



January 2017

2016 FILING SEASON

IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds

GAO Highlights

Highlights of [GAO-17-186](#), a report to congressional requesters

Why GAO Did This Study

GAO was asked to review IRS's 2016 filing season. This report assesses, among other things, how well IRS provided service to taxpayers compared to its performance in prior years, and its efforts to improve service for IDT victims, including selected internal control processes.

GAO analyzed IRS documents and data for fiscal years 2011 through 2016 and reviewed 16 randomly selected IDT cases open or closed during a 10-month period in 2015 and 2016. GAO also conducted 5 discussion groups with 15 IRS assistors and 13 managers who handle IDT cases, and interviewed IRS officials and external stakeholders, such as representatives from the tax preparation industry. The results of the case studies and discussion groups are not generalizable. GAO compared IRS actions to federal standards for evaluating performance and internal control.

What GAO Recommends

GAO recommends IRS display customer service standards and performance online; review its retrieval and scanning processes; improve existing data or collect new data to monitor how and why assistors release refunds before closing an IDT or duplicate return case; and revise its notices to IDT victims.

IRS disagreed with GAO's recommendation to improve data for monitoring refund releases, stating that the problem is not widespread and current processes are sufficient. GAO maintains that the data IRS uses are not sufficient to make such a determination. IRS agreed with the remaining three recommendations.

View [GAO-17-186](#). For more information, contact Jessica Lucas-Judy at (202) 512-9110 or lucasjudj@gao.gov.

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What GAO Found

The Internal Revenue Service (IRS) provided better telephone service to callers during the 2016 filing season—generally between January and mid-April—compared to 2015. However, its performance during the full fiscal year remained low. IRS does not make this nor other types of customer service information easily available to taxpayers, such as in an online dashboard. Without easily accessible information, taxpayers are not well informed on what to expect when requesting services from IRS.

IRS has improved aspects of service for victims of identity theft (IDT) refund fraud. However, inefficiencies contribute to delays, and potentially weak internal controls may lead to the release of fraudulent refunds. In turn, this limits IRS's ability to serve taxpayers and protect federal dollars. While IRS has reduced its backlog of IDT cases and formed a team to improve its handling of these cases, GAO has identified areas for potential improvement. Specifically:

- File retrieval and scanning processes contributed to delays and unnecessary requests for documents. For example, in 2 of 16 cases, resolution was delayed by at least 1 month while an assistor waited for another unit to retrieve and scan documents into IRS's system. In one of those cases, plus one other, the document request was unnecessary because the assistor closed the case without the document. Inefficient processes and unnecessary requests to retrieve and scan documents can delay case resolution and refunds to the legitimate taxpayer.
- Potential weaknesses in IRS's internal control processes could lead to IRS paying refunds to fraudsters. In discussion groups with GAO, IRS assistors and managers said some assistors may release refunds even if indicators on the account show that the tax return is under review for IDT, or two returns have been filed for that taxpayer. Some participants said assistors answering telephone calls can release these holds because they do not understand the codes on the taxpayer's account. IRS officials said that these errors are not widespread and provided data to support their position. However, GAO identified weaknesses in those data, which IRS officials acknowledged. In response to this report, in January 2017 officials provided another analysis of IRS data that they said showed this type of error does occur but may not be as widespread as staff and managers suggested. GAO will continue to work with IRS to determine if these additional data are sufficient to address its recommendation.
- IRS does not notify taxpayers when a dependent's identity appears on a fraudulent return. According to IRS officials, the agency does not consider a dependent to be a victim if his or her Social Security number had been used as a dependent on a fraudulent return. However, IRS has previously provided guidance to taxpayers when a dependent was a victim of identity theft. After one data breach in 2015, IRS notified taxpayers and provided information on actions that parents could take to protect a minor's identity when their dependents were also victims. By not notifying taxpayers that their dependents' information may have been used to commit fraud, IRS is limiting taxpayers' ability to take action to protect their dependents' identity.

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Abbreviations

CAP	cross-agency priority
DCI	data collection instrument
e-filed	electronically-filed
FTE	full-time equivalent
FY	fiscal year
GPRA	Government Performance and Results Act
GPRAMA	GPRA Modernization Act
IDT	identity theft
IP PIN	Identity Protection Personal Identification Number
ITIN	Individual Taxpayer Identification Number
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PII	personally identifiable information
PIN	Personal Identification Number
PPACA	Patient Protection and Affordable Care Act
PTC	Premium Tax Credit
SSN	Social Security number
Treasury	Department of the Treasury

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January 31, 2017

Congressional Requesters

In recent years, the Internal Revenue Service (IRS) has experienced declining resources and an increased workload. This has raised concerns over the agency's ability to provide service to taxpayers. For example, in 2015, we reported that IRS provided the lowest level of telephone service during fiscal year 2015 compared to prior years. Callers experienced long wait times and only 38 percent of callers who wanted to speak with an IRS assistor reached one.¹ The severe decline in service highlights the challenges of managing IRS's operations and underscores the importance of IRS making tough decisions to improve service. Maintaining quality customer service is important because it helps taxpayers comply with the tax code.

IRS also has been confronted with the growing problem of identity theft (IDT) refund fraud over the past several years. IDT refund fraud occurs when a fraudster obtains an individual's Social Security number (SSN), date of birth, or other personally identifiable information (PII), and uses it to file a fraudulent tax return seeking a refund.² This crime is an evolving and costly problem that causes hardship for legitimate taxpayers who are victimized, and demands an increasing amount of IRS resources. IDT refund fraud burdens honest taxpayers because authenticating their identities is likely to delay the processing of their returns and refunds in those cases where a legitimate refund is due. Given current and emerging risks, in 2015, we expanded our high-risk area on the enforcement of tax laws to include IRS's efforts to address IDT refund fraud.³ IRS estimates that at least \$14.59 billion in IDT tax refund fraud

¹For more information, see GAO, *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies*, [GAO-16-151](#) (Washington, D.C.: Dec. 16, 2015) and GAO's Key Issues web page on tax administration, http://www.gao.gov/key_issues/tax_administration/issue_summary.

²This report discusses IDT refund fraud and not employment fraud. IDT employment fraud occurs when an identity thief uses a taxpayer's name and Social Security number to obtain a job.

³See GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

was attempted in calendar year 2015 of which it prevented at least \$12.35 billion (85 percent), but at least \$2.24 billion (15 percent) was paid.⁴

You asked us to review IRS's 2016 filing season. This report assesses (1) how well IRS provided customer service compared to its performance in prior years and describes what is known about the cost of calls on selected IRS telephone lines; (2) how well IRS processed individual income tax returns compared to its performance in prior years; and (3) IRS's efforts to improve customer service for IDT victims, including selected internal control processes.

To conduct this work, we obtained and analyzed IRS documents and data for fiscal years 2011 through 2016. We chose these years to identify trends and anomalies over a 6-year period. We interviewed IRS officials and external stakeholders, such as representatives from the tax preparation industry who represent companies that prepare millions of tax returns or organizations that frequently interact with IRS on key aspects of the filing season. We also collected and reviewed relevant documentation from IRS officials to evaluate IRS's actions to implement selected prior recommendations. Additionally, we conducted a file review of 16 IDT cases at an IRS facility in Atlanta where some assistors who handle IDT cases work and where IRS's Wage and Investment Division is located, which plays a key role in IDT prevention and case management. We identified these cases by using stratified random sampling from an IRS-provided list of all IDT cases either open or closed during a 10-month period spanning 2015 and 2016. We designed the selection process to include cases with varied statuses, and drew them from three groups—open cases, short cases, and long cases.⁵ For each case type category, we oversampled to account for cases where the case had recently closed and to be able to select cases with refund interest. We sent a list of the IDT cases we selected to IRS officials with instructions about the order in which they should pull files for our review. During our file review, we verified the steps included in our instructions to ensure that IRS officials completed our instructions accurately. In addition, to identify participants we asked IRS to locate assistors and managers who are involved in resolving IDT cases in Atlanta and Kansas City, Missouri, two of eight

⁴Because of the difficulties in estimating the amount of undetectable fraud, the actual amount could differ from these estimates. See GAO, *Financial Audit: IRS's Fiscal Years 2016 and 2015 Financial Statements*, [GAO-17-140](#) (Washington, D.C.: Nov. 10, 2016).

⁵IRS has reported that a typical IDT case could take 120 days to resolve, so we used this length of time as a threshold for separating short and long cases.

locations where IRS works IDT cases. We divided them into five different discussion groups to obtain their perspectives on how IRS can more efficiently provide customer service to IDT victims. The findings from the file review and discussion groups cannot be generalized to all IDT cases or the perspectives of all IDT caseworkers.⁶

To evaluate IRS's efforts to improve customer service, we identified federal standards for evaluating performance under the Government Performance and Results Act (GPRA) Modernization Act and relevant customer service-related Executive Orders, Presidential Memorandums, and Office of Management and Budget (OMB) guidance, as well as internal control standards, and compared IRS actions to those standards.⁷ We assessed the reliability of the data we report by reviewing IRS reports for each of the areas in our review, such as multiple key telephone service reports, reports on return processing and refunds, and reports on IDT inventory. We examined the data in the reports to identify obvious errors or outliers, or potential data limitations that would affect how we use the data, and found no such problems. We also reviewed IRS's responses to our questions on the reliability of data included in this report. We determined that the data presented in this report are sufficiently reliable for the purposes of our reporting objectives. More information on our scope and methodology can be found in appendix I.

We conducted this performance audit from January 2016 to January 2017 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁶While our objectives focus on the 2016 filing season, which generally takes place from January through mid-April, we report IRS data for the fiscal year, unless otherwise indicated. IRS continues customer service and processing operations year round on a smaller scale than during the filing season.

⁷The GPRA Modernization Act is more commonly known as GPRAMA. Pub. L. No. 111-352, § 3, 124 Stat. 3866, 3867-71 (Jan. 4, 2011), 31 U.S.C. § 1115(b)(6). We detail specific Executive Orders, Presidential Memorandums, and OMB guidance in appendix I. GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

Background

Customer Service and Tax Return Processing

IRS uses multiple channels to provide customer service to taxpayers and process tax returns:

Telephone service: Taxpayers can speak with IRS assistors to obtain information about their accounts throughout the year or to ask basic tax law questions during the filing season. Taxpayers can also listen to recorded tax information or use automated services to obtain information on the status of refund processing as well as account information such as balances due. Since fiscal year 2011, IRS has received an average of about 116 million calls from taxpayers each year. In 2015, we reported that IRS's telephone service had continued to deteriorate from prior years and we suggested Congress require the Secretary of the Treasury to develop a comprehensive customer service strategy.⁸

Correspondence: Taxpayers may also use paper correspondence to communicate with IRS, which includes responding to IRS requests for information or data, providing additional information, or disputing a notice. IRS assistors respond to taxpayer inquiries on a variety of tax law and procedural questions, and handle complex account adjustments such as amended returns and duplicate filings. IRS tries to respond to paper correspondence within 45 days of receipt; otherwise, such correspondence is considered "overage." Last year, we reported that about half of the 19 million pieces of correspondence IRS received was overage.⁹ Minimizing overage correspondence is important because delayed responses may prompt taxpayers to write again, call, or visit walk-in sites. IRS then would be required to pay interest on refunds owed to taxpayers if it did not process amended returns within 45 days.

Online services: IRS's website is a low-cost method for providing taxpayers with basic interactive tools to, for example, check refund status, make payments, and apply for plans to pay taxes due in scheduled payments (installment agreements). Taxpayers can use the website to print forms, publications, and instructions, and can use IRS's interactive

⁸[GAO-16-151](#). We discuss the status of this suggestion to Congress later in this report.

⁹[GAO-16-151](#).

tools to get answers to tax law questions without calling or writing to IRS. Total visits to IRS's website in fiscal year 2016 were about 500 million.

Face-to-face assistance: Face-to-face assistance remains an important part of IRS's service efforts, particularly for low-income taxpayers. Taxpayers can receive face-to-face assistance at IRS's walk-in sites or at thousands of sites staffed by volunteer partners during the filing season. At walk-in sites, IRS staff provide services including answering basic tax law questions, reviewing and adjusting taxpayer accounts, taking payments, authenticating Individual Taxpayer Identification Number applicants, and assisting IDT victims. At sites staffed by volunteers, taxpayers can receive free return preparation assistance as well as financial literacy information. Nearly 4.5 million taxpayers visited an IRS walk-in site in fiscal year 2016.

Tax return processing: Every year since 2011, IRS has processed more than 140 million paper and electronically-filed (e-filed) returns and approximately \$300 billion in refunds.¹⁰ When IRS processes returns, it checks for errors and corrects those that it can. If needed, IRS corresponds by mail with the taxpayer to request additional information, such as a missing form or other documentation. IRS expends significant resources correcting errors. The process can affect how long it takes IRS to issue refunds.

IRS Budget

IRS's fiscal year 2016 appropriation was \$11.24 billion. This is about \$900 million (7 percent) less than its fiscal year 2011 appropriation of \$12.12 billion. The change in appropriation varied significantly by appropriation account. Specifically, IRS's Taxpayer Services account—used to fund taxpayer service activities and programs—increased about 2 percent from \$2.29 billion to \$2.33 billion between fiscal years 2011 and 2016.¹¹ In contrast, the Enforcement account decreased about 11 percent (about \$620 million) from \$5.49 billion to \$4.87 billion between fiscal years 2011 and 2016. IRS's fiscal year 2016 appropriation included a \$290 million increase over fiscal year 2015, which IRS was directed to

¹⁰Most taxpayers file their tax returns between mid-January and April 15, which is the deadline for filing individual income tax returns. However, millions of taxpayers receive extensions from IRS, which allows them to delay filing (but not payment) until as late as October 15.

¹¹For additional information about IRS's budget, see GAO, *IRS 2017 Budget: IRS Could Improve Presentation of Budget Data in Its Congressional Justification*, [GAO-16-695](#) (Washington, D.C.: July 21, 2016).

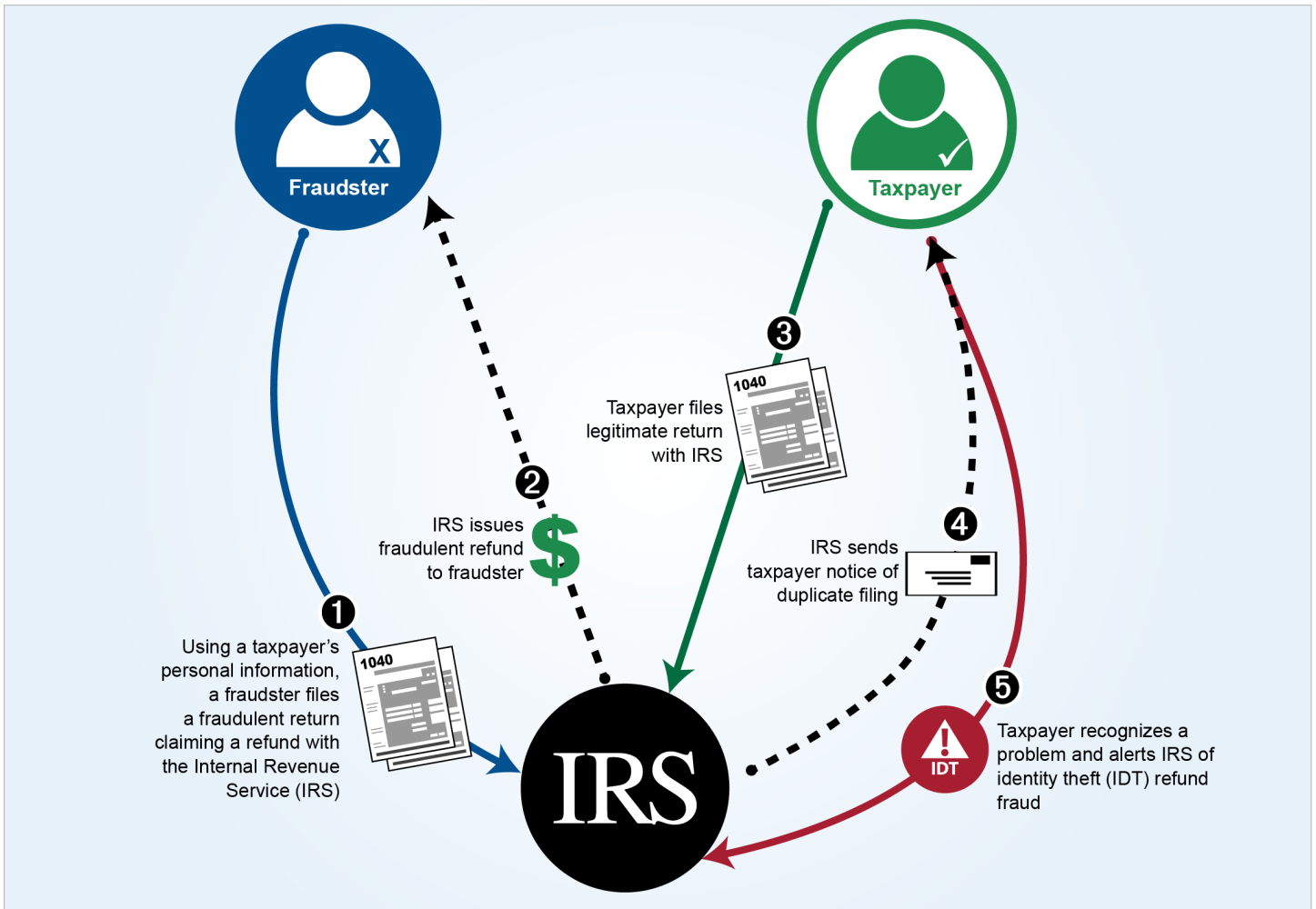
allocate to improve taxpayer services (\$178.4 million), cybersecurity (\$95.4 million), and IDT prevention (\$16.1 million). In addition to annually appropriated resources, IRS has permanent, indefinite authority to obligate user fee collections, which allows the agency flexibility in the use of these funds.¹² The amounts that IRS has obligated in user fee funds from the Taxpayer Services account has varied considerably in the last 3 years, from \$183 million in fiscal year 2014 to \$45 million in fiscal year 2015 to \$70 million in fiscal year 2016 (down from a planned \$103 million).

IDT Refund Fraud

Viewed broadly, IDT refund fraud is composed of two crimes: (1) the theft or compromise of PII, and (2) the use of stolen (or otherwise compromised) PII to file a fraudulent tax return and collect a fraudulent refund. Figure 1 presents an example of how fraudsters may use stolen PII and other information, real or fictitious (e.g., sources and amounts of income), to complete and file a fraudulent tax return and successfully receive a refund. In this example, a taxpayer may alert IRS of IDT refund fraud. Alternatively, IRS can detect IDT refund fraud through its automated filters that search for specific characteristics as well as through other reviews of taxpayer returns. In October 2015, IRS formed an IDT reengineering team that is focused on improving the taxpayer experience for victims of IDT.

¹²Federal agencies may assess a fee to users when providing goods and services. These fees are referred to as user fees. While IRS does not need congressional approval of its user fee spending plan, it must obtain approval from the Department of the Treasury and the Office of Management and Budget. For fiscal year 2016, IRS was directed to wait 30 days following the submission of the user fee spending plan before obligating these funds. 161 Cong. Rec. H10135-36 (Dec. 17, 2015).

Figure 1: Example of a Successful Identity Theft Refund Fraud Attempt



Source: GAO analysis. | GAO-17-186

IRS Improved Telephone Service Compared to Last Year, but Does Not Make Customer Service Information Easily Available

Telephone Service Significantly Improved This Filing Season, but Improved Less during the Fiscal Year

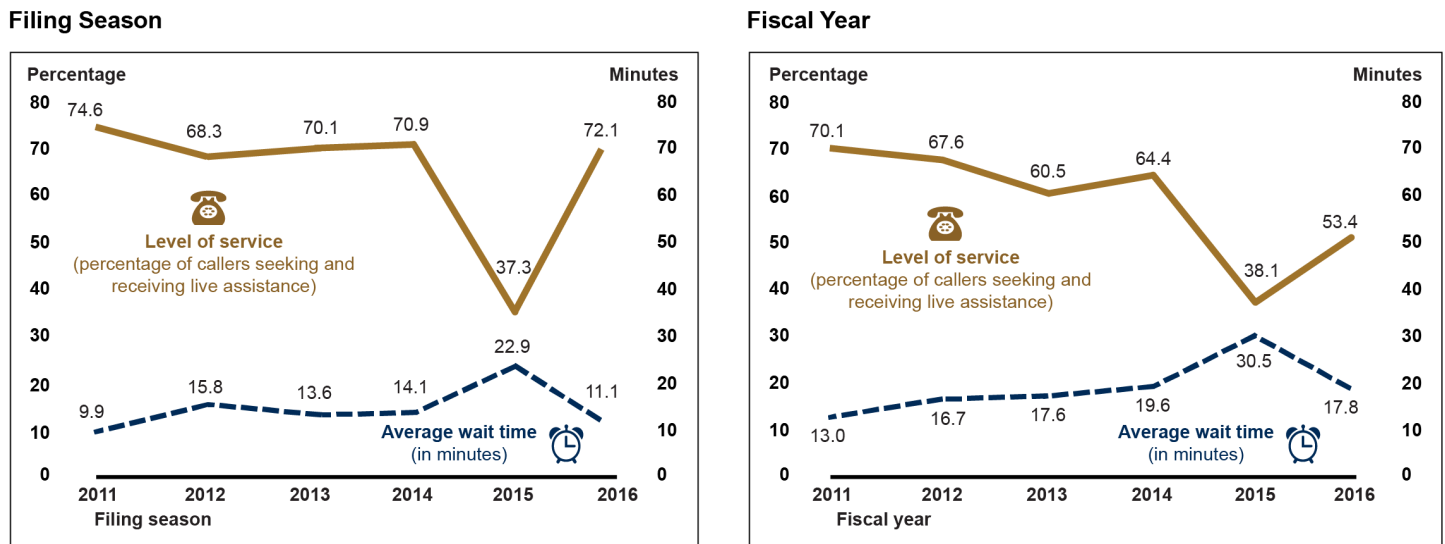
IRS improved its telephone level of service—which is defined as the percentage of people who want to speak with an assistor and were able to reach one—from 37 percent during the 2015 filing season to 72 percent during the 2016 filing season (7 percentage points higher than forecast).¹³ This was the highest level of service reached during this time since 2011. As it has historically done, IRS reduced the level of service before and after the filing season, which IRS officials explained was to increase IRS’s attention to customer service in others areas, such as responding to taxpayer correspondence.

During the 2016 filing season, taxpayers waited an average of about 11 minutes to speak to an assistor, which was substantially better than IRS expected. By comparison, during the fiscal year, callers waited an average of about 18 minutes, which was an improvement over last year and better than IRS had expected this year. Figure 2 shows that IRS provided a better level of service and shorter average wait time to speak to an assistor during the 2016 filing season compared to the fiscal year.¹⁴

¹³The filing season generally takes place between January and mid-April.

¹⁴The exception is for 2015 when the level of service was less than 1 percent better during the fiscal year than the filing season.

Figure 2: IRS Has Historically Provided Better Telephone Service during the Filing Season than the Full Fiscal Year



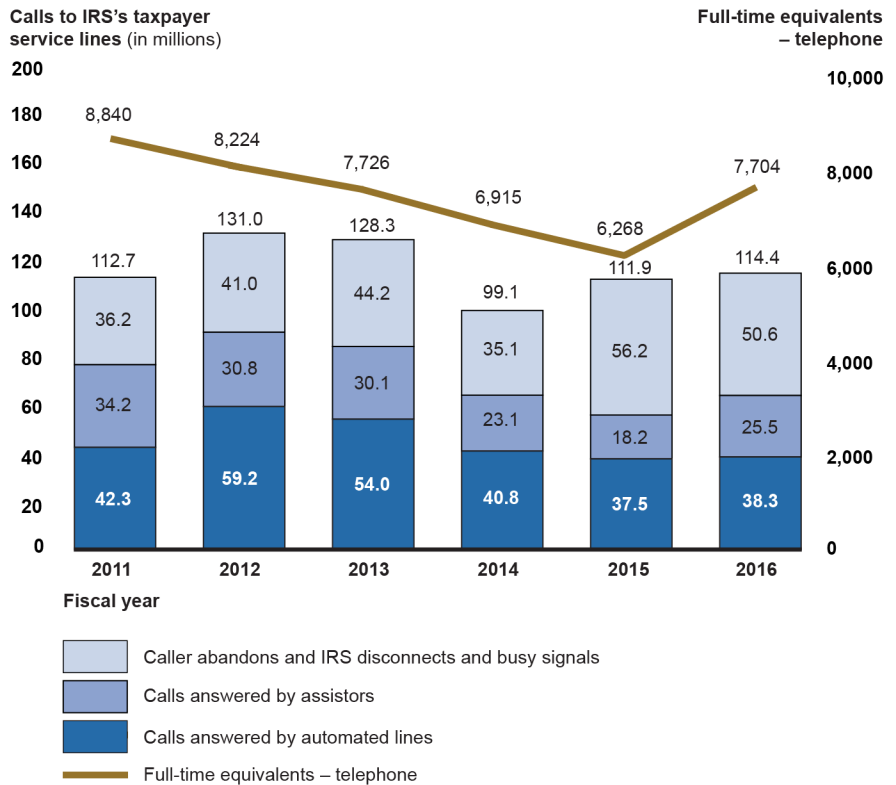
Source: GAO analysis of IRS data. | GAO-17-186

Note: Filing season data are cumulative from January 1 of each year to April 23, 2011; April 21, 2012; April 20, 2013; April 19, 2014; April 18, 2015; and April 23, 2016. Fiscal year data are between October 1 and September 30 of each year. Level of service and wait time can be affected by multiple factors including the number of assistors available to answer telephone calls and total calls received, both of which vary each year.

Compared to last year, total call volume increased about 2 percent to slightly more than 114 million calls. At the same time, IRS increased the number of full-time equivalents (FTE) answering phone calls by about 23 percent (which includes about 250 FTEs from its Identity Theft Victims Assistance unit) and assistors answered about 40 percent (or 7.3 million) more calls from taxpayers.¹⁵ Total calls where taxpayers abandoned the call, were disconnected, or received a busy signal declined by about 10 percent (from 56.2 million in 2015 to 50.6 million in 2016).

¹⁵FTEs represent the total number of hours worked based on IRS payroll data divided by the number of compensable hours applicable to each fiscal year. For example, in fiscal year 2016 there were 2096 compensable hours.

Figure 3: IRS's Ability to Answer Telephone Calls Improved Compared to Last Year, but Remains Lower than Prior Years



Source: GAO analysis of IRS data. | GAO-17-186

IRS officials attributed many of these improvements to additional appropriations funding and user fee funds, which in part allowed for more hiring and use of overtime compared to last year. With the additional \$178.4 million in appropriated funds for taxpayer services, IRS hired approximately 1,000 more assistors. However, IRS officials noted the agency received its appropriated funds in December 2015, which caused delays in hiring and training assistors. Also, IRS assistors who answer telephone calls and respond to correspondence from taxpayers collectively worked significantly more overtime than last year (about 600 FTEs of overtime in fiscal year 2016 compared to about 60 FTEs the prior year). As in prior years, IRS maintained high accuracy rates for assistors' responses to taxpayer questions via telephone, which have remained well above 90 percent for answering both account and tax law questions.

To improve telephone service, we have made several recommendations to IRS such as to set its level of service based on a comparison to private-sector organizations providing a comparable or analogous service—or the “best in the business”—to identify gaps between actual and desired performance.¹⁶ As of December 2016, IRS officials reported that they completed a study to benchmark IRS’s telephone service against the best in business in June 2016, and were reviewing the results.

IRS Uses Several Measures to Estimate and Manage Resources Needed per Type of Call

The measures that IRS uses to report its performance in answering telephone calls include level of service, wait time, and demand to speak to an assistor, among others. Several of these measures are broken down by type of call. IRS uses this information to track which types of calls, if any, require more resources to handle or could be readily automated. IRS officials said they believe that, taken together, the measures IRS uses provide an overall picture of the resources it dedicates to the different types of calls. According to IRS estimates, the average cost per call answered by IRS assistors increased from \$32 to \$56 between 2011 and 2015.¹⁷ IRS officials attributed this increase to answering about half as many calls, combined with only slightly lower costs, in 2015 compared to 2011. However, in 2016, IRS estimated this cost declined to \$42 per call. Officials attributed this decline to having more assistors and answering more calls that were shorter in average length. For automated calls, IRS estimated an average cost of about \$0.79 per call in 2011, which decreased to \$0.50 per call in 2016.¹⁸ While IRS is answering fewer calls through automation, we have previously reported that identifying more calls that IRS can answer through

¹⁶For our prior recommendations on improving IRS telephone service, see GAO, *Tax Filing Season: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks*, [GAO-15-163](#) (Washington, D.C.: Dec. 16, 2014); *2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively*, [GAO-13-156](#) (Washington, D.C.: Dec. 18, 2012); and *2010 Tax Filing Season: IRS’s Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, [GAO-11-111](#) (Washington, D.C.: Dec. 16, 2010).

¹⁷We adjusted the 2011 and 2015 cost per call data to calendar year 2016 dollars using the chain-weighted gross domestic product price index. IRS uses the period of October 1 through June 30 for calculating costs of calls answered by assistors.

¹⁸We adjusted the 2011 cost per call data to calendar year 2016 dollars using the chain-weighted gross domestic product price index. IRS used the period of January 1 through June 30 to calculate costs of calls answered using automated lines.

automation is important because it reduces demand for assistor-answered calls and saves IRS money.¹⁹

IRS does not break down the average cost per call by type of call received. According to IRS officials, its costs are generally consistent across the different types of calls because assistors' pay does not vary significantly by location, and assistors can generally answer all types of calls after receiving the necessary training. Therefore, officials do not believe it would be useful to calculate and track the dollar cost per type of call in addition to the measures they currently use.

IRS Improved in Some Services, but Faces Challenges Delivering Online Services and Processing Correspondence Timely

IRS has taken a multi-pronged approach to improving service. For example, IRS expanded its appointment service pilot to all its walk-in sites, which allowed taxpayers to call IRS to schedule an appointment. IRS officials reported that by doing this, it addressed the taxpayer's question on the phone or directed them to its website without needing to schedule an appointment about half the time. This also contributed to a 20 percent decrease in total visits to IRS walk-in sites. See appendix II for information on use of IRS walk-in sites.

Additionally, IRS has seen growth in the use of certain online services, which include its web site, mobile application tools, and select self-service tools (see appendix III for data showing the increased use in these areas since fiscal year 2011). This growth occurred despite two key applications being offline.

- In May 2015, IRS disabled its Get Transcript service after fraudsters used personal information obtained from other sources outside IRS to pose as legitimate taxpayers to access their tax return information.²⁰ More than a year later, in June 2016, IRS relaunched the service. IRS stated the new version provides a more rigorous e-authentication process for taxpayers, which was intended to significantly increase protection against identity thieves. IRS also expects that this

¹⁹GAO, *2011 Tax Filing: Processing Gains, but Taxpayer Assistance Could Be Enhanced by More Self-Service Tools*, [GAO-12-176](#) (Washington, D.C.: Dec. 15, 2011).

²⁰The Get Transcript service provides users, via the IRS website, the ability to view, print, and download tax account, tax return, and record of account transcripts; wage and income documents; and proof of nonfiling transcripts. Taxpayers can also obtain transcripts by calling, writing, or walking into an IRS office.

enhanced authentication process will provide a foundation for additional online services.²¹

- In June 2016, IRS discontinued its e-file Personal Identification Number (PIN) tool, with which taxpayers could retrieve their e-file PINs online or via telephone.²² This action followed IRS's announcement in February 2016 that cybercriminals had stolen more than 100,000 e-file PINs through the tool.

An ongoing challenge for IRS is balancing the need for strong security with taxpayers' ability to access their personal taxpayer information through IRS's online services. External stakeholders, such as third-party software providers, and the National Taxpayer Advocate have expressed concerns that IRS's e-authentication procedures limit the number of taxpayers who can use these services.²³ In a fiscal year 2017 report to Congress, the National Taxpayer Advocate raised a number of concerns about IRS potentially ignoring the needs of taxpayers who either have no access to the online services or choose not to use an online account system for various reasons. For example, the report noted that not all taxpayers have credit cards or access to the technology required to authenticate online, such as a smartphone or email account. IRS officials acknowledged these challenges and in June 2016 included an option for a taxpayer to authenticate his or her identity through the mail, which eliminates some of the requirements to gain online access to these services. Additionally, in December 2016 IRS launched an online tool that

²¹In 2013 we recommended that IRS develop a long-term strategy for providing web-based services to taxpayers, which we believe warrants priority attention from the agency. Further, in 2011 we recommended that IRS complete an internet strategy that, among other things, includes an assessment of its online self-service tools allowing taxpayers to access and update their account. IRS has made progress in addressing these recommendations; however, as of December 2016, IRS had yet to complete its efforts. See GAO, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services*, [GAO-13-435](#) (Washington, D.C.: Apr. 16, 2013) and [GAO-12-176](#).

²²Before IRS discontinued the e-file PIN application, if taxpayers did not have a self-select PIN, or their prior year's adjusted gross income, they could obtain an e-file PIN. The e-file PIN required taxpayers to authenticate their name, Social Security number, date of birth, address, and filing status. Since IRS discontinued the application, it instructs taxpayers to use their prior-year adjusted gross income, which can be found on their prior year return. For taxpayers without a copy of their prior year tax return, they may obtain one using the Get Transcript service.

²³The National Taxpayer Advocate is the leader of the Taxpayer Advocate Service, an independent organization inside IRS that assists taxpayers in resolving problems and works for systemic changes to mitigate taxpayer problems.

allows taxpayers to view their account balance.²⁴ IRS said it plans to add additional capabilities to this tool in the future.

IRS also continues to struggle with processing correspondence in a timely manner. IRS received more than 19.4 million pieces of correspondence in fiscal year 2016, a 3 percent increase over last year. While IRS has continued to reduce the time needed to close correspondence cases, declining from its peak of 67.4 days in fiscal year 2013 to 45.5 days in fiscal year 2016, its correspondence overage rate continues to remain high at nearly 50 percent. Accordingly, during the first half of fiscal year 2016, customer satisfaction scores for correspondence were substantially lower than for toll-free telephone service (62 percent and 87 percent, respectively).²⁵ As of November 2016, the Department of the Treasury (Treasury) had not implemented our 2015 recommendation that it update the department's performance plan to include overage rates for handling correspondence as a part of Treasury's performance goals.²⁶ IRS officials told us that, in June and August 2016, they met with Treasury and that based on these discussions, Treasury and IRS agreed to include language in the Treasury fiscal year 2018 Congressional Justification regarding correspondence overage rates.

In addition to our recommendations on telephone and correspondence, implementing our prior recommendations in other areas could help IRS improve service. In April 2013, we recommended that IRS develop a long-term online strategy that should, for example, include business cases for all new online services.²⁷ Such a strategy would help ensure that IRS is maximizing the benefit to taxpayers and reduce costs in other areas, such as for IRS's telephone operations. In addition, in December 2015, we suggested that Congress consider requiring that Treasury work with IRS to develop a comprehensive customer service strategy.²⁸ Without such a strategy, Treasury and IRS can neither measure nor effectively

²⁴To access the tool, taxpayers must verify their identity through a two-step authentication process. We have not evaluated the tool's performance.

²⁵For correspondence, IRS measures the level of customer satisfaction for certain actions such as adjusting taxpayer accounts.

²⁶[GAO-16-151](#).

²⁷[GAO-13-435](#).

²⁸[GAO-16-151](#).

communicate to Congress the types and levels of customer service taxpayers should expect and the resources needed to reach those levels.

As of December 2016, Congress had not yet taken action on our suggestion. However, in April 2016, IRS officials told us that the agency established a team to consider our prior recommendations in developing a comprehensive customer service strategy or goals for telephone service. As noted above, IRS officials have completed the benchmarking study, and are reviewing the results. IRS has a “Future State” vision for agency-wide operations, which aims to improve services across different taxpayer interactions such as individual account assistance, exams, and collections. IRS requested funding in the fiscal year 2017 budget justification to enhance web applications, including the online account component of its Future State initiative. However, it is unclear the extent to which the Future State initiative will address our recommendations. We will continue to assess the initiative as it develops.

IRS Does Not Make Customer Service Performance Information Easily Available for Taxpayers

IRS provides key stakeholders, including Congress and federal oversight agencies, historical performance data and forecasts concerning what it expects to deliver during the fiscal year, such as telephone level of service. However, this information is not necessarily designed for or accessible to taxpayers. One exception is that, on the telephone, IRS provides taxpayers with an expected wait time to speak with an assistor. In addition, IRS has issued press releases for several years in February cautioning that the month’s President’s Day weekend is one of the busiest times of the year to call IRS, and providing alternative sources for taxpayers to get the information they need. However, this information is largely directed to the media to disseminate to the public, and key performance information, such as level of service and average wait time, is not easily available to taxpayers when they access IRS’s website. Similarly, IRS internally forecasts and tracks how long it expects to take when processing different types of correspondence, but does not publicize this information. Moreover, IRS does not have a central, readily available location—for example on its website—to provide customer service information that informs taxpayers what type and level of service to expect when interacting with IRS.

Both Congress and the executive branch have taken steps to improve customer service. The GPRA Modernization Act (GPRAMA) requires agencies to, among other things, establish a balanced set of performance

indicators to measure progress toward each performance goal, including, as appropriate, customer service.²⁹ Similarly, several Executive Orders, Presidential Memorandums, and OMB guidance require agencies to take steps to strengthen customer service and describe a number of actions agencies can take to improve their customer service.³⁰ Specifically, these include informing customers what they have a right to expect when they request services and providing customer service standards that are understandable and easily available to the public.³¹ Additionally, OMB established a cross-agency priority (CAP) goal to improve customer service—in part through utilizing technology—to keep pace with the public’s expectations.³² This would involve efforts by the federal government to transform customer services by streamlining transactions, developing standards for high-impact services, and utilizing technology to improve the customer experience. In 2016, a CAP team whose goal is to make it faster and easier for individuals and businesses to receive customer service noted that specific attention is needed to improve taxpayer assistance. The team noted that improved transparency would help citizens set expectations and hold government accountable for improvements. It added that failure to meet those expectations creates unnecessary hassle and cost for citizens and the government. Other federal agencies have used dashboards to convey information to the public. For example, we have issued a series of reports related to the IT Dashboard, which OMB deployed in 2009 to display federal agencies’ cost, schedule, and performance data.³³ We noted that the public display of data allows oversight bodies, including Congress, and the general public to hold government agencies accountable for progress and results.

When we asked IRS officials about not having an online dashboard, they said they had not previously considered the idea given that some

²⁹ GPRAMA, Pub. L. No. 111-352, § 3, 124 Stat. 3867-69 (Jan. 4, 2011), 31 U.S.C. § 1115(b)(6). See also, the Government Performance and Results Act (GPRA), Pub. L. No. 103-62, §2 (b)(3), 107 Stat. 285 (Aug. 3, 1993).

³⁰ We detail specific Executive Orders, Presidential Memorandums, and OMB guidance in appendix I.

³¹ GAO, *Managing for Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service*, GAO-15-84, at 3-4 (Washington, D.C.: Oct. 24, 2014).

³² See Office of Management and Budget, *Cross-Agency Priority Goals*, last accessed January 17, 2017, <http://www.performance.gov/cap-goals-list>.

³³ See, for example, GAO, *IT Dashboard: Agencies Need to Fully Consider Risks When Rating Their Major Investments*, GAO-16-494 (Washington, D.C.: June 2, 2016).

customer service and performance information is publicly available in various locations on irs.gov. In addition, officials were concerned about spending resources to update a dashboard using real-time data, such as expected wait time and level of service for each of IRS's 52 toll-free telephone lines. They also noted that providing certain information could potentially lead taxpayers to call IRS instead of remaining online where it is less expensive for IRS to provide taxpayer service. However, when we pointed out that a dashboard does not need to be updated on a real time basis to be useful, IRS officials subsequently indicated a better understanding of the value of such a dashboard, and agreed it could be possible to develop one as we described. Further, a dashboard updated to reflect historic performance for specific date ranges during the year could benefit taxpayers by informing them of what to expect, without requiring significant agency resources.

In addition, providing taxpayers with easily accessible customer service information has the potential to drive taxpayers to IRS's website, which IRS officials have said is their preferred method of communication because of its inherently lower cost. For example, if taxpayers could learn in advance that potentially calling to speak with an assistor would result in an excessive wait time, taxpayers may elect to spend more time on IRS's website looking for the information. Without easily accessible customer service information, taxpayers are less likely to be informed on what to expect when requesting services from IRS.

IRS Generally Processed Returns Smoothly with Some Delays Due to Taxpayer Errors in Claiming the Premium Tax Credit

IRS officials and other stakeholders reported that IRS generally experienced few problems processing returns during the filing season. In addition, from January 2016 through September 2016, IRS processed about 147 million individual income tax returns and 109 million refunds (see appendix IV). However, there were two processing interruptions in 2016 that each lasted about 1 day.

- In early February, IRS experienced a major system failure that prevented it from processing returns and prevented taxpayers from accessing several online tools, including "Where's My Refund?"
- In mid-May, a number of critical systems used to process returns shut down shortly before a milestone date IRS set for itself to complete return processing. IRS returned these systems to full operation in time to meet its targets as planned.

While still able to process returns and refunds smoothly, IRS officials characterized some aspects of the filing season as challenging, noting

they struggled to hire in certain processing sites and for specific seasonal jobs. For example, IRS has three sites that primarily process paper tax returns for individuals, and officials said they had challenges hiring at the site in the Austin, Texas, metropolitan area because the region had a relatively low unemployment rate.³⁴ In addition, IRS faced shortages filling certain data transcriber and clerical positions, which IRS officials reported overcoming by adjusting staff resources and using more overtime. For example, IRS officials said that total overtime increased about 60 percent (from 55 to 88 FTEs between fiscal years 2015 and 2016) for staff working at the three centers that process tax returns from individuals.³⁵

Another challenge IRS faced this filing season involved processing returns from taxpayers who did not correctly report advance Premium Tax Credit (PTC) payments they received during 2015. The PTC is a refundable tax credit designed to help eligible individuals and families with low- or moderate-income afford health insurance purchased through the Health Insurance Marketplaces.³⁶ When individuals enroll through a marketplace, they can elect to have the marketplace estimate the amount of the PTC, based on information they provide when enrolling, and have it paid in advance to their health insurance company to lower monthly insurance premiums. Alternatively, they can elect to claim all of the credit when they file their tax return. For individuals who elect to receive the credit in advance, the amount they receive may differ from the amount they are eligible for, which they calculate at the time they file their return. Taxpayers who enroll in a marketplace and receive advance payments of

³⁴IRS processes individual tax returns at three locations—Austin, Texas; Fresno, California; and Kansas City, Missouri.

³⁵IRS officials said the overtime hours used during fiscal year 2016 were regular hours allocated to the unit responsible for processing tax returns and converted to overtime hours to keep within its resource allocations.

³⁶Health insurance marketplaces were required under the Patient Protection and Affordable Care Act (PPACA) which required the establishment in all states of health insurance exchanges where eligible individuals may compare and select among insurance plans offered by participating private issuers of health coverage. Pub. L. No. 111-148, § 1311(b), 124 Stat. 119, 173 (March 23, 2010). For states that elected not to establish a marketplace, PPACA required the federal government to establish and operate a federal marketplace, referred to as the Federally-facilitated Marketplace. The Department of Health and Human Services' Centers for Medicare & Medicaid Services is responsible for overseeing the establishment of State-based Marketplaces and maintains the Federally-facilitated Marketplace. Pub. L. No. 111-148, § 1321(c), 124 Stat. 186.

the PTC must file a tax return and reconcile the amount they received by completing Form 8962, Premium Tax Credit.³⁷

In the 2 years that the PTC has been available, many taxpayers did not reconcile the amount they received when they filed their return. Beginning in 2015, IRS used third-party data from the marketplaces to conduct pre-refund matching and verify whether taxpayers had reconciled the advance PTC.³⁸ To address any discrepancies, in 2015, IRS first processed returns that did not reconcile the PTC and then notified those taxpayers informing them that they needed to reconcile.³⁹ These taxpayers had to file an amended return reconciling the correct PTC amount they received in advance before they could receive health insurance through the marketplaces in 2016. For the 2016 filing season, IRS changed its procedures so that when taxpayers did not reconcile the PTC, IRS corresponded with them explaining they needed to reconcile before IRS continued processing the return. While IRS's new procedures delayed processing for these returns, IRS officials explain that it helped both IRS and PTC recipients. For example, according to an IRS analysis, IRS's correspondence brought about half of these taxpayers into compliance.⁴⁰ IRS officials also stated that IRS will save resources by not having to process as many amended returns that taxpayers submit to reconcile PTC. They added this also benefits those taxpayers who respond to IRS's correspondence because they would not have to file an amended return before they could receive health insurance through the marketplaces in 2017.⁴¹ IRS officials anticipate using this procedure again for the 2017 filing season.

³⁷Taxpayers who receive the PTC in advance but do not file a tax return and complete Form 8962 are not eligible for advance credit payments or cost-sharing reductions to help pay for marketplace health insurance coverage in future years. 26 U.S.C. § 36B.

³⁸See GAO, *Patient Protection And Affordable Care Act: IRS Needs to Strengthen Oversight of Tax Provisions for Individuals*, [GAO-15-540](#) (Washington, D.C.: July 29, 2015).

³⁹IRS first corresponded with some taxpayers who met certain criteria before processing their returns.

⁴⁰IRS officials stated returns that are not reconciled are subject to review by IRS examination, which can result in later compliance actions.

⁴¹Open enrollment for 2017 health plans started November 1, 2016, and ends January 31, 2017.

In cases where a taxpayer did not reconcile the advance PTC, IRS does not have the authority to automatically correct the tax return and notify the taxpayer of the change. In other circumstances, IRS has statutory math error authority to fix easily correctable calculation errors and check for other obvious noncompliance in limited circumstances.⁴² According to IRS officials, having authority to correct PTC errors would allow IRS to process the return more quickly without having to correspond with the taxpayer or expend further resources to audit taxpayers' compliance. However, as we reported in 2015, the marketplace data IRS uses for prerefund matching of PTC data were incomplete and not fully accurate.⁴³ In June 2016, IRS officials told us that, while the completeness and quality of the marketplace data have improved, they have not yet fully assessed whether the data are reliable to use in correcting returns.

We have previously suggested that Congress authorize math error authority on a broader basis with appropriate controls.⁴⁴ For each year beginning with fiscal year 2015, legislative proposals were submitted that, among other things, would establish a category of correctable errors. Under the proposals, Treasury would be granted regulatory authority to permit IRS to correct errors in cases where information provided by a taxpayer does not match corresponding information provided in government databases.⁴⁵ Congress has not granted this broad authority. Correctable error authority could help IRS meet its goals for the timely processing of tax returns, providing taxpayers with refunds quicker, and reducing the burden on taxpayers of responding to IRS correspondence. It can also reduce the need for IRS to resolve discrepancies in post-filing compliance, which, as we previously concluded, is less effective and

⁴²Under IRS's present math error authority, IRS may correct certain mathematical or clerical errors on the return and notify the taxpayer of the proper tax liability based on those corrections. 26 U.S.C. § 6213(b).

⁴³[GAO-15-540](#).

⁴⁴GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, [GAO-10-349](#) (Washington, D.C.: Feb. 10, 2010).

⁴⁵Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2017 Revenue Proposals* (February 2016), 225-226; *General Explanations of the Administration's Fiscal Year 2016 Revenue Proposals* (February 2015), 245-246; and *General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals* (February 2014), 229-230.

more costly than at-filing compliance.⁴⁶ However, the third-party data IRS uses for matching should be sufficiently complete and accurate.

IRS Improved Aspects of Service but Inefficiencies and Potentially Weak Internal Controls Reduce IRS's Ability to Serve IDT Victims and Protect Federal Dollars

IRS Reduced Time to Resolve IDT Cases, but Inefficient Processes Contribute to Delays

IRS opens IDT cases when (1) it identifies potential IDT through its automated filters and other reviews of taxpayer returns, or (2) taxpayers alert IRS to potential IDT, such as when they are unable to file a tax return electronically because a fraudster already filed one for that taxpayer. From 2012 to 2015, IRS opened a relatively steady number of new IDT cases. According to IRS officials, in fiscal year 2016, the number of new IDT cases declined because IRS improved its ability to detect fraud before processing the return. In fiscal year 2012, IRS experienced a backlog of more than 370,000 IDT cases with an overage rate of about 57 percent.⁴⁷ Since then, IRS has generally processed cases more quickly and reduced the overage rate to 10 percent or less. In late fiscal year 2015, IRS formed an IDT Victims Assistance Unit, dedicating 322 FTEs to it for that portion of the year and 1,270 FTEs for fiscal year 2016.⁴⁸ Timely resolution of IDT cases reduces burden to taxpayers who must deal with delayed refunds as they authenticate their identities with IRS. It can also

⁴⁶GAO, *Identity Theft: Additional Actions Could Help IRS Combat the Large, Evolving Threat of Refund Fraud*, [GAO-14-633](#) (Washington, D.C.: Aug. 20, 2014).

⁴⁷IDT cases are overage, or late, if they remain open after 180 days.

⁴⁸This new unit consists of staff from different functions across IRS that manage IDT-related efforts and are located in eight IRS sites.

reduce the amount of refund interest IRS pays to some taxpayers, which is required if IRS takes longer than 45 days after the filing deadline, or in the case of a return filed after the deadline, within 45 days of the date the return was filed, to issue a refund.⁴⁹ IDT has been among the top reasons for the largest of such payments for the past 4 years.⁵⁰

IRS continues to work toward improving its processing of IDT cases, in part by forming the IDT reengineering team to improve customer service for IDT victims. The team interviewed employees, executives, and other stakeholders to identify potential improvements. Since its formation, IRS implemented recommendations the team has made that focus on IRS's streamlining and efficiency efforts, including:

- Consolidating inventory. IRS merged its IDT compliance inventory with some of its other IDT inventory. IRS officials said this allows IRS to close cases faster since all of its cases are in one system and they no longer need to transfer paper documents to different locations.
- Managing case flow. IRS developed a matrix for assistors and managers to determine which functional area, such as exams or accounts management, can best work a case. According to IRS, this matrix reduces the frequency with which cases are transferred among units and gets IRS closer to establishing a single point of contact for taxpayers who are IDT victims.
- Developing plans to improve the Identity Theft Affidavit (Form 14039). If a taxpayer believes he or she has been a victim of IDT refund fraud, IRS instructs the taxpayer to complete and submit Form 14039, Identity Theft Affidavit. IRS officials said it is planning to revise the form to streamline processing and reduce taxpayer burden. The new form is to provide an option for the taxpayer to include a secondary taxpayer's Social Security number who was also affected by the identity theft. This additional information will help IRS assistors better identify the true taxpayer. Additionally, it can help prevent multiple forms submitted separately by primary and secondary taxpayers, which can be burdensome for the taxpayer and result in processing delays for IRS.

According to IRS officials, implementing these changes recommended by the IDT reengineering team contributed to IRS closing IDT cases faster.

⁴⁹26 U.S.C. § 6611(e).

⁵⁰In 2015, IRS paid a total of approximately \$8 million in refund interest. See [GAO-16-151](#).

IRS reduced the time an IDT case is open from an average of 242 days in fiscal year 2012 to 106 days in fiscal year 2016. Nonetheless, overage rates have increased from 0.7 percent in fiscal year 2015 to 8.8 percent in fiscal year 2016. IRS officials attributed this to normal fluctuations.

To examine customer service for IDT victims, we reviewed 16 IDT cases that were either open or closed between July 2015 and May 2016 (see appendix V for details on the case reviews). In addition, we conducted five discussion groups with 15 IRS assistors and 13 managers responsible for handling IDT cases in Atlanta and Kansas City, Missouri. The findings from the file review and discussion groups cannot be generalized to all IDT cases or the perspectives of all IDT assistors and managers. Further, because IRS recently implemented some improvements, their effect may not be fully reflected in the cases we reviewed. During our review we observed several areas that contributed to delays in resolving cases (see table 1).

Table 1: Most Selected Identity Theft Cases Were Delayed for Several Reasons

Case	Number of Days Case Open ^a	Reason for delay, if any, of 30 days or more
1.	125	<ul style="list-style-type: none"> IRS awaited response from taxpayer
2.	65	<ul style="list-style-type: none"> Case was in inventory 2 months before being assigned to an assistor
3.	83	<ul style="list-style-type: none"> Refund was delayed nearly 1 year after closing the case due to IRS inadvertently holding the refund
4.	134	<ul style="list-style-type: none"> Case was in inventory 2 months before being assigned to an assistor Multiple assistors took final steps to close the case, delaying closure by about 3 months after issuing refund
5.	329	<ul style="list-style-type: none"> IRS reassigned case to multiple assistors, seeking one to work the case Case involved 3 tax years with possible IDT. IRS must resolve all years before closing the case
6.	103	<ul style="list-style-type: none"> IRS reassigned case to multiple assistors, seeking one to work the case Case was in inventory awaiting review by assistor
7.	261	<ul style="list-style-type: none"> Case under review in another IRS unit
8.	41	<ul style="list-style-type: none"> None
9.	524	<ul style="list-style-type: none"> IRS did not open case for 11 months Taxpayer filed return several years late, prompting IRS to initially process it as an amended return since IRS had already received a return for that tax year Case involved 7 tax years with possible IDT
10.	232	<ul style="list-style-type: none"> Assistor waited for documents to be retrieved and scanned by another unit Taxpayer errors on return delayed processing
11.	127	<ul style="list-style-type: none"> IRS reassigned case to multiple assistors, seeking one to work the case
12.	64	<ul style="list-style-type: none"> Case was in inventory awaiting being assigned to an assistor

Case	Number of Days Case Open ^a	Reason for delay, if any, of 30 days or more
13.	216 ^b	<ul style="list-style-type: none"> • IRS reassigned case to multiple assistors, seeking one to work the case • Assistor waited for documents to be retrieved and scanned
14.	144	<ul style="list-style-type: none"> • IRS reassigned case to multiple assistors, seeking one to work the case • IRS misclassified paper tax return as correspondence
15.	193	<ul style="list-style-type: none"> • IRS reassigned case to multiple assistors, seeking one to work the case • Case in inventory awaiting review by assistor • Taxpayer errors on return delayed processing
16.	71	<ul style="list-style-type: none"> • None

Source: GAO analysis of Internal Revenue Service data. | GAO-17-186

^aThe number of days open is calculated from the date IRS receives the legitimate taxpayer's tax return or Identity Theft Affidavit Form 14039 and ends when the case is closed.

^bThis case initially closed after 52 days and was reopened for internal review, which resulted in no changes.

Of the reasons for delays we observed, in addition to the complexity of cases, the following most frequently contributed to delays of a month or longer in handling the case.⁵¹ Assistors and managers in our discussion groups generally agreed that each of these issues were primary contributors to delays.

Reassignments. In 6 of 16 cases that we reviewed, we found that IRS's policies and procedures contributed to the length of time it took for IRS to close cases. In these cases, IRS transferred work multiple times between different units and assistors. IRS officials explained this occurs to help IRS balance its workload and identify either the best-suited assistor or one with availability to work the case. The officials said that its reengineering team has been addressing this, and will continue to do so in the future.

Inventory Management. In 5 of 16 instances, the case remained in inventory while waiting for an assistor to review it. For example, case 15 was in the queue for more than a month awaiting an assistor's review before it was transferred to another assistor, and closed in August 2016 after 193 days. IRS officials explained that declining resources have contributed to the length of time it takes to close a case.

⁵¹We based this upon IRS guidance that outlines several internal timeframes related to IDT case processing. For instance, IRS expects file retrieval and scanning requests to be completed within 30 days. Likewise, it expects some case status updates and taxpayer responses within 30 days.

File retrieval and scanning. In 3 of 16 cases we reviewed, file retrieval and scanning contributed to delays and unnecessary requests for documents. For cases 10 and 13, resolution was delayed by at least 1 month while the assistor waited for another unit to retrieve and scan documents into IRS's inventory system to use in reviewing the case. For case 10, the assistor waited about 5 weeks to receive the documents and closed the case about 2 days afterward.⁵² In case 13, the assistor requested documents twice and it took IRS about 7 weeks to retrieve and scan the documents. During this time, IRS reassigned the case to another assistor who closed it without receiving the documents. Similarly, in case 11, IRS took about 6 weeks to retrieve and scan the documents into IRS's systems, but the assistor closed the case about 3 weeks before receiving the documents. IRS officials explained that the assistors may not require the documents to close the case, but many assistors prefer to have the documents. These officials noted that in June 2016, IRS revised some of its guidance to assistors on when to request a specific type of documentation to use in determining which tax return is legitimate.

In our discussion groups, 14 of 28 assistors and managers generally agreed that delays in receiving scanned documents were a primary factor that delayed case resolution. Assistors and managers described a typical waiting period of more than 30 days for document requests to be fulfilled. IRS officials noted that some documents must be retrieved from IRS's paper records storage facilities, which can take time to locate and then scan.

In its fiscal year 2014-2017 strategic plan, one of IRS's objectives is to provide prompt assistance to support IDT victims. Federal agencies can achieve their objectives and missions, and improve accountability by having an effective internal control system. As set forth in *Standards for Internal Control in the Federal Government*, internal controls comprise the plans, methods, and procedures used to meet an entity's mission, goals, and objectives, which support performance-based management.⁵³ Internal controls help agency program managers achieve desired results and provide reasonable assurance that program objectives are being achieved through, among other things, effective and efficient use of

⁵²According to Internal Revenue Manual (IRM) Part 21, Chapter 5, Section 1.45 (the IRM can be accessed at <http://www.irs.gov/irm/>), assistors expect to wait up to 30 days before documents are retrieved from storage and scanned into IRS's systems.

⁵³[GAO-14-704G](#).

agency resources and ensuring that personnel have the required knowledge, skills, and abilities.

While IRS has taken some steps to more quickly resolve IDT cases, IRS is missing an opportunity to potentially reduce delays and unnecessary requests related to retrieving and scanning documents. IRS officials stated that they are not reviewing the retrieval and scanning processes to identify efficiencies, such as prioritizing requests or providing guidance and training to assistors on which documents are required to close a case. Without identifying efficiencies, it is more likely cases could be delayed, which can delay the processing of returns and refunds in those cases where a legitimate refund is due, and contribute to increased interest paid by IRS on late refunds. When we discussed this with IRS officials, they agreed that it was reasonable to review the file retrieval and scanning processes, and said the IDT reengineering team could evaluate it as part of its ongoing efforts.

IRS Does Not Know the Extent to Which Its Internal Control Processes Prevent Release of Fraudulent Refunds

Based upon our case reviews and discussion groups, we identified one weakness in IRS's internal control processes that resulted in refunds paid to fraudsters and another potential weakness that could lead to additional releases of fraudulent refunds. Internal control standards require management to, among other things, design appropriate types of control activities, analyze and respond to changing conditions that affect the agency and its environment, and effectively manage the agency's workforce, including ensuring that personnel have the required knowledge, skills, and abilities to achieve organization goals.⁵⁴

Refunds were released automatically. In one case we reviewed, case 10, IRS released a fraudulent refund of about \$9,900 even though the tax return was flagged for potential IDT. IRS screens all tax returns for characteristics that it identified in previous IDT refund fraud schemes. If flagged for review, IRS stops processing the return, places a hold on the refund, and sends a letter asking the taxpayer to confirm his or her identity. However, IRS designed several refund holds to expire after a certain amount of time, ranging from 1 to 11 weeks. When holds expired, IRS's computer systems automatically release the refund. In the case we identified, a hold had been placed on the account, but it expired before an assistor had completed the review and IRS computer systems

⁵⁴[GAO-14-704G](#).

automatically processed the refund. IRS has processes to recoup refunds issued to the wrong person, and in the case we reviewed, IRS has taken steps to do so. IRS reported it identified this problem in October 2015 and removed the automatic expirations of this type of hold.⁵⁵

Assistors may release refunds before closing a case. According to IRS assistors and managers who participated in our discussion groups, some assistors may release refunds that could be paid to fraudsters in spite of having a refund hold in place on the taxpayer's account. This can occur even when indicators on the account show that the tax return is under review for identity theft or that two returns have been filed for that taxpayer's account (duplicate return filing). In three of our discussion groups, we asked how refunds could be released before a case is closed, and all 17 participants in those groups agreed that assistors may be releasing refunds when answering telephone inquiries about them.⁵⁶ Several of these assistors and managers described this as a common occurrence, and stated that, due to a lack of training, assistors may not understand the codes on the taxpayer's account. Moreover, some discussion group participants surmised that some of these callers could be fraudsters.

In contrast to the assistors and managers in our discussion groups, IRS senior officials told us they do not consider this a widespread error or a result from a lack of training. IRS officials further stated that the assistors and managers we spoke to might have been observing automatic refund releases, such as the one described above, and assumed that assistors were manually releasing refunds. Officials also said that the culture at IRS is such that assistors are reluctant to release a refund incorrectly. Therefore they tend to be cautious in taking such steps. To support their position, IRS officials provided us with data IRS collects and analyzes on duplicate refunds, such as instances where assistors manually processed a refund although one already had been issued. IRS also provided data it uses to assess the quality of assistors' work and to inform training needs. However, both sets of data do not include sufficient information for IRS officials to determine the extent to which one assistor may release a refund before another assistor closes an IDT or duplicate return case. In

⁵⁵In the case we reviewed, the refund was automatically released prior to October 2015.

⁵⁶We asked participants in three of our five discussion groups whether they were aware of cases in which refunds were inappropriately released and why this was happening. We did not ask this question of the first two discussion groups because we became aware of the issue after those were conducted.

addition, in the data IRS uses to assess the quality of assistors' work, IRS undercounted the total number of erroneous refunds. Officials later explained they generated that data in response to our findings, but stated that the data were not routinely collected and did not reliably count the errors. We were therefore unable to use any of these data to support IRS's position that such errors were minimal and assistors did not need training. After several discussions with IRS officials about the weaknesses we identified in the data, officials acknowledged these weaknesses but maintained that their current methods are sufficient.

Without appropriate data to determine the extent to which assistors release refunds before an IDT or duplicate return case is closed, and the reasons for doing so, IRS is missing critical information on the effectiveness of its controls. If IRS cannot ensure its controls are effective, it risks losing revenue to IDT refund fraud that could be prevented.

IRS Does Not Notify Taxpayers When Any Dependents' Information Appears on a Fraudulent Tax Return

IRS notifies primary and secondary taxpayers when it learns that either have been a victim of IDT refund fraud, but it does not notify taxpayers that their dependents' information may have been used to commit fraud. In one case we reviewed (case 11), a fraudster included the same dependents as the legitimate taxpayer had claimed that year. However, when IRS notified the taxpayer that he or she had been a victim of IDT, the notice did not mention that a thief had also stolen the dependents' identities and used them in the fraudulent return. According to IRS officials, the agency treats dependents as IDT victims if their SSN had been used fraudulently as either a primary or secondary taxpayer. However, this is not the case when a dependent's identity is used as a dependent on a fraudulent return, as we observed in case 11. In such instances, dependents do not yet have taxpayer accounts, so IRS officials stated that there are no protections that IRS can provide, such as issuing an Identity Protection Personal Identification Number (IP PIN) or flagging those taxpayers' SSNs for use in its filters or other reviews of taxpayer returns.⁵⁷

⁵⁷IP PINs help prevent future IDT refund fraud because, once issued, the IP PIN must accompany an electronically-filed (e-file) tax return. IRS provides IP PINs to past IDT victims who have confirmed their identities with IRS, or to taxpayers who participated in a pilot program. Beginning in filing season 2014, IRS offered this pilot to taxpayers in Florida, Georgia, and the District of Columbia.

IRS has previously provided guidance to taxpayers when a dependent was a victim of identity theft. After the Get Transcript data breach, IRS wrote affected taxpayers whose dependents were also victims. In the letter, IRS provided information on actions that parents or guardians could take to protect a minor's identity.⁵⁸ While IRS did not provide an IP PIN or other protections to dependents, it was proactive in notifying taxpayers of the stolen identities and offering guidance.

For the case we reviewed (case 11), the fraudster used the same dependent identities on the fraudulent return as the legitimate taxpayer did on his or her return. In this case, IRS assistors could determine if the dependents were victims as they reviewed the case. However, sometimes fraudsters use the identities of dependents that may not be associated with the taxpayer as a means to increase the refund amount. IRS officials explained that, in such cases, they might not be able to verify whether or not the taxpayer was responsible for the dependent on the fraudulent return. However, in such cases, IRS need not confirm the relationship, but inform taxpayers of the potential that a fraudster might have compromised their dependents' identities so the taxpayer can take further action.

IRS has a program that could help taxpayers determine if their dependents' information appeared on a fraudulent return. Since 2015, IRS has allowed taxpayers to request a redacted copy of the fraudulent return that was filed using their identities. In those redacted copies, IRS will provide the first four letters of the last names of the primary taxpayer, secondary taxpayer, and dependents included on the fraudulent return. This information could allow a taxpayer to determine if their dependents' names, if any, were included on the fraudulent return. However, IRS does not include information about this program in its notices to victims of IDT.

IRS's practice to notify the primary and secondary taxpayers when it learns that either have been a victim of IDT refund fraud is an important aspect of its customer service efforts and protections against IDT refund fraud; it allows the taxpayers to take action to protect their identities and for IRS to protect against future fraud. However, by not notifying the taxpayers that their dependents' information may have been used to

⁵⁸Treasury Inspector General for Tax Administration, *The Internal Revenue Service Did Not Identify and Assist All Individuals Potentially Affected by the Get Transcript Application Data Breach*, 2016-40-037 (Washington, D.C.: May 16, 2016).

commit fraud, IRS is limiting taxpayers' ability to take action to protect the dependent's identity.

Conclusions

IRS has seen significant improvement in telephone service this year in part due to budget increases. However, IRS still faces challenges in providing online services and processing correspondence in a timely manner. While IRS has taken steps to strategically manage its operations, information about IRS's expected performance is not easily accessible to taxpayers, which limits their ability to make more informed decisions about how and when to contact IRS.

IRS has made strides in combatting IDT refund fraud, which has widespread consequences for victims and their dependents. However, we found instances where IRS's processes for document retrieval and scanning delayed case resolution. Further, IRS does not have sufficient data to monitor whether fraudulent refunds are released before a case is closed. Finally, IRS does not notify taxpayers of potential exposure of dependents that could lead to future fraud. Protecting federal dollars, while enhancing IRS's case management and protecting taxpayer dependents, can help bolster the public's confidence in the tax system.

Recommendations for Executive Action

We recommend that the Commissioner of Internal Revenue take the following four actions:

1. Develop and maintain an online dashboard to display customer service standards and performance information such that it is easily accessible and improves the transparency of its taxpayer service.
2. Review its document retrieval and scanning processes to identify potential training or guidance needs or other potential efficiencies.
3. Improve existing data and collect new data, as needed, to effectively monitor how often, and why, IRS assistors release refunds before closing an IDT or duplicate return case. Based upon these data, IRS should take corrective steps to reduce refund errors, such as providing training or immediate guidance to assistors.
4. Revise IRS's notices to IDT refund fraud victims to include information such as (1) whether any dependents were claimed on the fraudulent return, (2) to the extent possible, if those dependents match any of those the taxpayer claimed the same tax year, and (3) how to request a redacted copy of the fraudulent return.

Agency Comments and Our Response

We provided a draft of this report to the Commissioner of Internal Revenue. IRS provided written comments, which are summarized below and reprinted in appendix VI. IRS also provided technical comments, which we incorporated where appropriate.

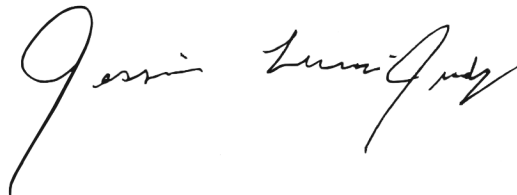
IRS agreed with our recommendations to develop and maintain an online dashboard to convey customer service standards and performance information; review its document retrieval and scanning processes to provide additional training and guidance to ensure documents are not requested unnecessarily; and revise its notices to IDT victims to alert taxpayers of the need to protect dependent accounts from potential fraud and supplement information on its website.

IRS disagreed with the finding that it does not know the extent to which its internal control processes prevent the release of fraudulent refunds and with the related recommendation that it improve existing data and collect new data to effectively monitor how often IRS issues refunds before closing an IDT or duplicate return case. In its letter, IRS stated that GAO concluded that frozen refunds were being erroneously released to fraudsters by customer service employees. This is incorrect. As stated in our report, we identified a potential weakness that could lead to releases of fraudulent refunds. IRS also reported that it was aware that some refunds are released by assistors prior to the case being closed.

Further, IRS maintains that its current methods are sufficient for detecting such errors and the problem is not widespread. However, as we noted, our review of both sets of data that IRS provided do not include sufficient information for IRS to determine the extent to which the problem exists or the total number of erroneous refunds. After several discussions with IRS officials about the weaknesses we identified in the data, officials acknowledged these weaknesses and explained that they generated some of these data in response to our findings. Nevertheless, officials maintained that their current methods are sufficient. We stand by our finding that the data IRS provided are not sufficient to monitor how often and why assistors are releasing refunds before IDT or duplicate return cases are closed, and we believe that the associated recommendation is warranted. In response to our draft report, in January 2017 officials provided another analysis of IRS data that they said showed this type of error does occur but may not be as widespread as the discussion group participants suggested. We will continue to work with IRS to determine if these additional data are sufficient to address our recommendation.

We are sending copies of this report to the appropriate congressional committees, the Commissioner of Internal Revenue, the Secretary of the Treasury, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or lucasjudyj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VII.

A handwritten signature in black ink that reads "Jessica Lucas-Judy". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Jessica Lucas-Judy
Acting Director, Tax Issues
Strategic Issues

List of Requesters

The Honorable Orrin Hatch
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
House of Representatives

The Honorable Peter Roskam
Chairman
Subcommittee on Tax Policy
Committee on Ways and Means
House of Representatives

The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The Honorable Sander Levin
House of Representatives

Appendix I: Objectives, Scope, and Methodology

Our objectives in this report were to assess

- how well the Internal Revenue Service (IRS) provided customer service compared to its performance in prior years and describe what is known about the cost of calls on selected IRS telephone lines;
- how well IRS processed individual income tax returns compared to its performance in prior years; and
- IRS's efforts to improve customer service for (IDT) victims, including selected internal control processes.

To answer the first two objectives, we

- obtained and analyzed IRS documents and data, including performance, budget, and workload data for taxpayer services and return processing, and used this information to compare IRS's performance in 2016 to 2011 through 2015, which allowed us to identify trends and anomalies over a 6-year period;
- collected data and interviewed IRS officials who manage IRS toll-free telephone lines to understand how IRS plans and allocates its resources managing its telephone service, and what data IRS has available to achieve this, such as the average cost per call;
- interviewed officials from IRS's Wage and Investment division (which is responsible for managing filing season operations) and external stakeholders to obtain contextual information about IRS's performance. The external stakeholders we selected are major companies that prepare millions of tax returns and organizations in the tax preparation industry that frequently interact with IRS on key aspects of the filing season;
- identified federal standards for evaluating customer service, such as the Government Performance and Results Act (GPRA) Modernization Act and Executive Orders, Presidential Memorandums and Office of

Management and Budget guidance to strengthen customer service, and compared IRS actions to those standards;¹ and

- reviewed prior GAO reports, including filing season and IRS budget reports, reviews on the premium tax credit, our evaluation of IRS's website, an agency dashboard, and evaluated IRS's actions to implement selected prior recommendations.

To answer the third objective, we reviewed prior GAO reports on IDT refund fraud and interviewed IRS officials who oversee customer service for IDT victims, including members of the IRS reengineering task team which is tasked with reviewing IRS processes and procedures to identify ways to improve the identity theft taxpayer experience. We also collected and reviewed data on IDT cases, such as the total number of IDT cases and average number of days each case was open. Further, we conducted a file review of 16 IDT victim case files in Atlanta, where IRS's Wage and Investment Division is located. This division plays a key role in IDT prevention and case management, and is one of eight locations where IRS assistors handle IDT cases. The findings from this file review cannot be generalized to all IDT cases. We identified these cases by using a stratified random sample from an IRS-provided list of all IDT cases open at any point between July 2015 and May 19, 2016.² Since the focus of this file review was to better understand the characteristics on a variety of types of IDT cases and the steps that IRS takes to resolve them, we designed the selection process to include cases with varied statuses. Specifically, we drew cases from three groups: (1) open (unresolved) cases, (2) cases closed in less than 120 days (short cases), and (3)

¹Exec. Order No. 12862, Setting Customer Service Standards (Sept. 11, 1993), 58 Fed. Reg. 48,257 (Sept. 14, 1993); Exec. Order No. 13571, Streamlining Service Delivery and Improving Customer Service (Apr. 27, 2011), 76 Fed. Reg. 24,339 (May 2, 2011); Memorandum on Customer Service, 31 Weekly Comp. Pres. Doc. 456 (Mar. 22, 1995) (released by Office of the Press Secretary on Mar. 23, 1995); Memorandum on Conducting "Conversations with America" to Further Improve Customer Service, 34 Weekly Comp. Pres. Doc. 368 (Mar. 3, 1998); Office of Management and Budget, Implementing Executive Order 13571 on Streamlining Service Delivery and Improving Customer Service, Memorandum M-11-24 (June 13, 2011); Office of Management and Budget, New Fast Track Process for Collecting Service Delivery Feedback Under the Paperwork Reduction Act, Memorandum M-11-26 (June 15, 2011); Office of Management and Budget, Information Collection under the Paperwork Reduction Act, Memorandum (Apr. 7, 2010); Office of Management and Budget, Social Media, Web-Based Interactive Technologies, and the Paperwork Reduction Act, Memorandum (Apr. 7, 2010); Office of Management and Budget, Paperwork Reduction Act—Generic Clearances, Memorandum (May 28, 2010).

²The list of IDT cases provided to us by IRS had recently been developed for use by another oversight agency.

cases closed in 120 or more days (long cases). In 2015, IRS reported that a typical IDT case could take 120 days to resolve, so we used this length of time as a threshold for separating short and long cases. For the open case sample, we excluded IDT cases that were open for less than 120 days to ensure that enough casework had occurred to observe in our file review. We sorted the remaining open cases by the IDT case type and sampled randomly within each case type.³ For each case type category, we oversampled to account for any cases that had recently closed and to select cases with refund interest, which is an extra cost to the government.⁴ We used a similar process for the short and long closed case selection. We sorted closed cases by IDT case type and length and selected at random within each category, with cases oversampled to ensure a sufficient number were available for our review. We sent 225 IDT case numbers to IRS with instructions about the order they should pull the files for review. During our file review, we verified these steps to ensure that IRS officials completed our instructions accurately.

We conducted a file review of 16 IDT cases, using a standardized data collection instrument (DCI) developed for the review. To develop the DCI, we conducted a pilot test and made revisions based on the pilot and comments from IRS officials.⁵ To ensure that our efforts conformed to GAO's data quality standards, another team member reviewed each of the 16 DCIs that we completed. The reviewers compared the data recorded within the DCI entry to the data in the corresponding case file to determine whether they agreed on how the data were recorded. When the analysts' views on how the data were recorded differed, they met to reconcile any differences. In addition, IRS assistors who regularly work IDT cases, and other officials, assisted us by explaining the cases and answering our questions while we completed and confirmed information in the DCIs. Due to the complexity and uniqueness of each case, we took detailed notes about the cases in addition to the completed DCI. We used

³IRS categorizes its IDT work into different types of cases. For purposes of this review, we selected from the following five types: (1) Taxpayer identified potential IDT and sent IRS an affidavit to initiate the investigation, (2) IRS identified potential IDT using its IDT filters, (3) IRS's Electronic Fraud Detection System reviewed the case and determined potential IDT, (4) IRS's Integrity and Verification Operations determined potential IDT, and (5) IRS concluded the case has taken a long time to work and needs to expedite the review.

⁴IRS is required to pay refund interest if it takes longer than 45 days after the filing deadline, or in the case of a return filed after the deadline, within 45 days of the date the return was filed, to issue a refund. See 26 U.S.C. § 6611(e).

⁵The 2 cases we used to conduct the pilot were not part of the 16 final cases.

the information collected to summarize the 16 case study reviews presented in appendix V. To ensure we correctly understood the information, we sought input and review from IRS officials and included their comments as appropriate. Finally, we assessed whether IRS's procedures for working IDT cases follow standards from *Standards for Internal Control in the Federal Government*.⁶ We selected the most relevant control standards as criteria.

Additionally, to obtain the perspectives of IRS assistors and managers who are responsible for handling and reviewing IDT cases, we held five discussion groups with selected employees who are employed at IRS campuses in Atlanta and Kansas City, Missouri. We selected these locations based upon the combination and availability of staff that manage IDT-related work, as described below. We held three discussion groups with assistors and two groups with managers that oversee assistors who handle IDT cases. The findings from these discussion groups cannot be generalized to the perspectives of all IDT assistors and managers. All participants worked in one of the following groups: IRS's Return Integrity Compliance Services, which reviews returns for potential IDT prior to processing; Accounts Management, which reviews IDT cases as part of adjusting taxpayer accounts when they have been victims of IDT; or Field Assistance, which provides service to taxpayers who are possible victims of IDT that visit an IRS walk-in site. To identify participants in Atlanta, we asked an IRS official to locate participants and arrange the discussion groups with assistors and managers who met the criteria mentioned above and who work in the IRS facility we visited as part of our IDT case file review. To identify participants in Kansas City, IRS officials provided us with contact information for employees who met the criteria mentioned above and we contacted those employees directly to schedule and organize the discussion group. We conducted the Atlanta discussion groups in person and the Kansas City discussion groups via conference call. For each group, we used a standardized discussion guide, one for the managers and a different one for assistors, in order to improve the consistency and quality of information gathered. Each group contained between 4 and 9 participants. To encourage participants to speak openly, we ensured that no senior IRS management officials were present during the discussions. At the beginning of each group, we

⁶GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

explained that any comments and opinions provided would be reported in summary form, and individual assistors would not be identified. We used a standardized set of questions when interviewing the assistors and managers which focused on their experiences reviewing IDT cases and suggestions, if any, for how IRS can more efficiently provide assistance to taxpayers who are IDT victims. We did not administer one question about releasing refunds to the first two discussion groups in Atlanta because we identified the issue during the course of our file review and after conducting the first two groups.

Data on filing season processing and customer service, as well as IDT casework, is provided by IRS in a variety of different reports. Accordingly, we used various IRS telephone reports (the telephone product line snapshot, enterprise snapshot, interactive performance template, busy signals and disconnects, and tax law and phone accuracy) to analyze and report on key elements of IRS's telephone service, such as the level of service, wait time, and call volume. Similarly, we reviewed IRS's processing reports to analyze and report key aspects, including the number of returns processed and refund data. We reviewed reports on IDT case inventory and closures. In reviewing these reports, we examined the data to identify obvious errors or outliers and assessed potential data limitations that would affect use of the data for assessing IRS's performance during the filing season. We also reviewed IRS's responses to questions we asked about the accuracy and reliability of these data. We determined that the data presented in this report are sufficiently reliable for the purposes of our reporting objectives.

We conducted this performance audit from January 2016 to January 2017 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Services Offered at IRS Walk-in Sites and Volunteer Sites, Fiscal Years (FY) 2011 through 2016

Table 2: Services Provided by IRS's Walk-in Sites and Volunteer Sites

	FY 2011	FY 2012	FY 2013	FY 2014a	FY 2015	FY 2016	Percent change, FY 2015 to 2016
Walk-in sites^a							
Total contacts	6,387,036	6,848,652	6,520,810	5,477,291	5,643,772	4,480,738	-20.6
Return preparation ^b	328,495	369,235	302,308	n/a	n/a	n/a	n/a
Tax law questions	267,951	233,174	198,844	114,647	79,609	54,965	-31.0
Account work notices ^c	3,678,072	2,814,757	3,068,225	2,525,538	2,795,258	2,400,545	-14.1
Forms	633,554	556,735	469,032	392,512	265,920	136,875	-48.5
Payments ^d	n/a	1,495,169	1,291,493	1,070,488	960,560	726,222	-24.4
Other ^e	1,478,964	1,379,582	1,190,908	1,374,106	1,542,425	1,162,131	-24.7
Sites staffed by volunteers							
Return preparation	3,188,524	3,264,997	3,406,182	3,646,562	3,756,707	3,813,411	1.5
Percent of returns e-filed	93	95	95	96	96	97	n/a

Source: GAO analysis of IRS data. | GAO-17-186

Legend: FY = fiscal year; n/a = not applicable

^aFiscal year 2014 data for walk-in sites reported in this table differ from data reported in our report on the 2014 IRS filing season (see [GAO-15-163](#)). Specifically, the data in this table reflect IRS data reported through September 30, 2014, while data in our report reflect IRS data reported through September 27, 2014.

^bWalk-in site return preparation counts include both individual and business contacts.

^cAccount work notices includes assistance to taxpayers who need to pay taxes owed and victims of identity theft.

^dBeginning in fiscal year 2012, IRS accounted for contacts where taxpayers made payments separately from other account work notices.

^eOther contacts include responding to correspondence, scheduling appointments, authenticating Individual Tax Identification Numbers, and providing self-assistance services, which do not fall into the defined categories.

Appendix III: Taxpayers Use of IRS's Website and Online Services since Fiscal Year 2011

Table 3: Taxpayers' Use of IRS Online Features

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Percent change, FY 2015 to 2016 ^a
Use of IRS website and mobile application tools							
Total visits to IRS.gov (in millions) ^b	319.3	372.5	456.2	437.1	493.2	506.1	2.6
Searches (in millions) ^c	n/a	n/a	81.6	79.9	77.6	68.7	-11.5
IRS2Go active users (in millions) ^d	n/a	n/a	n/a	n/a	3.9	5.1	30.8
Self-service tools—assistance with tax filing and payments							
Taxpayer forms, publications, and instructions downloads (in millions) ^e	229.2	361.9	217.5	117.8	132.6	121.5	-8.4
Interactive Tax Assistant tools completions (in thousands) ^f	176.7	454.6 ^g	630.5	944.4	1,594.6 ^g	1,472.5	-7.7
Direct Pay transactions (in millions) ^h	n/a	n/a	n/a	1.3	5.6 ^g	8.5	51.8
Volunteer site locator (in thousands) ⁱ	n/a	n/a	365.9	251.4	433.6	417.5	-3.7
Online Payment Agreement completions (in thousands)	63.9 ^j	104.1	111.1	92.2	413.3	557.2	34.8
Self-service tools – other requests for information							
"Where's My Refund?" completions (in millions)	78.0	132.3	200.6	189.1	234.7 ^g	299.6	27.7
Electronic Filing Personal Information Number (PIN) request completions (in millions)	10.0	12.3	16.0	21.0	25.4	20.3 ^k	-20.1

**Appendix III: Taxpayers Use of IRS's Website
and Online Services since Fiscal Year 2011**

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Percent change, FY 2015 to 2016 ^a
Get Transcript (in millions) ^l	n/a	n/a	n/a	18.6	27.7	3.7	-86.6
"Where's My Amended Return?" completions (in millions) ^m	n/a	n/a	2.4	4.3	5.6	5.6	0.0

Source: GAO analysis of IRS data. | GAO-17-186

Legend: FY = fiscal year; n/a = not applicable

Notes: Through August 29, 2012, web data were obtained from WebTrends. Beginning August 30, 2012, web data were obtained from Google Analytics. Tool-specific data is from IRS's Telephone Routing Interactive System and Integrated Customer Communication Environment applications.

^aNumbers in the table are rounded, and the percent change has been calculated using the rounded values presented in the table.

^bA visit is a series of actions that begins when a visitor views the first page from the server, and ends when the visitor leaves the site. Visitors are not unique.

^cIn 2013, IRS revised its methodology for tracking taxpayer searches on irs.gov. Previously, IRS tracked the total number of page views for all searches during a single visit. For 2013, IRS began tracking total unique searches, which do not include multiple searches for the same information in a single visit. Data for searches prior to fiscal year 2013 are unavailable. WebTrends, which was used to collect and report irs.gov usage data prior to September 2012, is no longer available and the data cannot be regenerated.

^dPreviously, we reported downloads of IRS2Go, IRS's official mobile app, which was how IRS measured its performance. In fiscal year 2015, IRS revised this measure to report the number of active users of the app, which IRS defines as the number of devices that opened the app during the fiscal year. IRS officials said this measure is a better reflection of the app's performance. Data for active users prior to fiscal year 2015 is unavailable.

^eBeginning in 2013, IRS revised its methodology for tracking downloads of forms, publications, and instructions.

^fIRS introduced the Interactive Tax Assistant tools in March 2010 and has since added more tools.

^gIn November 2016, IRS provided updated data from what we reported in [GAO-16-151](#).

^hDirect Pay reflects the number of payments that were settled during the year. Direct Pay was launched as a pilot program in November 2013. The full release of the product was in May 2014.

ⁱData for the Volunteer Site Locator prior to fiscal year 2013 are not available because Web Trends data prior to September 2012 cannot be regenerated. The application is hosted on the Department of Treasury's web site and was not set up for tracking for fiscal year 2013; as a result, fiscal year 2013 data reports total page views of the application which was located at <http://www.irs.gov/Individuals/Find-a-Location-for-Free-Tax-Prep>. Data for fiscal years 2014 through 2016 report the number of clicks from irs.gov to the application (<https://irs.treasury.gov/freetaxprep>).

^jA programming error led to a decrease in the number of completed agreements in fiscal year 2011.

^kIn June 2016, IRS discontinued this service after cybercriminals stole electronic filing PINs through the tool.

^lGet Transcript was launched on January 13, 2014 and taken offline on May 21, 2015 after fraudsters used personal information obtained from other sources outside the IRS to pose as legitimate taxpayers to access their tax return information. IRS relaunched the tool in June 2016.

^m"Where's My Amended Return?" launched in March 2013.

Appendix IV: Individual Income Tax Returns and Refunds Processed, 2011 through 2016

Table 4: Individual Income Tax Returns and Refunds Processed from 2011 through 2016

	1/1/11- 9/30/11	1/1/12- 9/28/12	1/1/13- 9/27/13	1/1/14- 9/26/14	1/1/15- 9/25/15	1/1/16- 9/30/16	Percent change from 2015 to 2016 ^a
Number of returns processed (in millions) ^b	140	142	142	144	145	147	1.02
Electronic	109	116	119	122	125	128	2.24
Paper	30	26	23	22	20	19	-6.60
Percentage e-filed	78	82	84	85	86	87	Not applicable
Number of refunds processed (in millions)	107	108	107	107	107	109	1.44
Amount of refunds processed (dollars in billions)	\$303	\$295	\$287	\$290	\$290	\$300	3.24

Source: GAO analysis of IRS data. | GAO-17-186

^aThe numbers in the table are rounded, but the percent change was calculated using exact values. Therefore, in some cases, the percent change is slightly different than it would be if it were calculated using the rounded values in the table.

^bThe number of individual tax returns processed includes forms 1040, 1040A, and 1040EZ.

Appendix V: Identity Theft Case Summaries for 16 Cases GAO Reviewed

Case 1

In March 2015, a fraudster electronically-filed (e-filed) a 2014 tax return that the Internal Revenue Service (IRS) accepted. Later that month, the fraudster received a refund of more than \$10,000 via direct deposit. In early April 2015, the legitimate taxpayer attempted to e-file a return which IRS rejected because it had already received one for that taxpayer. That same month the legitimate taxpayer filed a paper 2014 tax return claiming a refund of about \$3,500. In July 2015, IRS opened a case because it had received two tax returns for the same taxpayer. It sent the legitimate taxpayer a letter asking if he/she had filed two 2014 returns. About a month later, the taxpayer responded stating he/she only filed one 2014 return. An assistor reviewed the case in late September and confirmed the taxpayer was an identity theft (IDT) victim. IRS released the taxpayer's \$3,500 refund and also paid about \$23 in interest. In early October 2015, IRS closed the case and sent the taxpayer a letter stating he/she had been an IDT victim. IRS took 125 days to close the case because it remained in inventory while IRS waited for the taxpayer to respond. In early January 2016, IRS sent the primary and secondary taxpayers Identity Protection Personal Identification Numbers (IP PIN) to use for filing their 2015 tax return since the fraudster had both of their Social Security numbers (SSN).

Case 2

In February 2015, a fraudster e-filed a 2014 tax return that IRS accepted. Later that month, the fraudster received a refund of approximately \$9,600 via direct deposit. Also in February, the legitimate taxpayer attempted to e-file a return. IRS rejected the return because it had already received one for that taxpayer. In April 2015 the legitimate taxpayer and his/her spouse filed a paper 2014 tax return. The taxpayer reported owing about \$200, which was included with the return. The taxpayer also included Form 14039, Identity Theft Affidavit, for the primary taxpayer only (although the form does not have an option to include others affected, such as a spouse or dependent, IRS procedures require the same treatment for a spouse if his/her information was also used on the fraudulent return). In May 2015, IRS sent a letter to the taxpayer acknowledging receipt of the affidavit. In early June 2015, IRS opened an IDT case because it received the affidavit. In August, IRS confirmed IDT for both the legitimate taxpayer and spouse. IRS officials attributed the 2-month delay, in part, to resource constraints in which IRS held the case in inventory waiting to assign it to an available assistor. After 65 days, IRS closed the case in August 2015 on the same day it was assigned to an assistor, and sent the taxpayer a letter stating he/she had been an IDT victim. In early January 2016, IRS sent the primary and secondary taxpayers IP PINs to use for filing their 2015 tax return.

Case 3

In March 2015, a fraudster e-filed a 2014 tax return that IRS accepted. Later that month, the fraudster received a refund of about \$3,700 via direct deposit. The legitimate taxpayer attempted to e-file a return. IRS rejected the return because it had already received one for that taxpayer. The legitimate taxpayer then mailed IRS a 2014 tax return claiming a refund of about \$1,200. In May 2015, IRS opened a case because it had received two tax returns for the same taxpayer. In late July 2015, IRS closed the case and sent the taxpayer a letter stating the taxpayer had been an IDT victim. IRS closed the case in about 3 months. However, because of the timing of when IRS received the fraudulent and legitimate returns, it inadvertently continued to hold the refund. About 9 months later, in April 2016, the taxpayer called IRS to inquire about the status of the refund. At the end of April 2016, nearly 1 year after IRS opened the IDT case, IRS released the refund hold and the taxpayer received a refund of about \$1,200. IRS also paid the taxpayer about \$40 in interest. IRS later determined a third party had obtained unauthorized access to the taxpayer's tax return information through the "Get Transcript" application. In early January 2016, IRS had sent the taxpayer an IP PIN to use for filing his/her 2015 tax return.

Case 4

In February 2015, a fraudster e-filed a 2014 tax return that IRS accepted. A few weeks later, the fraudster received a refund of about \$4,800 via direct deposit. In April 2015, the legitimate taxpayer attempted to e-file a return. IRS rejected the return because it had already received one for that taxpayer. The taxpayer and his/her spouse then mailed a paper 2014 tax return requesting a refund of \$4,200. In May 2015, IRS opened a case because it had received two tax returns for the same taxpayer, confirmed it was IDT, and released the legitimate taxpayer's refund. The legitimate taxpayer's bank refused the direct deposit refund because the taxpayer reported an incorrect bank routing or account number; IRS then sent the taxpayer the refund via paper check in June. IRS also paid the taxpayer about \$15 in interest. However, IRS held the case in inventory and did not assign it to an IDT assistor to complete processing until the end of July. In September 2015, IRS closed the case and sent the taxpayer a letter confirming he/she was an IDT victim. IRS took 134 days to close this case, in part, because it remained in inventory. Officials primarily attributed this delay to resource constraints. The case then remained open about 3 months after issuing the refund, which officials attributed to multiple assistors completing the final steps to close the case. In early January 2016, IRS sent the primary and secondary taxpayers IP PINs to use for filing their 2015 tax return.

Case 5

In February 2015, a legitimate taxpayer e-filed a 2014 tax return that IRS accepted, claimed two dependents, and requested a refund of about \$5,100. IRS put a hold on the refund because its IDT filters identified suspicious information. IRS sent the taxpayer a letter asking the taxpayer to confirm their identity. However, the taxpayer did not respond so IRS did not post the return information to the taxpayer's account. In June and July 2015, IRS received two copies of the same 2014 paper tax returns, which it identified as potential IDT.

In August 2015, the legitimate taxpayer visited an IRS walk-in site and was told to allow 6 weeks to receive a refund. IRS then opened an IDT case because the taxpayer confirmed his/her identity. Between October 2015 and January 2016, IRS reassigned the case to multiple assistors seeking one to work the case. In January 2016, IRS received multiple IDT affidavits for tax years 2011, 2013, and 2014. However, IRS determined there was no IDT for these years. In March 2016, the taxpayer called IRS saying he/she had not yet received a 2014 refund. IRS gave the taxpayer the phone number for the National Taxpayer Advocate, which can provide expedited assistance. In June 2016, IRS released the 2014 refund, which included almost \$200 in interest. A month later, IRS closed the case and sent the taxpayer a letter confirming the taxpayer was an IDT victim in prior years, but not for those included on the IDT affidavits. IRS took 329 days to close this case because it remained in inventory. Officials primarily attributed this delay to the difficulty of determining which years the taxpayer was a victim of IDT. Since the case included multiple tax years, IRS policy did not permit closing the case until IDT for all tax years had been resolved. Because IRS closed this case in 2016, it did not send the taxpayer an IP PIN to use for filing his/her 2015 tax return.

Case 6

In January 2015, a fraudster e-filed a 2014 tax return that IRS accepted. A month later, the fraudster received a refund of about \$1,500 via direct deposit. In March 2015, the legitimate taxpayer attempted to e-file, which IRS rejected because it had already received a return for that taxpayer. The legitimate taxpayer mailed a paper 2014 tax return requesting a refund of more than \$1,600 and included an IDT affidavit. IRS mailed a letter to the legitimate taxpayer acknowledging receipt of the affidavit and, in May 2015, opened an IDT case. The case remained in inventory for about 3 months and was also reassigned to multiple assistors seeking one to work the case. Officials primarily attributed these delays to resource constraints. In August 2015, IRS closed the case after 103 days and sent the legitimate taxpayer a letter confirming the taxpayer was an IDT victim. About 1 month later, after confirming the taxpayer's address

because of a recent move, IRS processed a paper refund check to the taxpayer for more than \$1,600 plus about \$20 interest. In early January 2016, IRS sent the taxpayer an IP PIN to use for filing his/her 2015 tax return.

Case 7

In February 2015, a fraudster e-filed a 2014 tax return that IRS accepted. IRS attempted to process a direct deposit refund of about \$5,400 to the fraudster's bank account in early March 2015, but the bank rejected it. IRS did not suspect fraudulent activity so it wrote to the legitimate taxpayer, whose correct address was on the fraudulent return, stating it was unable to process the refund via direct deposit and would send a paper check. IRS issued that check at the end of March. The legitimate taxpayer received the check, called IRS stating he/she had not yet filed, and returned the check in early April 2015. The legitimate taxpayer then sent IRS a paper 2014 tax return, requested a refund of about \$10,700.

In May 2015, IRS opened an IDT case because it had received two tax returns for the same taxpayer. About 1 month later, an assistor confirmed IDT and a few weeks later sent the legitimate taxpayer a letter stating that IRS was reviewing the return further. In July, the assistor sent the case to IRS's international unit for further review. It remained in inventory for more than 5 months. During this time, the legitimate taxpayer called IRS several times to check on the status of the case and refund. In January 2016, IRS closed the case and the next month sent the taxpayer a letter confirming the taxpayer was an IDT victim. IRS then issued the taxpayer's refund of about \$10,700 plus about \$265 in interest. IRS took 261 days to close the case, which officials attributed in part to resource constraints. In early January 2016, IRS had sent the taxpayer an IP PIN to use for filing his/her 2015 tax return.

Case 8

In early February 2015, a legitimate taxpayer e-filed a 2014 tax return requesting a refund of more than \$600 that IRS accepted. One month later, the taxpayer mailed IRS a duplicate copy of the return. IRS put a hold on these refunds because its IDT filters identified suspicious information and froze the taxpayer's account. In early June 2015, the taxpayer called IRS regarding the 2014 return, but the assistor could not provide information due to possible IDT concerns. The taxpayer had not filed a return since 2008.

In mid-August 2015, the taxpayer submitted an IDT affidavit claiming IDT in 2008, 2010, 2011, and 2013 (for purposes of our study, we reviewed only the 2011 case). In August 2015, IRS sent a letter to the taxpayer

acknowledging receipt of the affidavit and opened a case. The next month, IRS confirmed the taxpayer was an IDT victim for tax year 2011. IRS had processed a fraudulent tax return associated with the taxpayer for that year with about a \$500 refund. However, the fraudster did not receive the refund because the legitimate taxpayer had a balance due, so IRS applied that amount toward the balance. While reviewing the case, IRS removed the fraudulent refund information from the taxpayer's account for 2011, which reinstated the taxpayer's 2008 balance due. IRS then applied the taxpayer's 2014 refund of about \$600 plus \$15 of interest to the taxpayer's account. In September 2015, IRS closed the case after about 1 month and sent the taxpayer a letter confirming the taxpayer was an IDT victim in 2011. In early January 2016, IRS sent the taxpayer an IP PIN to use for filing his/her 2015 tax return.

Case 9

In September 2011, a fraudster e-filed a 2010 tax return that IRS accepted requesting a refund of about \$4,800 via direct deposit. IRS applied about \$2,900 of this refund to the legitimate taxpayer's balance from 2008. The fraudster received the remaining balance of about \$1,900 via direct deposit. In August 2013, the legitimate taxpayer received a notice for not filing and paying taxes owed for tax year 2011. In April 2015, the taxpayer filed tax returns for 2009 through 2015, including for 2010 for which a fraudster had already filed.

About 11 months later, IRS opened a case in March 2016 because IRS had already received a return that it later determined was fraudulent. It took 11 months to open the case, in part, because the taxpayer had submitted the return several years late, prompting IRS to process it as an amended return. The same month, IRS determined that tax year 2010 was the only year that was an IDT case. In September, IRS closed the case after 524 days. According to officials, it took IRS this long to close the case due to the multiple tax years involved. IRS assessed the taxpayer owed about \$2,900 plus penalties. Further, the taxpayer was due a refund of about \$4,700 for tax year 2010, which he/she did not receive because he/she filed outside the statute of limitations for that tax year. Because IRS closed this case in 2016, the taxpayer did not receive an IP PIN to use for filing his/her 2015 tax return.

Case 10

In February 2015, a fraudster e-filed a 2014 tax return that IRS accepted requesting a refund of about \$9,900 via direct deposit. IRS sent the taxpayer a letter because of income that appeared suspicious. IRS put a hold on the refund because its IDT filters identified potential fraud. The taxpayer responded the following month. About that same time, the

legitimate taxpayer attempted to e-file a return. IRS rejected it because it had already received one for that taxpayer. At the end of March 2015, IRS received a paper copy of the 2014 tax return and an IDT affidavit from the legitimate taxpayer. That same month, IRS opened an IDT case because it received the affidavit. IRS reduced the legitimate taxpayer's refund from \$3,600 to about \$3,400 after correcting errors made by the taxpayer. This process took about 3 months. Before IRS could confirm whether the return it received in February 2015 was fraudulent, the hold it placed on the refund automatically expired in early May 2015.¹ At this time, IRS's systems released a direct deposit of almost \$9,900 to the fraudster's bank account. However, the bank declined it. In accordance with IRS processes, IRS then sent a paper check. The check was delivered to the legitimate taxpayer because the fraudster used the taxpayer's correct address on the fraudulent return. The taxpayer cashed this check, although it was about \$6,300 more than he/she had claimed. In late July 2015, IRS confirmed the e-filed return was fraudulent—5 months after being flagged by IRS filters and 4 months after receiving an IDT affidavit and a paper tax return from the legitimate taxpayer. In early September 2015, IRS processed the legitimate taxpayer's return after correcting several errors. At that time, an assistor requested a copy of the paper documents to review the errors and assess the case for identity theft. It took about 5 weeks for IRS to retrieve and scan these documents.

About 2 days after receiving the documents, in October 2015, IRS closed the IDT case and sent the taxpayer a letter confirming the taxpayer was an IDT victim. It then froze the account since the taxpayer had received an excess refund. IRS took 232 days to close the case, primarily because of correcting errors on the taxpayer's return, and delays in retrieving documents from IRS's paper records storage facilities and scanning them into IRS's systems. In November 2015, IRS sent a letter to the taxpayer stating he/she must repay the erroneous refund within 21 days or interest will be charged after this time. When the taxpayer filed his/her 2015 tax return, it included a refund, which IRS used to pay the balance of the erroneous 2014 refund.² In early January 2016, IRS sent the primary and secondary taxpayers IP PINs to use for filing their 2015 tax return.

¹IRS officials explained that, in October 2015, they changed IRS systems so one of the codes used to hold a refund would not automatically expire and release the refund before an assistor completed review of the case.

²In November 2016, IRS officials told us the 2014 balance had been paid in full by offsetting it with a credit from the taxpayer's 2015 account.

Case 11

In February 2015, a fraudster mailed a paper 2014 tax return claiming two dependents that IRS accepted. IRS later issued the fraudster a paper check refund of about \$4,300. A few weeks later, IRS received a paper 2014 tax return from the legitimate taxpayer claiming the same two dependents and requesting a refund of about \$3,900. In March 2015, IRS opened a case because it had received two paper tax returns for the same taxpayer. IRS reassigned the case through various managers, team leads, and assistors for about 3 months before it identified someone who could work the case. In mid-June, the assistor requested that both paper returns be retrieved from IRS's paper records storage facilities and scanned into IRS systems to verify if a return was a duplicate or if it was IDT. This was done because the taxpayer's identification number on the attached Form W-2s differed from the numbers on both tax returns.

Although the requested paper returns had not yet been received, about 3 weeks later, IRS closed the case and sent the taxpayer a letter confirming the taxpayer was an IDT victim. However, the letter did not notify the taxpayer that the dependents' information may have been used to commit fraud. IRS reduced the legitimate taxpayer's refund to about \$2,500 because it could not verify one of the dependents claimed on the return—the legitimate taxpayer made an error entering a dependent's name. However, the fraudster was able to claim both dependents because that return had the correct name and SSN for both dependents.

IRS took 127 days to close this case, in part because of delays requesting and scanning documents and resource constraints. At the end of July, IRS had retrieved and scanned the requested documents into its systems, about 6 weeks after the assistor requested them. In August, IRS processed the legitimate taxpayer's refund, which included about \$23 in interest.

IRS did not issue an IP PIN for this taxpayer to use for filing his/her 2015 tax return, because the taxpayer filed the return using an individual tax identification number, not a SSN.³

³An Individual Taxpayer Identification Number (ITIN) is a tax processing number issued by the IRS. IRS issues ITINs to individuals who are required to have a U.S. taxpayer identification number but do not have, and are not eligible to obtain, a SSN. IRS does not provide IP PINs to taxpayers that use an ITIN because the agency does not have a reasonable level of assurance that the IP PIN would be issued to the correct individual.

Case 12

In February 2015, a fraudster e-filed a 2014 tax return that IRS accepted. The fraudster received a refund of about \$9,600 via direct deposit. In April 2015, IRS received a paper 2014 tax return from the legitimate taxpayer that included a payment of about \$1,500. In June, IRS opened a case because it had received two tax returns for the same taxpayer. One month later, IRS assigned an assistor to the case. In August, IRS closed the case after 64 days. It then sent the taxpayer a letter confirming he/she was an IDT victim and acknowledged IRS had received the payment. Thus, the taxpayer had no remaining balance due. IRS later determined a third party obtained unauthorized access to the taxpayer's tax return information through the "Get Transcript" application. In early January 2016, IRS sent the primary and secondary taxpayers an IP PIN to use for filing their 2015 tax return.

Case 13

In April 2015, a legitimate taxpayer filed for an extension for tax year 2014 and sent in a multimillion dollar payment. IRS put a hold on the account because of the large payment. About that same time, a fraudster e-filed a 2014 tax return that IRS accepted and requested a refund of about \$5,200. However, the fraudster did not receive a refund because of the hold. In October 2015, the legitimate taxpayer attempted to e-file the 2014 return. However, IRS rejected the return because it had already received one for that taxpayer. In early November, the legitimate taxpayer filed a paper 2014 return and requested the refund be applied as an estimated tax payment for 2016.

In November 2015, IRS opened a case because it had received two tax returns for the same taxpayer. Between December 2015 and January 2016, IRS reassigned the case through multiple managers and assistors. It closed the case in January, after 52 days, and sent the taxpayer a letter confirming he/she was an IDT victim.

However, IRS quality review staff reopened the case in late January 2016, in part, because the assistor who closed the case did not properly review the taxpayer's foreign income credit. In March 2016, IRS reassigned the reopened case to the international unit where an assistor determined that the amount of foreign income did not meet IRS's criteria for further review. It sent the case back to an assistor who was involved in the case in January. Between March and June 2016, IRS reassigned the reopened case to multiple assistors, one of whom requested documents be retrieved and scanned in early May. Despite an additional request for scanned documents, none were received. At the end of June 2016, IRS closed the case again. For both the initial case and the subsequent

review, IRS took a total of 216 days to close the case, which officials primarily attributed to resource constraints. Because IRS closed this case in 2016, it did not send the taxpayer an IP PIN to use for filing his/her 2015 tax return.

Case 14

In March 2015, a fraudster e-filed a 2014 tax return that IRS accepted and requested a refund of about \$7,200. Later that month, IRS held the refund because its IDT filters identified potential fraud. IRS sent a letter to the taxpayer stating IRS would be reviewing the return. The legitimate taxpayer received the letter because the fraudster used the legitimate taxpayer's address. In April 2015, the taxpayer called IRS and stated he/she had not yet filed a return. IRS put another hold on the refund and wrote to the taxpayer again, this time confirming it would hold the refund. This same month, the legitimate taxpayer filed for an extension. In July 2015, the legitimate taxpayer's power of attorney called IRS to say that the taxpayer would be filing a return. A week later, IRS received an IDT affidavit from the legitimate taxpayer's spouse.

In October 2015, the taxpayer sent a paper 2014 tax return to IRS requesting a refund of about \$3,500. IRS opened a correspondence case because the taxpayer included several pieces of written correspondence with the return that he/she had previously received from IRS. IRS took 5 months to process the return. Because the taxpayer included a copy of the letter IRS sent to him/her in March, IRS initially treated the return as correspondence rather than a tax return. During this time, IRS reassigned the case through various managers, team leads, and assistors.

In March 2016, IRS closed the case and sent the taxpayer a letter confirming he/she was an IDT victim. About 3 weeks later, IRS processed a refund of about \$3,400. This represents the full refund minus a balance of less than \$100 from a prior year plus about \$100 in interest. IRS took 144 days to close the case, in part due to misclassification of the case as correspondence and reassigning it through multiple assistors. Officials primarily attributed these delays to resource constraints. Because IRS closed this case in 2016, it did not send the taxpayer an IP PIN to use for filing his/her 2015 tax return.

Case 15

In February 2014, a fraudster e-filed a 2013 tax return that IRS accepted and requested a refund of about \$5,500. Over the next 6 weeks, IRS put multiple holds on the refund because its IDT filters identified potential fraud. As a result, the fraudster did not receive a refund. In April 2014, the

legitimate taxpayer filed for an extension for tax year 2013. Later that month, IRS sent the taxpayer a letter stating the return was under review.

In October 2015, IRS received a paper 2013 tax return from the legitimate taxpayer showing a balance owed. However, IRS was unable to post return information to the taxpayer's account until February 2016 because it had to correct a taxpayer error before it could process the return. IRS then opened an IDT case, and assigned the case to an assistor. The assistor did not take action for more than 2 months. IRS reassigned the case to a different assistor who determined the legitimate taxpayer was an IDT victim, had a balance due on the 2013 return, and that a penalty and interest should be assessed due to the late filing. IRS then reassigned the case several times to identify an assistor with availability and the training to calculate the applicable penalties. IRS closed this case in August 2016 and the taxpayer owed tax of about \$6,500. IRS also assessed penalties and interest of more than \$3,500. IRS took 193 days to close the case, in part due to taxpayer errors it had to correct as well as reassigning the case to multiple assistors. IRS attributed these delays primarily to resource constraints. Because IRS closed this case in 2016, it did not send the taxpayer an IP PIN to use for filing his/her 2015 tax return.

Case 16

In January 2015, a fraudster e-filed a 2014 tax return that IRS accepted. The following week, the fraudster received a refund of about \$1,900 via direct deposit. At the end of January 2016, 1 year later, the taxpayer called IRS and was told that the 2014 refund had been issued last year via direct deposit. However, the taxpayer stated he/she had not yet filed a 2014 return. The assistor advised the taxpayer to submit an IDT affidavit. IRS received the affidavit in early February 2016 along with the taxpayer's paper 2014 tax return. In March 2016, IRS opened an IDT case and sent the taxpayer a letter stating it had received the affidavit. In mid-April 2016, IRS closed the case and sent the taxpayer a letter stating he/she had been an IDT victim. IRS closed the case in 71 days. In mid-May, IRS sent the legitimate taxpayer the refund plus about \$60 in interest. Because IRS closed this case in 2016, it did not send the taxpayer an IP PIN to use for filing his/her 2015 tax return.

Appendix VI: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D. C. 20224

January 10, 2017

Ms. Jessica Lucas-Judy
Acting Director, Tax Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Lucas-Judy:

I have reviewed the draft report entitled *2016 FILING SEASON: IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds*, and appreciate the opportunity to respond and provide comments. We appreciate the Government Accountability Office's (GAO) recognition of an improved level of toll-free telephone service over the 2015 filing season, and maintenance of consistently high levels of accuracy for both telephone and correspondence services.

In Fiscal Year 2016, we received a supplemental \$290 million budget appropriation. We used \$178 million of this amount to make measurable improvements in the level of service (LOS) on our toll-free telephone lines, with significantly fewer disconnects due to system overloads. This funding had the effect of increasing our cumulative LOS from 37 percent during the 2015 filing season to a significantly improved 72 percent during the 2016 filing season. With the decline in available funding for use after the filing season, which limited our ability to retain the number of phone assistors, the level of service then dropped to an unattractive level.

In Fiscal Year 2016, our assistors answered 14 million taxpayer inquiries over the telephone. Our customer accuracy rates on telephone service are consistently above 95 percent. The taxpayer correspondence inventory was reduced by 24 percent, from approximately 937,000 at the start of the fiscal year, to 711,000 at the end of Fiscal Year 2016, while reducing our overage inventory percentage from 50 percent at the start of the fiscal year to 37 percent at year end.

We appreciate the GAO's undertaking of a review of our Identity Theft Victim Assistance program. We are pleased that, as the result of our ongoing improvement of our filters designed to identify suspicious returns, along with the success of our ongoing Security Summit Group, the number of taxpayers identifying themselves as victims of identity theft during the 2016 filing season dropped by 50 percent from the year before.

2

We agree with the recommendations to develop an online service dashboard and to identify opportunities for additional training or guidance for employees, to ensure case closings are not unnecessarily prolonged by the requisition of hard-copy documents from storage. We disagree, however, with the statement of facts and conclusions regarding internal control weaknesses.


The report states that the IRS does not know the extent to which its internal control processes prevent the release of fraudulent refunds. We disagree with this statement and the finding upon which it is based. The GAO concluded, after speaking with three focus groups of employees and managers, that frozen refunds were being erroneously released to fraudsters by customer service employees, while the accounts were under the control of other employees and/or other units. The focus group participants claimed this was a common occurrence; however, these claims were not supported by any of the case reviews performed during GAO's testing. While oral testimony can be helpful in identifying potential areas of concern, it should be corroborated by supporting evidence. Without an objective evaluation and corroboration of the testimony, we consider the finding to be speculative. Furthermore, when documentary evidence was provided of the reviews and monitoring activities that refuted the testimony, it was dismissed as insufficient.

Dependents can also be victims of identity theft fraud; however, in many instances it is not clearly apparent which taxpayer can claim the dependent until a review has been completed. Dependents are considered to be victims of tax-related identity theft if the dependent's SSN has been misused as a primary or secondary taxpayer on a fraudulently-filed return. Many parents/filers become aware of the misuse of a dependent's SSN when an attempt is made to electronically file a return and the return is rejected because the dependent's SSN was previously claimed as an exemption on a previously-filed return. We agree there are benefits to improving awareness of the need to protect dependent accounts from potential fraud and will revise applicable notices to alert taxpayers to that point. We will also supplement information on IRS.gov to provide more detailed information on the topic.

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Responses to your specific recommendations are enclosed. If you have any questions, please contact Susan Powers, Director, Operations Support, Wage and Investment Division, at (470) 639-3482.

Sincerely,


John M. Dalrymple
Deputy Commissioner for
Services and Enforcement

Enclosure

Enclosure

Recommendations for Executive Action

We recommend that the Commissioner of Internal Revenue take the following four actions:

RECOMMENDATION 1

Develop and maintain an online dashboard to display customer service standards and performance information such that it is easily accessible and improves the transparency of its taxpayer service.

COMMENT

We agree with the recommendation and will develop an online dashboard to convey service standards and performance information to our customers.

RECOMMENDATION 2

Review its document retrieval and scanning processes to identify potential training or guidance needs or other potential efficiencies.

COMMENT

We agree that additional training and guidance can be provided to employees to ensure hard copy documents are not unnecessarily ordered for retrieval from storage.

RECOMMENDATION 3

Improve existing data, and collect new data, as needed, to effectively monitor how often and why, IRS issues refunds before closing an IDT or duplicate return case. Based upon these data, IRS should take corrective steps to reduce refund errors, such as providing training or immediate guidance to assistors.

COMMENT

We disagree with this recommendation. As noted in the report, the recommendation is based solely on discussions with focus groups. None of the cases reviewed by the Government Accountability Office supported the claim that refunds were erroneously released by other employees. As we discussed with the audit team, we are aware that some refunds are erroneously released in this manner; however, based on continuous review of such payments, we stand by our position that the problem is not widespread. When a refund is released erroneously, feedback is given to the responsible employee. The feedback can range from oral counseling to formal documentation of unacceptable performance, depending on the severity and pattern of continued errors. Both training and procedural guidance is provided to employees on precautions to take with accounts containing frozen refunds. We will continue our current monitoring for this condition and will take additional action if warranted.

2

RECOMMENDATION 4

Revise IRS's notices to IDT refund fraud victims to include information such as (1) whether any dependents were claimed on the fraudulent return, (2) to the extent possible, if those dependents match any of those the taxpayer claimed the same tax year, and (3) how to request a redacted copy of the fraudulent return.

COMMENT

We will revise applicable notices to include precautionary advice to identity theft (IDT) victims of the need to consider the possibility that the personally identifiable information (PII) of their dependents may have also been compromised, and direct them to IRS.gov for updated information on safeguarding themselves and their families against IDT. We will also supplement the online information to advise taxpayers of steps they may take to monitor for potentially fraudulent activity using the PII of their dependents and actions they may take to protect them.

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

Jessica K. Lucas-Judy (202) 512-9110, lucasjudyj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Joanna Stamatiades, Assistant Director; Erin Saunders-Rath, Analyst-in-Charge; Jehan Chase; James Cook; Robert Gebhart; Kirsten B. Lauber; Kimberly Madsen; and Robert Robinson made key contributions to this report.

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