives not providing the number or the tax examiners not inputting it in the CAF. We researched a statistical sample of 51 of the 247,072 authorizations in the CAF for which the professional credential's jurisdiction, license, or enrollment number was not in the CAF. Based on our results, we estimate that 92,046 representatives¹ may have falsely reported a professional credential. We also researched a statistical sample of 65 of the 319,349 authorizations in the CAF that show the professional credential's jurisdiction, license, or enrollment number. Based on our results, we estimate that 44,218 representatives² may have reported a professional credential that they do not have. The total number of representatives was calculated by adding both categories: $92,046 + 44,218 = 136,264$.

¹ Our sample was selected using a 95 percent confidence interval, 5 percent error rate, and ± 4 percent precision factor. When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 59,613 and 128,275.

² Our sample was selected using a 95 percent confidence interval, 5 percent error rate, and ± 4 percent precision factor. When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 20,862 and 78,760.



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Appendix III

Management's Response to the Draft Report

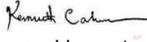


COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

August 18, 2020

MEMORANDUM FOR MICHAEL E MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin  Digitally signed by Kenneth C. Corbin
Date: 2020.08.18 16:10:13 -0400
Commissioner, Wage and Investment Division

SUBJECT: Draft Report – Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File (Audit # 201940026)

Thank you for the opportunity to review and comment on the subject draft report. The Centralized Authorization File (CAF) stores information on Powers of Attorney (POA) and other representatives identified to act on behalf of taxpayers and/or to have access to their tax information. These designations are made by taxpayers executing Form 2848, *Power of Attorney and Declaration of Representative*, or Form 8821, *Tax Information Authorization*. The information in the CAF is available to IRS employees to verify authorizations when in contact with representatives and eliminates the need for multiple submissions of the same documentation. As identified in the report, almost four million of these authorizations were received and processed by the CAF teams in fiscal year 2019. The IRS guidelines require that these authorizations be processed within five days. Once processed, the representatives are assigned a CAF number, which allows IRS employees to verify the authorization when working a taxpayer account.

We appreciate your acknowledgment of our efforts to implement recommendations from a previous audit, along with the additional improvements we have made to the CAF authentication process. We understand that additional efforts are needed to further address some of the issues identified in that audit and are working toward that end. We are working with the Information Technology organization to develop programming that will prevent the assignment of multiple CAF numbers to the same representative.

Until implementation of the Tax Pro Account system, scheduled during fiscal year 2022, which will provide authentication of electronic signatures provided on the authorization forms, we will determine and implement alternative procedures to be used in the



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signature authentication process. We have also begun implementing the requisite actions to coordinate with other operations within the IRS so that the CAF numbers of inactive or otherwise ineligible representatives can be identified and appropriate action taken to deactivate or remove their authorizations from the system.

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

Attachment



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

Attachment

Recommendations

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should coordinate with the Information Technology organization to develop an alternate solution for verifying taxpayers' e-signatures on Forms 2848 and 8821. This includes identifying the business requirements for the new system.

CORRECTIVE ACTION

A team is developing an interim solution for verifying taxpayers' e-signatures until the Tax Pro Account system is functional. Additional coordination is ongoing with the Information Technology organization to define business requirements for the new system.

IMPLEMENTATION DATE

March 15, 2021

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.

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 2

Add the 1,546 TINs that we identified to the DSL to allow detection of potential identity theft returns filed using the TINs.

CORRECTIVE ACTION

On June 25, 2020, 1,399 Taxpayer Identification Numbers (TINs) were loaded into the appropriate Dynamic Selection List (DSL) at a risk level of "High." The remaining 147 TINs were previously added to the DSL.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Return Integrity Verification Program Management, Return Integrity and Compliance Services, Wage and Investment Division



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CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3

Include in the reminder communication, a request for function heads to update Internal Revenue Manual guidance for their employees to ensure that they are aware of the *W&I SUSP Auth mailbox and how to use it to report suspicious CAF number activity. This includes updating the guidance for all compliance functions with procedures for reporting suspicious authorizations and stolen CAF numbers.

CORRECTIVE ACTION

A reminder will be issued to reinforce Servicewide awareness and use of the *W&I SUSP Auth mailbox. Guidance regarding the mailbox is already included in Internal Revenue Manual (IRM) 21.3.7.5.5.3, *How to Report a Compromised or Potentially Compromised CAF Number*, and IRM 4.19.25.7.5.1, *How to Report a Compromised or Potentially Compromised Central Authorization File (CAF) Number*.

IMPLEMENTATION DATE

October 15, 2020

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 4

Perform a one-time clean-up of the CAF to identify all representatives with multiple CAF numbers and remove CAF numbers that were erroneously assigned.

CORRECTIVE ACTION

We will initiate a maintenance request for a clean-up of the Centralized Authorization File (CAF) for the purpose of identifying representatives with multiple and/or inactive number assignments and removing them when appropriate. This work will require Information Technology resources that are subject to resource constraints and competing priorities. Consequently, we cannot provide an implementation date for this action.

IMPLEMENTATION DATE

N/A



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

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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 5

Develop a process to continually identify and address tax examiners erroneously assigning multiple CAF numbers to a representative at the same address.

CORRECTIVE ACTION

In conjunction with actions taken to address Recommendation 4, we will associate identified duplicate CAF numbers with the tax examiner(s) that created the record(s) and take appropriate actions to address the errors.

IMPLEMENTATION DATE

February 15, 2021

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 6

Develop procedures to conduct initial and periodic suitability checks of representatives to determine if they are deceased or incarcerated, and remove their authorizations in the CAF as appropriate.

CORRECTIVE ACTION

The Accounts Management and the Office of Professional Responsibility (OPR) organizations have established a process to identify deceased practitioner records for removal from the CAF. Weekly listings of deceased practitioners, identified by OPR, are provided to the CAF units so that their records may be marked accordingly. The two organizations will determine an appropriate suitability review strategy for incarcerated practitioners, and appropriate actions will be taken.

IMPLEMENTATION DATE

February 15, 2021



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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 7

Coordinate with the Return Preparer Office to receive notification for cases in which a return practitioner's PTIN is revoked, and determine if the practitioner's CAF authorization(s) should be removed.

CORRECTIVE ACTION

Coordination between the Return Preparer Office (RPO), OPR, and the CAF team has been initiated to identify revoked Practitioner Tax Identification Numbers (PTINs) with associated CAF numbers. We will perform the research and analysis to determine if the CAF numbers should be revoked. Necessary procedures will be implemented based on the results of the analysis.

IMPLEMENTATION DATE

December 15, 2020

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 8

Research the 191 representatives whose PTINs are revoked and remove their CAF authorizations as appropriate.

CORRECTIVE ACTION

A CAF authorization can only be revoked upon direction from the taxpayer, the representative, or the OPR. Coordination between the RPO, OPR, and the CAF team has been initiated to identify revoked PTINs with associated CAF numbers. This coordination will involve review of a current listing of revoked PTINs which may not specifically include these 191 representatives.

IMPLEMENTATION DATE

N/A



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

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RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 9

Revoke the authorizations for the 2,657 representatives who are deceased.

CORRECTIVE ACTION

The OPR will ensure the 2,657 deceased representatives are included in the weekly listings provided to the CAF team. The listings identify representatives to be marked deceased and authorizations to be revoked. On June 1, 2020, the OPR began sending weekly listings to the CAF unit.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 10

Confirm with the taxpayers associated with the 114 representatives who were incarcerated during Calendar Year 2019 whether the taxpayers want to retain or revoke the authorizations.

CORRECTIVE ACTION

Upon the advice of Counsel, we cannot disclose to taxpayers that their representative had been incarcerated. Alternatively, the OPR will review the prisoner list provided by the RPO, which captures representatives with revoked PTINs if there is also an associated CAF number. Necessary actions and procedures will be implemented based on that review.

IMPLEMENTATION DATE

February 15, 2021

RESPONSIBLE OFFICIAL

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



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

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CORRECTIVE ACTION MONITORING PLAN

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

Recommendations

RECOMMENDATION 11

The Commissioner, Wage and Investment Division, should develop procedures for tax examiners in the CAF units to verify professional credentials claimed by representatives on Form 2848.

CORRECTIVE ACTION

Form 2848, *Power of Attorney and Declaration of Representative*, is signed under penalties of perjury, whereby the professional declares the veracity of the information they provide, including the status of licensing credentials.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 12

The Commissioner, Wage and Investment Division, should ensure that CAF management reviews all employee access privileges on the CAF and remove the privileges of former CAF unit employees as well as unneeded privileges of current CAF unit employees.

CORRECTIVE ACTION

All managers are required to review their team's IDRS access and remove any employees not in their team and remove any unauthorized command codes. This restricts CAF commands codes to only employees in the CAF teams. In addition, we will perform a semi-annual review of all employees with the CAF command codes to further verify that the command code access is appropriate.

Implementation Date:

February 15, 2021

RESPONSIBLE OFFICIAL

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



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

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CORRECTIVE ACTION MONITORING PLAN

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



Improvements Are Needed to Address Continued Deficiencies in Ensuring the Accuracy of the Centralized Authorization File

Appendix IV

Abbreviations

CAF	Centralized Authorization File
DSL	Dynamic Selection List
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
PTIN	Preparer Tax Identification Number
RICS	Return Integrity and Compliance Services
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number