



Treasury Inspector General for Tax Administration Office of Audit

INSUFFICIENT AND INEXPERIENCED STAFF COULD REDUCE THE ABILITY TO DETECT AND STOP FRAUDULENT REFUNDS

Issued on January 8, 2010

Highlights

Highlights of Report Number: 2010-40-017 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Questionable Refund Program (QRP) is a nationwide, multi-functional program designed to detect and stop fraudulent claims for refunds on income tax returns. Pre-refund fraud detection activities have been transferred from the Criminal Investigation Division to the Wage and Investment Division Accounts Management function. Insufficient staffing could result in a reduction of fraudulent refunds identified and stopped, and the inability of the Internal Revenue Service (IRS) to provide timely assistance to taxpayers who experience delays in receiving their refund or who are victims of identity theft.

WHY TIGTA DID THE AUDIT

This audit was initiated to assess IRS efforts to ensure a successful transition of pre-refund fraud detection activities from the Criminal Investigation Division to the Wage and Investment Division. Prior to the release of a refund, the IRS reviews questionable tax returns to determine fraud potential. If a tax return is selected for further verification, the refund is held until employers or third parties are contacted to verify wage information. If the verification concludes that a tax return contains false information (e.g., false or inflated wages), the tax return is referred to either the Accounts Management function or the Examination function for resolution. If fraud was not detected, the IRS releases the refund.

WHAT TIGTA FOUND

The IRS took a number of actions to facilitate the transition of QRP activities to the Wage and Investment Division, and on October 11, 2009, the Accounts Management function assumed responsibility for transitioned activities. However, staffing may not be sufficient, which could result in a reduction of fraudulent refunds identified and stopped, and the inability of the IRS to timely provide assistance to taxpayers experiencing delays in

receiving their refund or who are victims of identity theft.

Management used the actual hours charged by employees in Fiscal Year 2007 for the activities being transitioned and then revalidated the results by using the actual hours charged in Fiscal Year 2008 rather than performing a comprehensive analysis to determine the average time to complete one unit of work. The analysis also did not include an assessment of the anticipated workload volumes by activity for the year.

In addition, the actual hours charged to the transitioned activities in Fiscal Year 2008 are based on a highly experienced staff. However, when the Accounts Management function assumes responsibility for the transitioned activities, the majority of the individuals performing these duties will be new employees. For example, of the 359 employees who will be working on the transitioned activities, 62 percent (222 employees) will be new to the program.

An additional concern is that the 222 new employees will either be seasonal or temporary employees. The hiring of seasonal employees could result in higher turnover rates, thereby reducing the possibility of an increased number of experienced employees performing the work in subsequent years.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, perform a comprehensive analysis during the 2010 Filing Season to determine the average time to complete one unit of work for each of the transitioned activities. The average time to complete one unit of work should then be applied to the anticipated workload volumes to identify staffing resources needed to timely complete these activities in Processing Year 2011.

In their response to the report, IRS officials agreed with the recommendation. The IRS plans to analyze the volume of work and staff hours needed to perform the 2010 Filing Season work in order to determine the resources required to timely complete the projected work in the 2011 Filing Season.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201040017fr.pdf>

Email Address: inquiries@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500