

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Additional Actions Are Needed to Improve and Secure the Income Verification Express Service Program**

March 8, 2023

Report Number: 2023-45-014

## HIGHLIGHTS: Additional Actions Are Needed to Improve and Secure the Income Verification Express Service Program

Final Audit Report issued on March 8, 2023

Report Number 2023-45-014

### Why TIGTA Did This Audit

This audit was initiated to follow up on prior audit recommendations, assess the adequacy of Income Verification Express Services (IVES) modernization efforts, and assess compliance with Taxpayer First Act provisions that require the IRS to develop an online system to process IVES transcript requests.

### Impact on Tax Administration

Once accepted into the IVES Program, participants such as banks and financial institutions can submit requests, on behalf of their clients, to obtain tax transcripts for individuals and businesses. To mitigate the risk of releasing taxpayers' information to unauthorized individuals, the IRS must authenticate the validity of the tax transcript request forms to ensure that the taxpayers signed the forms. In Fiscal Year 2022, the IRS processed 8.3 million tax transcript request forms.

### What TIGTA Found

IRS management took actions to address our concerns during this review and addressed recommendations from our prior audit. However, the IRS did not meet a key requirement of Section 2201 of the Taxpayer First Act. Specifically, the IRS did not have the capability to process business transcript requests by January 2023. Despite the Taxpayer First Act requiring the IRS create a new online system to process transcript requests, IRS management has not yet made a decision to require participants to use the new system. Until the modernized IVES system becomes mandatory to use, enhanced controls will be needed for electronically faxed transcript requests to ensure that transcripts are not issued to unauthorized individuals.

In addition, TIGTA found that insufficient information is being provided to both participants and taxpayers. For example, participants will receive limited reject information and taxpayers will not be notified of a pending transcript request that requires they log in to their online account to review and authorize the request.

TIGTA also found that no single point of contact was responsible for resolving outages of the new inventory management system, thus contributing to significant processing delays. For example, instead of processing transcript requests within the IRS's goal of 72 hours (or three days), at its peak, transcripts took 502 hours (or over 22 days) to be processed.

Finally, the IRS continues to process transcript requests even though taxpayers have an identity theft marker on their account. TIGTA identified 7,619 tax transcripts that the IVES Program improperly issued to the participants for 6,012 taxpayers for Processing Year 2021. This occurred because the IRS's internal guidance has not ensured that its employees were following the guidelines for rejecting these requests. As a result, there is a risk of unauthorized disclosure of taxpayer information to unscrupulous individuals.

### What TIGTA Recommended

TIGTA made 14 recommendations to modernize and improve the IVES Program. This included alerts issued to IRS management during the review to address concerns such as ensuring the development of business transcript capability for the modernized IVES system. TIGTA also made recommendations to implement controls that will adequately authenticate all transcript requests received via electronic fax and assign responsibility for addressing and resolving future outages relating to the new inventory management system.

IRS management agreed with 11 of the 14 recommendations and partially agreed to one recommendation to provide notices to taxpayers whose transcript requests were rejected, but chose not to provide notices to participants citing an increased risk of fraud. Management disagreed with two recommendations that would enhance controls over electronically faxed transcript requests and allow taxpayers the opportunity to identify potential unauthorized access of their tax return data.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**  
**WASHINGTON, D.C. 20024**

March 8, 2023

**MEMORANDUM FOR:** ACTING COMMISSIONER OF INTERNAL REVENUE

*Heather Hill*

**FROM:** Heather M. Hill  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Additional Actions Are Needed to Improve and Secure the Income Verification Express Service Program (Audit # 202240510)

This report presents the results of our review to follow up on prior audit recommendations, assess the adequacy of Income Verification Express Services (IVES) modernization efforts, and assess compliance with Taxpayer First Act provisions.<sup>1</sup> This review was part of our Fiscal Year 2022 Annual Audit Plan and addresses the major management and performance challenge of *Enhancing Security of Taxpayer Data and Protection of IRS (Internal Revenue Service) Resources*.

Management's complete response to the draft report is included as Appendix III. If you have any questions, please contact me or Diana Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

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<sup>1</sup> Public Law No. 116-025, 133 Stat. 981.

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## Background

The Income Verification Express Service (IVES) is an Internal Revenue Service (IRS) program created in Calendar Year (CY) 2006 to provide tax transcripts to a third party (*i.e.*, IVES participant) with consent of the taxpayer. Tax transcripts can include return information, account information, and wage and income information. The tax transcripts are often used by third parties (*e.g.*, clients of IVES participants, such as banks) to process mortgages, *etc.* The IVES Program is operated by the IRS's Submission Processing organization and has employees located in all three Tax Processing Centers: Kansas City, Missouri; Austin, Texas; and Ogden, Utah.

### IVES participant registration

Each company participating in the IVES Program must apply on Form 13803, *Application to Participate in the Income Verification Express Service (IVES) Program*. The applications are processed by IVES analysts in the IVES Headquarters office. Figure 1 provides a high-level overview of the IVES participant (hereafter referred to as "participants") application process.

**Figure 1: Overview of the IVES Participant Application Process**



Source: Treasury Inspector General for Tax Administration (TIGTA) graphic summarizing the IVES participant application process based on review of internal procedures. Note: Step 9 can happen at any time during the application process.

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**Transcript request processing**

To request transcripts from the IRS, participants electronically fax (e-Fax) Form 4506-C, *IVES Request for Transcript of Tax Return*, with an approved IVES cover sheet, which includes participant information. IVES participants are charged a user fee by the IRS for each transcript request submitted. Participants are billed monthly for the prior month’s transcript requests. Figure 2 provides an overview of the original transcript request process.

**Figure 2: Overview of Original Transcript Request Process**



*Source: TIGTA graphic summarizing the IVES transcript request process after discussions with IRS management. Note: TDS = Transcript Delivery System.<sup>1</sup>*

As of November 3, 2022, there were 669 approved participants of the IVES Program. During Fiscal Year (FY) 2022, the IRS processed 8.3 million transcript requests. Figure 3 shows the number of transcript requests processed from FYs 2020 to 2022.

**Figure 3: IVES Transcript Request Volumes and User Fees Collected FYs 2020 Through 2022**

FY	Transcript Requests	User Fees <sup>2</sup>
2020	12.4 million	\$44.6 million
2021	15.4 million	\$78.3 million
2022	8.3 million	\$27.7 million

*Source: IRS Chief Financial Officer, Financial Management Office.*

<sup>1</sup> See Appendix IV for a glossary of terms.

<sup>2</sup> The normal user fee is \$2 per transcript request. The IRS increased the user fee to \$5 per qualified request from March 2020 to November 2021 to pay for IVES updates required by the *Taxpayer First Act* (Public Law No. 116-025, 133 Stat. 981). Although the increased user fee ended in November 2021, billing is delayed by one month, so fees were collected through December 2021. For FYs 2020, 2021, and 2022, this includes \$16.9 million, \$46.2 million, and \$8.1 million, respectively, which were collected for the development of the modernized IVES system.

## **Modernization of the Transcript Request Process**

### **Taxpayer First Act (TFA) requirements<sup>3</sup>**

The TFA was signed into law July 1, 2019. Section 2201 of the TFA required the IRS to modernize the IVES Program by January 1, 2023. The IRS is required to develop a system to receive third-party income verification forms (*i.e.*, transcript request forms) that is fully automated and accomplished through the Internet in as close to real-time as is practicable and complies with applicable security standards and guidelines. In addition, all costs related to implementing the modernized program were to be covered by the increased participant user fee. These costs include any necessary infrastructure or technology.

In response, the IRS developed a new system that changes the basic structure of how IVES transcript requests are submitted. With the new system, participants will be allowed to electronically submit an unsigned transcript request form to the IRS. Participants will have two options for submitting the unsigned transcript request, a web-based submission or an application-to-application submission.<sup>4</sup>

- Web-based. Web-based submissions are requests submitted through a web-based form in which the participant provides the information contained within the Form 4506-C. Web-based submissions are intended for lower volume participants.
- Application-to-application. Application-to-application submissions are requests submitted directly from a participant to an IRS system via an information technology application. Application-to-application submissions are intended for higher volume participants.

After the participant submits the transcript request, the taxpayer will then log in to their online account to authenticate themselves and electronically sign (e-sign) the form. Figure 4 provides a basic overview of the new process, created in response to the TFA.

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<sup>3</sup> Public Law No. 116-025, 133 Stat. 981.

<sup>4</sup> Participants will also have an option to submit through the original transcript request process via e-Fax.

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Figure 4: Overview of the New TFA IVES System



Source: TIGTA graphic summarizing the new IVES transcript request process after discussions with IRS management.

According to IRS management, the IRS had no plans to mandate the use of the new TFA IVES system and continued to allow participants to use the legacy IVES system in January 2023.

### Shared network folders

In May 2020, the IVES Program created shared network folders at each Tax Processing Center to store site-specific inventory in response to the Coronavirus Disease 2019 pandemic. This allowed the IRS to systemically load faxed transcripts directly into the site-specific network folder instead of manually printing the transcript requests to be worked by IRS employees. The use of the shared network folders also allowed IVES employees to process transcript requests while teleworking when the Tax Processing Centers were closed.

### Enterprise File Storage (EFS)

The IRS hired a contractor in September 2020 to enhance the shared network folder process and develop a single nationwide inventory management system, called the EFS. The IRS describes the EFS not only as a centralized document management system but also one that provides the capability to process the work electronically, thus eliminating paper. In addition, the EFS was designated as critical to the filing season. The IRS developed a phased approach to transition each of the three IVES sites to the EFS beginning with the Ogden Tax Processing Center in December 2021 and ending with the Austin Tax Processing Center in April 2022.

The EFS was designed to allow better controls over the batching and processing of transcript requests and provide more consistent transcript processing times. All transcript requests are consolidated into one inventory, and all three Tax Processing Centers work requests out of a single inventory.

## Results of Review

### Management Took Actions to Address Concerns Reported in This and Our Prior Review

During this review, we issued the following detailed e-mail alerts to IRS management outlining our concerns and are providing the actions taken by IRS management to address these concerns.

**Recommendation 1 (E-Mail Alert):** The IVES Program is authorized to have 14 analysts and one manager to oversee the program. However, for most of CY 2021, there were only five analysts assigned to support the IVES Program, and one of the analysts was serving as the temporary manager. On April 22, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns with continued staffing shortages. We recommended that IRS management cancel or permanently reassign the two individuals on long-term details to other IRS functions and obtain funding to add additional analysts, as needed, for the IVES Program to be fully and permanently staffed.

**Management's Response:** IRS management agreed with our recommendation and as of August 14, 2022, the IVES Program Office was fully staffed with 15 permanent and long-term detailed employees.

**Recommendation 2 (E-Mail Alert):** On February 17, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns with participant applications not being timely processed. IVES Program guidelines require that applications to participate in the IVES Program be processed by the IVES Headquarters office. However, we found procedures to process IVES applications were inefficient and undocumented. For example, procedures did not ensure that the IVES sites were doing preliminary checks of the participant applications to determine if they were accurately completed (*e.g.*, ensuring that a signature was present) and there were no measurable goals or policies for completing the applications in a timely manner.<sup>5</sup> We recommended that IRS management immediately determine the backlog of participant applications and develop a plan to address the backlog of applications.

**Management's Response:** Management agreed with our recommendation and assessed the inventory of program applications awaiting processing and assigned the appropriate resources to resolve it. The applications inventory became current on May 13, 2022.

**Recommendation 3 (E-Mail Alert):** On February 17, 2022, we recommended that the Director, Submission Processing, Wage and Investment Division, develop a plan to centralize the processing of all participant applications. In the interim, we recommended that management ensure that IVES coordinators at each site begin performing minimum checks upon receipt of the application to avoid unnecessary delays in processing.

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<sup>5</sup> Amended participant applications are submitted for items such as change of address or contact information of the business that do not require an additional suitability check.

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**Management's Response:** Management agreed with our recommendation and updated the Internal Revenue Manual (IRM) on May 25, 2022, instructing the IVES coordinators to conduct initial completeness review checks prior to routing participant applications to the headquarters staff.

**Recommendation 4 (E-Mail Alert):** On February 17, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns with the lack of metrics/goals for processing participant applications. We recommended that IRS management update its internal guidance with this information.

**Management's Response:** Management agreed and drafted new IRM procedures for the 2023 Filing Season, which were published on January 1, 2023.

**Recommendation 5 (E-Mail Alert):** On April 22, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns with a lack of authentication of taxpayer identity within the IVES Program. IVES analysts are responsible for reviewing submissions by IVES participants on their continued compliance with IVES Program electronic signature (e-signature) policies and procedures. IVES analysts review the submission for sufficiency of the audit and independence of the auditor. We found that reviews of IVES participant compliance with e-signature policies were largely not conducted. As such, IVES participants that did not submit their required report did not have their access to the e-signature program revoked. This increases the risk that IVES participants may be more noncompliant with IVES Program policies regarding authentication and validation of taxpayer identity. We recommended that management implement a system for revocation and notification of participants if an IVES analyst reviews the results of the participant's independent audit of their e-signature system and deems the audit results or the system to be insufficient.

**Management's Response:** Management agreed and issued the e-signature participants determination letters summarizing the findings upon completion of the review. The letters ranged from passing with no errors, passing with minimal errors, warning letters for defects to be cured, and letters advising of termination from the program. Additionally, IRM procedures were updated on August 15, 2022, to reinforce that those requests not submitted by approved e-signature participants are to be rejected.

**Recommendation 6 (E-Mail Alert):** In March 2022, we notified IRS management of our concern that information on its website needed to be updated. For example, the forms used to apply to the IVES Program and submit transcript requests were outdated, the website did not reflect recent changes that were made to the IVES Program (*e.g.*, the closure of the Fresno Tax Processing Center), and there was no information related to the compliance requirements for the IVES Program. We recommended that management review and update public information on IRS.gov and ensure that information is available to prospective IVES applicants on the requirements of participants, such as compliance reviews and required e-signature audits.

**Management's Response:** Management agreed and updated the IRS.gov landing page on August 31, 2022, to include IVES program requirements for participants, with the final publishing of Form 13803.

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In addition, we are noting the actions management took to address the deficiencies we reported in our February 2021 report.<sup>6</sup> Specifically, the IRS:

- Completed the participant compliance reviews in July 2022 and took action as appropriate to remove participants that did not complete the e-signature certification and submit an annual independent audit report.
- Included a current list of all participants approved to submit e-signed transcript requests in the EFS in August 2022.
- Implemented procedures in August 2022 to compare e-signed transcript requests received from participants to a current list of all participants allowed to submit e-signed requests to prevent the processing of any requests submitted by participants that are not approved to participate.
- Provided clear guidance on the content that should be included in the annual independent audit reports submitted by participants. The IRS notified participants of the requirements in February 2022.
- Updated the cautionary language on the transcript request form to ensure that all fields are complete prior to the taxpayer's signature. The IRS updated Form 4506-C in September 2020 and again in October 2022 to address three of our prior recommendations.
- Completed suitability assessment checks in July 2022 for the 319 participants that did not undergo this important check.

### **Not All Legislatively Mandated Requirements Relating to the Income Verification Express Service Were Met**

The IRS did not ensure that all legislatively mandated requirements of the TFA were met. The requirement to include all qualified disclosures means the system will be able to process both individual and business transcript requests. IRS management indicated it planned to deliver the individual transcript capability by January 1, 2023; however, participants will be unable to request business transcripts because this capability was not included in the system requirements. Although Information Technology (IT) organization management indicated that this capability was delayed due to technical complexities, we found it was delayed due to a lack of planning by the IT organization. Figure 5 shows the IRS's compliance with each of the specific requirements.

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<sup>6</sup> TIGTA, Report No. 2021-45-017, *Additional Security Processes Are Needed to Prevent Unauthorized Release of Tax Information Through the Income Verification Express Service Program* (Feb. 2021).

**Figure 5: Overview of IRS’s Compliance With Section 2201 of the TFA**

Section 2201 Requirement	IRS Compliance
A system inclusive of <u>all</u> qualified disclosures, implemented no later than January 1, 2023. <sup>7</sup>	
Fully automated and accomplished through the Internet in as close to real-time as is practicable.	
Funded via an increased user fee on qualified disclosures solely for the development of the modernized IVES system. <sup>8</sup>	

*Source: TIGTA’s review of TFA IVES concept solution documents and discussions with IRS management.*

In April 2022, we notified IRS management of our concern about the business transcript request capability and recommended that the IT organization determine the estimated cost to include this capability, develop and test this capability, and ensure that participants are aware when business transcript requests may be submitted through the new TFA IVES system. We also recommended that the IRS ensure the business transcript request capability was implemented before the January 2023 legislative deadline.

**Management Actions:** On July 28, 2022, management provided a cost estimate of \$5.7 million for the business transcript request capability. Management notified the IVES working group in July 2022 that the business transcript request feature would not be available in January 2023, and will notify all participants when it becomes available. Finally, management advised that it estimated that the business transcript capability could be available by July 2023. In the interim, the IRS will continue to process business transcript requests via e-Fax for at least six months, until this capability is implemented. For CY 2021, the IRS estimated that business transcript requests accounted for 30 percent of IVES transcript requests (5.4 million requests).

**Recommendation 7:** The Chief Information Officer should ensure that the business transcript request capability is implemented as soon after the January 2023 legislative deadline as possible.

**Management’s Response:** Management agreed and will ensure that the business transcript request capability is implemented by July 2023.

### **According to the IRS, it met the TFA requirement even though it used discretionary user fees to fund initial development costs**

The initial costs to develop the new IVES system were funded, in part, by other IRS user fees. Yet, the requirement of the legislation was intended to not use any additional IRS funds to pay for the updates to the IVES Program. The IRS collected a total of \$71.2 million in increased IVES user fees. As of December 12, 2022, the IRS has spent \$63.3 million developing the new IVES

<sup>7</sup> IRS management indicated that it planned to deliver individual transcript capability by January 1, 2023.

<sup>8</sup> The IRS funded \$14 million in initial development costs to develop the new IVES system from other IRS user fees to achieve a timely start for the program during the period where the increased IVES user fee had not yet been collected.

system.<sup>9</sup> According to IRS management, any remaining funds not used to implement this provision will be returned to the general Treasury fund.

IRS management stated that it used the increased IVES user fees, exclusively for the purpose of developing the modernized IVES system, once they were collected. However, the updated user fee amount did not provide sufficient collections to fund the initial development costs. For example, if the IRS needed to fund development costs of \$5 million the first month but only had collected \$2 million the first month, management would have used \$3 million in other user fees to cover the costs as the law does not allow funds to be spent before they are collected. As a result, the IRS used \$14 million in other IRS discretionary user fees to fund initial development costs; funds that could have been used for other IRS programs had the IRS not delayed implementing the increased user fee or had it increased the user fee commensurate with the funding needed. IRS management believes it met the requirements of the TFA by using the discretionary user fees.

### **Management Is Not Requiring Participants to Use the Newly Developed System**

As previously noted, the TFA required the IRS to develop a modernized and automated system for receiving third-party income verification forms. According to information on the IRS's website, this new modernized system would replace its current system, which relies on secure e-faxes. Yet, IRS management has not yet made a decision to require participants to use the new system. Further, according to industry partners we spoke with, participants have expressed concerns with the basic functionality of the new system and have warned the IRS that many participants will refuse to use the new system. Participants prefer the original system in which the lender obtains the taxpayer's signature and submits the form on their behalf. Thus, calling into question the investment made to develop this new system.

Our review of all IVES transcript requests processed between June 2021 and May 2022 further substantiates this concern. Our analysis shows that only 201,073 (6.6 percent) of 3.1 million taxpayers who had their transcript requested by the IVES Program had access to an IRS online account. Online account access is needed in order for the taxpayer to sign their transcript, when submitted using the new TFA IVES system.

When we brought our concerns to the IRS's attention, IRS Counsel stated that management can require participants to use the TFA IVES system. Requiring participants to use the new TFA IVES system would require fewer employees to manually complete tasks, such as screening of incoming faxed transcript requests to determine if they were typed or hand written and manually processing hand written requests. IRS management indicated that they plan to evaluate participants' usage levels before making any decisions on whether to mandate the use of the new TFA IVES system.

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<sup>9</sup> The IRS funded the initial development of the system with \$14 million in discretionary funds and collected \$71.2 million in increased IVES user fees, for a total of \$85.2 million. Therefore, \$21.9 million remained.

## **Until the modernized IVES system becomes mandatory to use, enhanced controls will be needed for e-faxed transcript requests**

We previously reported concerns with the lack of validation of taxpayer signatures on transcript requests, noting that this would be resolved by implementing the modernized IVES system. As a result, we made no further recommendations. However, until the IRS requires participants to use the new modernized IVES system, participants will be allowed to continue to e-fax transcript requests. As such, we continue to remain concerned that without proper controls to sufficiently and adequately validate the transcript request form, there will continue to be a risk of releasing taxpayers' information to unauthorized individuals.

When we brought our concerns to management's attention in April 2022, management stated that the IRS already has controls requiring IVES employees to review the request for completeness and research to see if there are identity theft indicators on the taxpayer's account, among other checks. IRS management also stated that Internal Revenue Code § 6064 allows for the IRS to presume the signature is the true signature of the person who signed and that there is no indication of fraud within the IVES Program. We continue to disagree that the IRS's controls for processing faxed transcript requests are sufficient because the IRS has no way of verifying the signature is the true taxpayer before releasing important tax return information. IRS management should be proactive in ensuring that additional controls are put into place to prevent fraudsters from exploiting the IVES Program.

The Commissioner, Wage and Investment Division, should:

**Recommendation 8:** Complete a usage study and document a decision regarding if the IRS will mandate that participants use the TFA IVES system.

**Management's Response:** Management agreed and will perform a study on IVES participation and taxpayers' adoption of the online account access. Management plans to begin collecting data for the study in January 2024 and will develop a policy decision by January 15, 2025.

**Recommendation 9:** Implement controls that will sufficiently and adequately authenticate all transcript requests received via e-fax. For example, require notarization of a taxpayer's signature.

**Management's Response:** Management disagreed with the recommendation. Management indicated that transcript requests do not pose a higher risk than similar signed submissions of returns, statements, or documents. Current controls fulfill the requirements for valid consent under Internal Revenue Code § 6103 and adhere to IRS signature authentication standards.

**Office of Audit Comment:** Management's position that transcript requests do not pose a higher risk than signed submissions of returns, statements, or documents does not acknowledge the fundamental difference in that a transcript request authorizes release of sensitive tax information. As we noted, until the modernized IVES system becomes mandatory to use, we remain concerned that the IRS does not have adequate controls to validate a taxpayer's signature and could be at risk of releasing information to an unauthorized individual.

**Recommendation 10:** Implement processes that would notify taxpayers that a transcript request form had been processed, giving the taxpayer an opportunity to quickly identify potential unauthorized access of their tax return data. For example, the IRS could systemically send a copy of the transcript request form to the last known address of the taxpayer, allowing the taxpayer to verify their signature.

**Management's Response:** Management disagreed with the recommendation. Management indicated that implementing a secondary confirmation of taxpayer intent would cause significant delays in responding to time-sensitive requests. The goal is to process transcript requests within a 65 to 72 hour time frame from receipt. Separate confirmations could cause taxpayers unnecessary burden because it could delay mortgage or other application processing that is dependent on transcript information. Sending an unsolicited communication to the last known address could create an additional risk of disclosure of taxpayer information.

**Office of Audit Comment:** We agree that the IRS should not implement a secondary confirmation from the taxpayer. Our recommendation focuses on developing a process to notify a taxpayer that a transcript request had been processed. The notification would allow the taxpayer to contact the IRS if there was a potentially fraudulent access to their tax return information.

### **Additional Notifications to Participants and Taxpayers Would Help Improve Transcript Request Processing**

During our discussions with IRS management about the new TFA IVES system, we found that insufficient information is being provided to both participants and taxpayers. For example, participants will receive limited reject information and taxpayers will not be notified of a pending transcript request that requires they log in to their online account to review and authorize the request. The new IVES system notifies the participant that a transcript has been rejected, but does not provide information why the request was rejected (*e.g.*, processing error or the taxpayer declined to consent to the release of their tax transcript). If participants are not informed of why their request was rejected, they will continue to submit requests with the same errors. Thus, potentially burdening the participants and taxpayers and wasting IVES resources in responding to participant disputes or requests for additional information.

According to IRS management, providing additional information to the participant could increase the risk of fraudsters learning about validations that the IRS has in place before releasing transcript information. However, the IVES Program currently provides a reject reason for participants submitting their transcript requests through e-Fax. Further, IRS management previously stated there was a low risk of fraud in the IVES Program because participants are well-vetted and trusted partners. As it relates to not notifying taxpayers of a pending transcript request, management noted that this is the IVES participant's responsibility. However, participants are often third-party intermediaries that do not have direct contact with the taxpayer. As such, the lack of communication from the IRS may cause unnecessary delays in the processing of transcript requests.

**Recommendation 11:** The Commissioner, Wage and Investment Division, should assess the risk of providing additional information to both the participants and taxpayers during the transcript request process. The IRS should use the risk assessment to update its communications to the participants and taxpayers through the new IVES system.

**Management's Response:** Management partially agreed. The IRS will be sending a new series of notices to taxpayers whose transcripts were submitted through the new IVES system, with less detailed explanations of the causes for rejection. Participants who submitted the transcript requests through the new IVES system will not receive a notice. Providing additional information to the IVES participants could increase the risk of fraud against the system.

**Office of Audit Comment:** Although the IRS's corrective action will provide an updated notice to the taxpayer, management did not agree to provide additional information to the IVES participants. As stated in our report, the IVES Program currently provides a reject reason for participants submitting their transcript requests through e-Fax. As such, providing these notifications to participants who submit transcript requests online should pose no additional risk of disclosure of taxpayer information.

### **No Single Point of Contact Was Responsible for Resolving Outages of the New Inventory Management System, Thus Contributing to Significant Processing Delays**

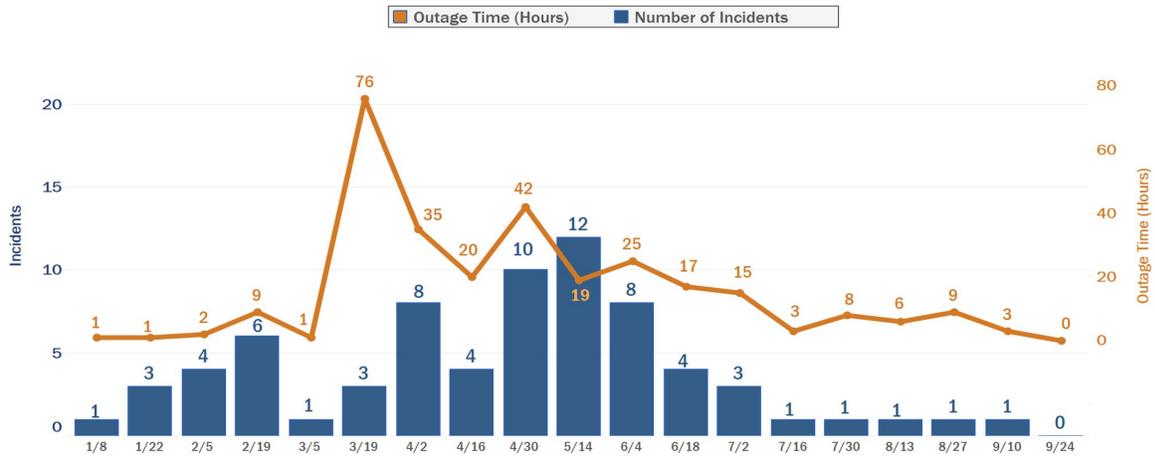
Our review found that the modernization of the transcript request inventory management system (*i.e.*, the EFS) significantly delayed transcript-processing time frames. For example, there were 72 reported IVES incidents, which resulted in 292 hours of EFS outages between January 8 and September 10, 2022. At its peak, these outages resulted in transcript requests being worked within 502 hours (over 22 days) as opposed to the IRS's goal of 65 to 72 hours (three days).<sup>10</sup> These outages occurred because the IRS did not assign responsibility to a single stakeholder to resolve concerns with outages and identify and address the root cause, even though it classified this system as mission critical. Figures 6 and 7 illustrate the number of incidents, outage times, and associated impact on transcript processing time frames during most of Calendar Year 2022.

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<sup>10</sup> According to the IRS, IVES employees work 22 hours out of a 24-hour period.

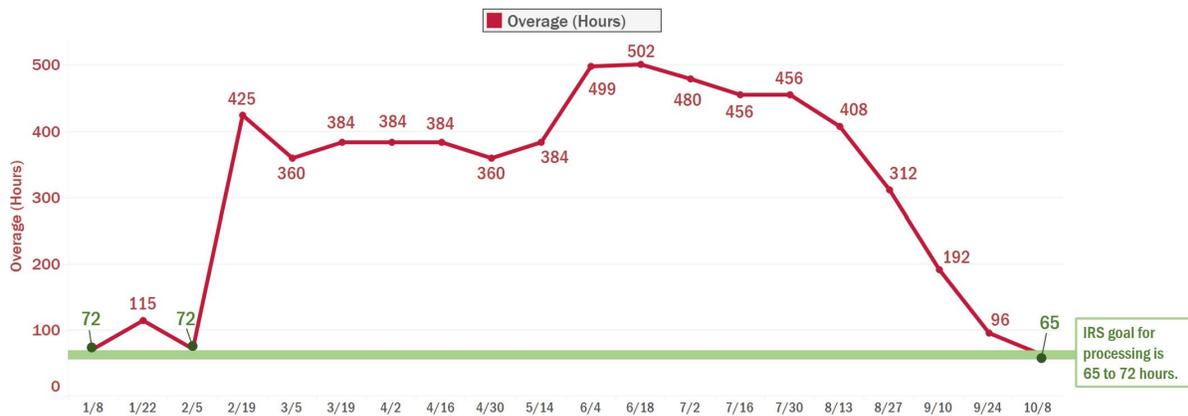
**Additional Actions Are Needed to Improve and Secure the Income Verification Express Service Program**

**Figure 6: Overview of EFS Incidents Affecting the IVES**



Source: TIGTA analyses of EFS incidents provided by IRS analysts. Note: Outage times are cumulative for each two-week period.

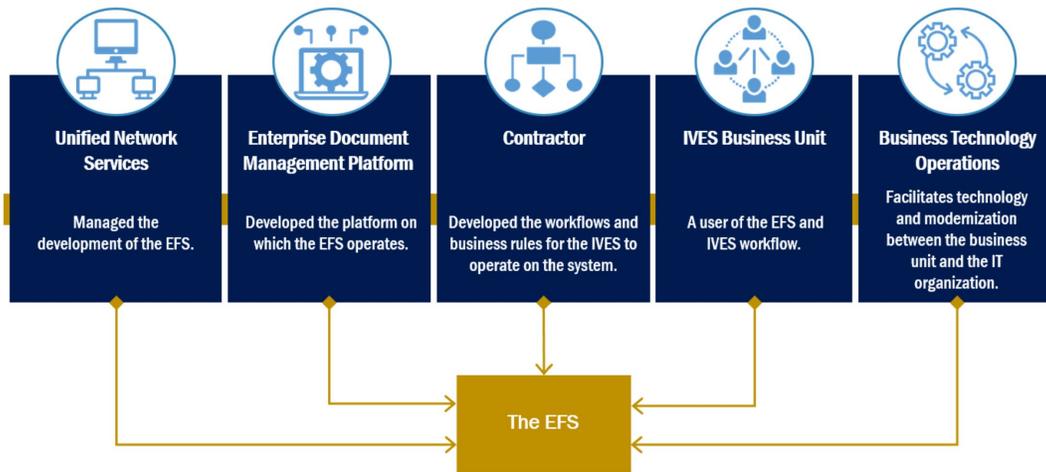
**Figure 7: Overview of IVES Processing Time Frames**



Source: TIGTA analysis of IVES inventory information provided by IRS analysts.

The development, maintenance, and trouble shooting of a new inventory management system requires the coordination of many different IRS functions, both within the IT organization and the Wage and Investment Division. Figure 8 shows a summary of the multiple stakeholders of the EFS and their contributions.

Figure 8: Stakeholders of EFS Development



Source: TIGTA graphic summarizing stakeholders of the EFS based on discussions with IRS management.

During our discussions with each of these stakeholders, we learned that no single stakeholder was assigned the responsibility for resolving EFS outages. Each function within the IT organization explained its responsibilities for either developing the EFS application or the platform, yet none identified themselves as being solely responsible for resolving outages. Moreover, the IRS’s Business Technology Operations acknowledged there was a lack of coordination between IT organization functions, which resulted in time being wasted trying to figure out who could resolve the outages versus actually resolving the outages. During our discussions with IRS IT management, they stated that resolving outages was a collaborative effort across IT functions.

Because the IRS classified the EFS as a critical system for the filing season, the IT organization needs to ensure that it assigns a single point of contact responsible for addressing and resolving future outages. This should include providing service that corresponds to its customers’ work hours.

### A root cause analysis of EFS outages took nearly six months to complete

The IRS originally identified the outages as primarily the result of a retransmission error (*i.e.*, the server fails to acknowledge a transmission and continuously resends the transmission, causing the network to overload and no longer respond). In response, the IRS opened a “priority one” ticket on March 24, 2022.<sup>11</sup> The ticket signified the critical nature of the ongoing outages that were significantly impacting the IVES Program, even though EFS outages predated the opening of this ticket. The IRS closed the ticket on June 8, 2022; however, outages continued to occur (albeit with less frequency). In August 2022, we notified IRS management of our concern that a root cause analysis had not been completed and recommended that management postpone expanding EFS interfaces or adding workflows until the root cause of EFS outages had been identified and resolved by the IT organization.

<sup>11</sup> The IRS defines a priority one ticket as any issue causing severe, mission-critical work stoppage. The impact may be on multiple internal or external customers and service to taxpayers. Immediate action is required (*i.e.*, the ticket should be resolved in four hours).

## **Additional Actions Are Needed to Improve and Secure the Income Verification Express Service Program**

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**Management action:** IRS management agreed and a root cause analysis was performed to identify and address the reoccurrence of EFS outages. The root cause of EFS stability issues was identified and provided to the IRS on September 14, 2022, nearly six months after a “priority one” ticket was submitted.

The EFS will continue to be used in January 2023 to receive business transcript requests and individual transcript requests in which participants chose not to use the new TFA IVES system. The IRS also has plans to expand the use of the EFS to other IRS programs during the 2023 Filing Season.<sup>12</sup> A fully functional EFS could greatly benefit these programs by creating efficiencies through automated inventory management and paperless processing.

**Recommendation 12:** The Chief Information Officer should assign a single point of contact responsible for addressing and resolving future EFS outages, including providing service that corresponds to its customers’ work hours.

**Management’s Response:** Management agreed with the recommendation and has identified the User and Network Services function as the single point of contact responsible for addressing and resolving future EFS outages, including providing service that corresponds to its customers’ work hours. The User and Network Services function will initiate and provide adequate direction with key stakeholders to have the EFS added to the Premium Service List.

## **Additional Actions Are Needed to Enhance the Security of and Improve the Income Verification Express Service Program**

We previously reported that transcript requests were erroneously processed. The IRS agreed to ensure that programming was updated and evaluate processes and procedures to ensure that transcript requests for accounts identified with an identity theft marker were properly rejected.<sup>13</sup> When a taxpayer’s account is identified as having an identity theft marker, guidelines require that the transcript request for those applicable years should not be processed. Instead, the IVES Program sends instructions to the taxpayer’s address of record to contact the identity theft toll-free telephone number.

We identified 7,619 tax transcripts that the IVES Program improperly issued to the participants for 6,012 taxpayers for Processing Year 2021. This occurred because the IRS’s internal guidance has not ensured that its employees were following the guidelines for rejecting transcript requests for taxpayers with identify theft markers. As a result, there is a risk of unauthorized disclosure of taxpayer information to unscrupulous individuals.

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<sup>12</sup> Employer Identification Number requests, U.S. Department of Agriculture Certification Forms, U.S. Residency Certifications, and Return Integrity Compliance Services.

<sup>13</sup> TIGTA, Report No. 2021-45-017, *Additional Security Processes Are Needed to Prevent Unauthorized Release of Tax Information Through the Income Verification Express Service Program* (Feb. 2021).

**Recommendation 13:** The Commissioner, Wage and Investment Division, should develop a process to ensure that transcript requests for victims of identity theft are not processed erroneously. These processes should include systemic tools to prevent employees from processing the requests. In addition, the processes should continually identify and address tax examiners processing the transcript requests erroneously.

**Management's Response:** Management agreed with the recommendation and will evaluate the feasibility of developing a systemic process to prevent employees from erroneously processing transcript requests for victims of identity theft.

### **Management needs to decide whether or not to allow nonlending participants into the IVES Program**

As of July 2022, there were 282 participant applications being held by IVES analysts pending a policy decision from IRS management regarding allowing additional nonlending participants (*e.g.*, tax preparation companies, attorneys, and background check companies) into the IVES Program. Although nonlending participants had previously been admitted to the IVES Program, IRS management recently cited concerns with admitting large nonlending participants (*e.g.*, tax preparation companies) due to the expected significant increase in transcript request volumes. As such, the IVES Program requested a policy decision from IRS management on May 19, 2021. Many of these 282 applicants have been waiting for a response to their application for over a year, with no information or communication being given by the IRS.

On June 14, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns that applications from nonlending participants have been held for more than a year pending a policy decision. We recommended that a decision be made so that, if these participants were allowed, they could begin testing and building their systems to interact with the new modernized IVES system that became effective in January 2023. As of September 30, 2022, no decision had been reached.

**Recommendation 14:** The Commissioner, Wage and Investment Division, should make a decision within six months on whether or not to allow additional nonlending participants into the IVES Program.

**Management's Response:** Management agreed with the recommendation and will make a policy decision regarding participation of nonlending participants in the IVES program by June 2023.

## **Appendix I**

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

Our overall objective was to follow up on prior audit recommendations, assess the adequacy of IVES modernization efforts, and assess compliance with TFA provisions. To accomplish our objectives, we:

- Determined whether the IRS implemented prior TIGTA audit recommendations of the IVES Program.
- Determined whether modernization or improvements were needed to the IVES participant application process by reviewing the procedures by which organizations are admitted to the IVES Program, reviewing public guidance provided to prospective IVES Program applicants, and assessing IRS policies related to eligibility requirements for the IVES Program.
- Determined whether improvements or modernization of IVES transcript requests were needed by reviewing the procedures by which transcript requests are processed as well as assessing the systemic controls of the new inventory management system.
- Determined whether IVES modernization efforts were in compliance with TFA provisions by reviewing capabilities of the modernized IVES system as well as assessing the IRS's collection and spending of IVES modernization funds.

#### **Performance of This Review**

This review was performed at IVES sites located in Kansas City, Missouri; Austin, Texas; and Ogden, Utah, and with IT organization personnel located in Lanham, Maryland, during the period February through August 2022. 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 P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services); Diana M. Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services); Linna K. Hung, Director; Jeffrey D. Cullum, Audit Manager; Michael F. Shugrue, Lead Auditor; and Ian B. Maloney, Auditor.

#### **Validity and Reliability of Data From Computer-Based Systems**

We performed tests to assess the reliability of data extracts received from the Individual Master File, the Transcript Delivery System, and the Office of Online Services. We evaluated the data by performing electronic testing of required data elements and reviewing existing information about the data. In addition, we selected data from each extract and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System. 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: the IRS's policies and procedures to ensure compliance with the TFA and the IRS process for authentication of taxpayer signatures on transcript request forms. We evaluated these controls by reviewing the concept documents for the design of the modernized IVES system, meeting with IRS management, reviewing the IRM, and reviewing relevant documentation provided by the IRS.

## **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 – Potential; 2,694,995 business taxpayers will not have the option for their transcript requests to be processed via the modernized system (see Recommendation 7).

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

We estimated how many business transcripts would not be processed through the new, modernized IVES system, which has enhanced authentication controls, from January 2023 to July 2023. These transcripts did not have the option to be processed via the modernized IVES system in January 2023, and this will not be available until at least July 2023 (at least six months).

During CY 2021, 17,966,632 transcript requests were processed. The IRS estimates that 30 percent of these transcripts were business transcripts, which is 5,389,990 transcripts. Our methodology involved the following calculation: 5,389,990 business transcripts from CY 2021 x 0.50 (six months divided by 12 months) = 2,694,995 potential business transcripts for CY 2023 without the option to use a system with adequate authentication controls, putting taxpayer information at risk of being disclosed improperly.

### **Type and Value of Outcome Measure:**

- Taxpayer Privacy and Security – Potential; 6,012 taxpayers with identity theft markers on their accounts who had transcripts improperly issued by the IRS in Processing Year 2021 (see Recommendation 13).

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

We analyzed the tax accounts for 3,979,400 individual taxpayers who had IVES transcript requests processed in Processing Year 2021. We applied the same IRM criteria for rejecting specific types of transcript requests when certain identity theft markers are present on the taxpayers' accounts. Our analysis identified 7,619 transcripts improperly issued for 6,012 taxpayers because the taxpayers' account had an identity theft marker that should have prevented issuance of the transcript.

Management's Response to the Draft Report



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

February 1, 2023

MEMORANDUM FOR HEATHER M. HILL  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Kenneth C. Corbin   
Commissioner, Wage and Investment Division

Digitally signed by Kenneth C.  
Corbin  
Date: 2023.02.02 11:09:33 -05'00'

SUBJECT:

Draft Audit Report – Additional Actions Are Needed to Improve  
and Secure the Income Verification Express Service Program  
(Audit #202240510)

Thank you for the opportunity to review and provide comments on the subject draft report. The Income Verification Express Service (IVES) program is used by mortgage lenders and others within the financial community to confirm the income of a borrower during the processing of a loan application. The IRS provides transcripts of tax returns Form W-2, *Wage and Tax Statement*, and Form 1099 series transcript information, generally within approximately 2-3 business days, to a third party with the consent of the taxpayer. The transcript information is delivered to a secure mailbox. A \$2.00 fee is imposed on each transcript requested. As of November 3, 2022, there were 669 certified participants in the IVES program.

Two new components of the program, the IVES Application Program Interface (API) and the Web-based User Interface (WebUI) digital environment, were deployed in January 2023. With the IVES API, high-volume program participants will have the ability to interface with the IVES system, using their own software, to directly transmit their transcript requests. Technical specifications have been shared with the user community and we expect the volume of requests submitted through this process will gradually increase as program participants complete development of their software. The WebUI is a secure Internet-based service that permits participants to submit requests directly to the IVES program online. Both the IVES API and the WebUI were developed in response to provisions of the Taxpayer First Act (TFA)<sup>1</sup>. With the planned implementation of the business tax component in mid-2023, the IVES program will offer the functionality of direct electronic access envisioned by the TFA.

<sup>1</sup> Pub. L. 116–25, July 1, 2019.

**Additional Actions Are Needed to Improve and  
Secure the Income Verification Express Service Program**

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We are excited to be moving the IVES program into a more fully integrated digital environment. Great strides have been made in the last two years in moving the program from paper-based to electronic processing. By leveraging the Electronic File Storage system, initially developed as an inventory management tool for use by the Centralized Authorization File program, the IVES program began processing faxed transcript receipts exclusively as digital records. This eliminated the need to print 33 million pages annually and permitted the three Submission Processing Centers to combine three inventory streams into one and work it in first-in, first-out order. Managing and working the IVES transcript requests electronically helped the program recover from a backlog of inventory that had accumulated as a result of campus closures during the pandemic. As of December 31, 2022, the IVES inventory had been reduced from more than one-half million applications in process at the beginning of the year to less than 35,000, with a response timeframe of two to three days.

Our responses to your specific recommendations are enclosed. If you have any questions, please contact me, or a member of your staff may contact Dietra D. Grant, Director, Customer Account Services, at 470-639-3504.

Attachment

**Additional Actions Are Needed to Improve and  
Secure the Income Verification Express Service Program**

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Attachment

**Recommendations**

**RECOMMENDATION 1 (E-MAIL ALERT)**

The IVES Program is authorized to have 14 analysts and one manager to oversee the program. However, for most of CY 2021, there were only five analysts assigned to support the IVES Program, and one of the analysts was serving as the temporary manager. On April 22, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns with continued staffing shortages. We recommended that IRS management cancel or permanently reassign the two individuals on long-term details to other IRS functions and obtain funding to add additional analysts, as needed, for the IVES Program to be fully and permanently staffed.

**CORRECTIVE ACTION**

As of August 14, 2022, the Income Verification Express Services (IVES) Program Office was fully staffed with 15 permanent and long-term detailed employees.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 2 (E-MAIL ALERT)**

On February 17, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns with participant applications not being timely processed. IVES Program guidelines require that applications to participate in the IVES Program be processed by the IVES Headquarters office. However, we found procedures to process IVES applications were inefficient and undocumented. For example, procedures did not ensure that the IVES sites were doing preliminary checks of the participant applications to determine if they were accurately completed (e.g., ensuring that a signature was present) and there were no measurable goals or policies for completing the applications in a timely manner. We recommended that IRS management immediately determine the backlog of participant applications and develop a plan to address the backlog of applications.

**CORRECTIVE ACTION**

We assessed the inventory of program applications awaiting processing and assigned the appropriate resources to resolve it. The applications inventory became current on May 13, 2022.

**Additional Actions Are Needed to Improve and  
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**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 3 (E-MAIL ALERT)**

On February 17, 2022, we recommended that the Director, Submission Processing, Wage and Investment Division, develop a plan to centralize the processing of all participant applications. In the interim, we recommended that management ensure that IVES coordinators at each site begin performing minimum checks upon receipt of the application to avoid unnecessary delays in processing.

**CORRECTIVE ACTION**

Internal Revenue Manual (IRM) 3.5.20, *Processing Requests for Tax Return/Return Information*, was updated on May 25, 2022, instructing the IVES coordinators to conduct initial completeness review checks prior to routing participant applications to the headquarters staff.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 4 (E-MAIL ALERT)**

On February 17, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns with the lack of metrics/goals for processing participant applications. We recommended that IRS management update its internal guidance with this information.

**CORRECTIVE ACTION**

New procedures have been drafted and added to the filing season 2023 IRM 3.5.20, *Processing Requests for Tax Return/Return Information* which published on January 1, 2023.

**Additional Actions Are Needed to Improve and  
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3

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 5 (E-MAIL ALERT)**

On April 22, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns with a lack of authentication of taxpayer identity within the IVES Program. IVES analysts are responsible for reviewing submissions by IVES participants on their continued compliance with IVES Program e-signature policies and procedures. IVES analysts review the submission for sufficiency of the audit and independence of the auditor. We found that reviews of IVES participant compliance with e-signature policies were largely not conducted. As such, IVES participants that did not submit their required report did not have their access to the e-signature program revoked. This increases the risk that IVES participants may be more non-compliant with IVES Program policies regarding authentication and validation of taxpayer identity. We recommended that management implement a system for revocation and notification of participants if an IVES analyst reviews the results of the participant's independent audit of their e-signature system and deems the audit results or the system to be insufficient.

**CORRECTIVE ACTION**

Upon completion of our quality review, the E-signature participants were issued determination letters summarizing the findings. The letters ranged from passing with no errors, passing with minimal errors, warning letters for defects to be cured, and letters advising of termination from the program. Additionally, we updated procedures in IRM 3.5.20.4.2.3.3 (1) (b), *Signature Authority for Tax Return Information*, on August 15, 2022, to reinforce that those requests not submitted by approved E-Signature participants are to be rejected.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

N/A

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Secure the Income Verification Express Service Program**

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**RECOMMENDATION 6 (E-MAIL ALERT)**

In March 2022, we notified IRS management of our concern that information on its website needed to be updated. For example, the forms used to apply to the IVES Program and submit transcript requests were outdated, the website did not reflect recent changes that were made to the IVES Program (e.g., the closure of the Fresno Tax Processing Center), and there was no information related to the compliance requirements for the IVES Program. We recommended that management review and update public information on IRS.gov and ensure that information is available to prospective IVES applicants on the requirements of participants, such as compliance reviews and required e signature audits.

**CORRECTIVE ACTION**

The IRS.gov landing page was updated on August 31, 2022, to include IVES program requirements for participants with the final publishing of Form 13803, *Application to Participate in the Income Verification Express Service (IVES) Program*.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 7**

The Chief Information Officer should ensure that the business transcript request capability is implemented as soon after the January 2023 legislative deadline as possible

**CORRECTIVE ACTION**

We will ensure that the business transcript request capability is implemented by July 2023.

**IMPLEMENTATION DATE**

September 30, 2023

**RESPONSIBLE OFFICIAL**

Director, Web Applications, Enterprise Program Management Office, Information Technology

**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 8**

Ensure to complete a usage study and document a decision regarding if the IRS will mandate that participants use the TFA IVES system.

**CORRECTIVE ACTION**

We will perform a study on IVES participation and taxpayers' adoption of the online account access. The design specifications were supplied by our Information Technology organization on November 21, 2022, to the IVES participants. Those IVES participants interested in using the Taxpayer First Act (TFA) IVES system require six months or longer to build the software and process flows necessary to interact with it. Smaller IVES participants may require additional time to contract with developers to build needed software. We will begin collecting data for the study in January 2024 and will develop a policy decision by January 15, 2025.

**IMPLEMENTATION DATE**

February 15, 2025

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 9**

Implement controls that will sufficiently and adequately authenticate all transcript requests received via e-fax. For example, require notarization of a taxpayer's signature.

**CORRECTIVE ACTION**

Transcript requests do not pose a higher risk than similar signed submissions of returns, statements or documents. Current controls fulfill the requirements for valid consent under Internal Revenue Code § 6103 and adhere to IRS signature authentication standards.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 10**

Implement processes that would notify taxpayers that a transcript request form had been processed, giving the taxpayer an opportunity to quickly identify potential unauthorized access of their tax return data. For example, the IRS could systematically send a copy of the transcript request form to the last known address of the taxpayer, allowing the taxpayer to verify their signature.

**CORRECTIVE ACTION**

Implementing a secondary confirmation of taxpayer intent would cause significant delays in responding to time-sensitive requests. Our goal is to process transcript requests within a 65 to 72 hour timeframe from receipt. Separate confirmations could cause unnecessary burden to taxpayers whose mortgage or other application processing dependent on transcript information could be delayed. Sending an unsolicited communication to the last known address could create an additional risk of disclosure of taxpayer information.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 11**

The Commissioner, Wage and Investment Division, should assess the risk of providing additional information to both the participants and taxpayers during the transcript request process. The IRS should use the risk assessment to update its communications to the participants and taxpayers through the new IVES system.

**CORRECTIVE ACTION**

To address potential risks of fraud in the new IVES Application Program Interface and Web-based User Interface digital environment, the IRS will be sending a new series of notices with a less-detailed explanations of the causes for rejection. Providing

**Additional Actions Are Needed to Improve and  
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additional information to the IVES participants could increase the risk of fraud against the system. The validations that the IRS has in place are designed to prevent the unauthorized release of transcript information.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 12**

The Chief Information Officer should assign a single point of contact responsibility for addressing and resolving future EFS outages, including providing service that corresponds to its customers' work hours.

**CORRECTIVE ACTION**

The IRS has identified User and Network Services (UNS) function as the single point of contact responsibility for addressing and resolving future Enterprise File Storage (EFS) outages, including providing service that corresponds to its customers' work hours. The UNS function will initiate and provide adequate direction with key stakeholders to have EFS added to the Premium Service List.

**IMPLEMENTATION DATE**

August 15, 2023

**RESPONSIBLE OFFICIAL**

Associate Chief Information Officer, User & Network Services, Information Technology

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 13**

The Commissioner, Wage and Investment Division, should develop a process to ensure that transcript requests for victims of identity theft are not processed erroneously. These processes should include systemic tools to prevent employees from processing the requests. In addition, the processes should continually identify and address tax examiners processing the transcript requests erroneously.

**Additional Actions Are Needed to Improve and  
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**CORRECTIVE ACTION**

The IRS will evaluate the feasibility of developing a systemic process to prevent employees erroneously processing transcript requests for victims of identity theft.

**IMPLEMENTATION DATE**

August 15, 2023

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 14**

The Commissioner, Wage and Investment Division should make a decision within six months on whether or not to allow additional nonlending participants into the IVES Program.

**CORRECTIVE ACTION**

We will make a policy decision regarding participation of non-lending participants into the IVES program by June 2023.

**IMPLEMENTATION DATE**

July 15, 2023

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

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

**Glossary of Terms**

<b>Term</b>	<b>Definition</b>
Enterprise Document Management Platform	A common document management platform to support existing IRS records management programs, such as the EFS.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
Fiscal Year	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.
Individual Master File	The IRS database that maintains transactions or records of individual tax account
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Manual	The primary, official source of IRS instructions to staff related to the organization, administration, and operation of the IRS.
IVES Working Group	The IVES working group is comprised of leading companies providing IVES processing to the lending industry, which includes some IVES participants and other industry partners.
Office of Online Services	The IRS function responsible for improvements to the tax experience and consistent enterprise-wide web service options.
Processing Year	The calendar year in which the tax return or document is processed by the IRS.
Qualified Disclosure	A disclosure made by the IRS to a person seeking to verify the income or creditworthiness of a taxpayer who is a borrower in the process of a loan application.
Transcript Delivery System	The application used by the IRS to generate tax transcripts.

**Abbreviations**

CY	Calendar Year
e-Fax	Electronic Fax (Facsimile)
e-Sign	Electronically Sign
e-Signature	Electronic Signature
EFS	Enterprise File Storage
FY	Fiscal Year
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IT	Information Technology
IVES	Income Verification Express Service
TFA	Taxpayer First Act
TIGTA	Treasury Inspector General for Tax Administration



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**By Web:**

[www.treasury.gov/tigta/](http://www.treasury.gov/tigta/)

**Or Write:**

Treasury Inspector General for Tax Administration

P.O. Box 23291

Washington, D.C. 20026

Information you provide is confidential, and you may remain anonymous.