



*Significant Problems Still Exist With Internal
Revenue Service Efforts to Identify Prisoner
Tax Refund Fraud*

December 29, 2010

Reference Number: 2011-40-009

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

2(a) = Law Enforcement Criteria

8 = Agency/Bureau's Decision-Making Process

Phone Number | 202-622-6500

Email Address | inquiries@tigta.treas.gov

Web Site | <http://www.treas.gov/tigta>



HIGHLIGHTS

SIGNIFICANT PROBLEMS STILL EXIST WITH INTERNAL REVENUE SERVICE EFFORTS TO IDENTIFY PRISONER TAX REFUND FRAUD

Highlights

**Final Report issued on
December 29, 2010**

Highlights of Reference Number: 2011-40-009 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Refund fraud committed by prisoners is increasing at a significant rate. The number of fraudulent prisoner tax returns identified by the Internal Revenue Service (IRS) has more than doubled from 18,103 tax returns in Calendar Year 2004 to 44,944 tax returns in Calendar Year 2009. Fraudulent refunds claimed rose from \$68.1 million to \$295.1 million during the same period.

WHY TIGTA DID THE AUDIT

This audit was initiated because the Inmate Tax Fraud Prevention Act of 2008 requires TIGTA to submit a report to Congress by December 31, 2010, on the implementation of the IRS authority to disclose prisoner tax return information to the head of the Federal Bureau of Prisons and State Departments of Corrections. The objective of this review was to assess the IRS's efforts to reduce prisoner fraud, including an assessment of the IRS's compliance with the Inmate Tax Fraud Prevention Act.

WHAT TIGTA FOUND

TIGTA's review identified that as of October 2010, the IRS had not completed required agreements to allow the IRS to disclose prisoner tax return information to prison officials. As a result, no information has been disclosed to either the Federal Bureau of Prisons or State Departments of Corrections.

In addition, the Calendar Year 2009 Report to Congress on prisoner fraud is incomplete. The

report stated the IRS identified 44,944 false/fraudulent prisoner tax returns during Calendar Year 2009. However, the processes the IRS uses to identify prisoner tax returns may result in the IRS understating the amount of prisoner fraud.

Finally, our review of the process used by the Criminal Investigation Division to compile the 2009 prisoner data file identified a lack of managerial oversight to ensure the accuracy and reliability of this file.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS work with the Department of the Treasury to seek legislation to extend the period of time the IRS has to disclose prisoner tax return data to the Federal Bureau of Prisons and State prison officials. TIGTA also recommended that the Commissioner, Wage and Investment Division:

- Revise the annual report to provide Congress with a complete assessment of potential prisoner fraud.
- Ensure all tax returns filed by prisoners are processed through the Electronic Fraud Detection System and receive a prisoner indicator.
- Revise prisoner filters to validate wages and withholding associated with prisoners incarcerated for a year who filed tax returns claiming a refund.
- Develop a process to assess the reliability (accuracy and completeness) of data received from Federal and State prisons.

The IRS agreed with two of our five recommendations and partially agreed with two recommendations. The IRS did not indicate its agreement or disagreement with one recommendation.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

December 29, 2010

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: *Alan R. Dennis*
For Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Significant Problems Still Exist With Internal Revenue Service Efforts to Identify Prisoner Tax Refund Fraud (Audit # 201040010)

This report presents the results of our review of the Internal Revenue Service's (IRS) efforts to reduce prisoner fraud including an assessment of the IRS's compliance with the Inmate Tax Fraud Prevention Act of 2008.¹ The Inmate Tax Fraud Prevention Act of 2008 requires the Treasury Inspector General for Tax Administration to report on the IRS's implementation of the Act no later than December 31, 2010. This audit was included in our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Erroneous Improper Credits and Payments.

IRS management responded that it agreed or partially agreed with our recommendations. However, the IRS response states that it does not agree with our conclusion that the Calendar Year 2009 Report to Congress is incomplete. Management acknowledges that not all prisoner tax returns meet the criteria for inclusion in the Electronic Fraud Detection System. As such, it asserts that these returns correctly did not receive a prisoner indicator.

As noted in our report, we agree some of the prisoner tax returns we identified did not meet the criteria for inclusion in the Electronic Fraud Detection System. However, it is our opinion that every tax return filed by a prisoner should be notated as such with a prisoner indicator without regard for whether or not it meets the Electronic Fraud Detection System criteria. Placing an indicator on each prisoner-filed tax return will alert all functions involved in the processing of tax returns, as well as those functions involved in assessing tax return fraud, so the prisoner status can be considered in all dealings with the tax return.

¹ Pub. L. No. 110-428, 122 Stat. 4839.



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

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.



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Abbreviations

EFDS	Electronic Fraud Detection System
IRS	Internal Revenue Service
TY	Tax Year
SSN	Social Security Number



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Background

Refund fraud committed by prisoners is increasing at a significant rate. The number of fraudulent prisoner tax returns identified by the Internal Revenue Service (IRS) has more than doubled from Calendar Years 2004 to 2009. Figure 1 shows the number of identified false tax returns and the related refund information for Calendar Years 2004 through 2009.

Figure 1: False Prisoner Tax Returns – Calendar Years 2004 - 2009

Calendar Year	False Tax Returns	Refund Claimed¹ (Millions)	Refund Prevented (Millions)	Refund Issued (Millions)
2004	18,103	\$68.1	\$54.6	\$13.4
2005	21,254	\$80.4	\$67.5	\$12.8
2006*	N/A	N/A	N/A	N/A
2007	37,447	\$165.9	\$136.6	\$29.2
2008	47,898	\$190.4	\$162.1	\$28.3
2009	44,944	\$295.1	\$256	\$39.1

* Data were unavailable in Calendar Year 2006.

Source: IRS Criminal Investigation Division.

The Inmate Tax Fraud Prevention Act of 2008,² signed October 15, 2008, provides the IRS with the authority to disclose information on prisoners who have filed or facilitated the filing of a false tax return to the head of the Federal Bureau of Prisons. The Act restricts the use of the data by the Federal Bureau of Prisons to facilitate only administrative actions against an inmate.³ The Act prevents the Federal Bureau of Prisons from sharing inmate tax return data with anyone who is not an officer or employee of the Federal Bureau of Prisons. Congress amended the Act in July 2010⁴ to allow the IRS to share prisoner tax data with State Departments of Corrections.⁵

¹ Refunds Prevented and Refunds Issued will not total the Refunds Claimed for Calendar Years 2004 through 2008 because Refunds Claimed did not include adjustments made during tax return processing in those years.

² Pub. L. No. 110-428, 122 Stat. 4839.

³ Administrative actions include the revocation of privileges such as canteen privileges, outside visits, etc.

⁴ *Homebuyers Assistance and Improvement Act of 2010*, Pub. L. No. 111-198, 124 Stat. 1357.

⁵ State Departments of Corrections is the term we are using for various State agencies that oversee State prisons.



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Provisions included in the Act also require the Secretary of the Treasury to provide an annual report to Congress on the filing of false or fraudulent tax returns by Federal and State prisoners. The Treasury Inspector General for Tax Administration is required to submit a report to Congress by December 31, 2010, on the implementation of the authority to disclose prisoner tax return information. The Act expires on December 31, 2011.

The IRS coordinates with Federal and State prison officials annually to develop its Prisoner File

Each July, the IRS requests data for prisoners incarcerated *****2(a)*****
*****2(a)***** from the Federal Bureau of Prisons and State Departments of Corrections.⁶ The Federal Bureau of Prisons and State Departments of Corrections are not required to provide these data. The IRS requests prisoner data through August 31st of the calendar year including the Social Security Number (SSN), name, date of birth, and incarceration and release dates for each prisoner. The IRS requests these data be provided electronically by September 15th of the calendar year. Once received from the various facilities, the IRS consolidates the data into one comprehensive prisoner file. The prisoner file is the cornerstone of the IRS's efforts to prevent the issuance of fraudulent refunds to prisoners.

In May 2010, the IRS shifted responsibility for maintaining and assembling the prisoner file used to identify tax returns filed by prisoners from the Criminal Investigation Division to the Wage and Investment Division's Pre-Refund Office. IRS management indicated the move would allow the IRS to leverage its data collection knowledge by aligning the collection of prisoner data with other third-party data collection and matching activities.

This review was performed at the IRS Headquarters in Washington, D.C., in the Criminal Investigation Division and at the IRS Wage and Investment Division Headquarters in Atlanta, Georgia, in the Electronic Tax Administration and Refundable Credits function. This review was conducted during the period April through October 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁶ See Appendix V for a copy of the letter sent to the Federal Bureau of Prisons and State prisons.



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Results of Review

Required Agreements Have Not Been Completed to Allow the Internal Revenue Service to Disclose Information to Prison Officials

The law that provides the IRS with the authority to disclose prisoner tax information was passed in October 2008. However, as of October 2010, the IRS had not completed the necessary agreements to share prisoner information. As a result, no information has been disclosed to either the Federal Bureau of Prisons or State Departments of Corrections. Before the IRS can share prisoner tax data, the IRS must develop Memoranda of Understanding with the Federal Bureau of Prisons and each State that outline how the tax return information will be received, secured, and used by the Bureau and the State Departments of Corrections. The IRS's inability to disclose information resulted from delays in developing required Memorandum of Understanding with the Federal Bureau of Prisons and State Departments of Corrections.

Although legislation was passed in October 2008, as of October 2010, the IRS had not completed the necessary agreements to allow disclosure of prisoner tax return information.

Discussions with the IRS and representatives from the Federal Bureau of Prisons indicate that progress on the Memorandum of Understanding was slowed by concerns about whether the Bureau could share data provided by the IRS with legal counsel in the event a prisoner should litigate actions taken by the Bureau. In addition, the Federal Bureau of Prisons had concerns as to whether it could disclose to the prisoner the reason the Bureau was taking adverse action. The Inmate Tax Fraud Prevention Act does not address whether tax return information can be disclosed to legal counsel and/or the prisoner. Subsequent to these concerns being raised, the IRS contacted the Department of Justice for a ruling on the ability to share prisoner tax data in these instances. The Department of Justice provided its opinion on the items in question to the IRS on July 27, 2010. *****8*****. Our discussions with representatives from the Federal Bureau of Prisons in late September 2010 indicate the Bureau was unaware the IRS had received an opinion resolving its concerns.

The following timeline shows that the IRS first met with the Federal Bureau of Prisons in November 2008 and worked with the Bureau on numerous drafts of the Memorandum of Understanding through October 2009. The IRS has not met with the Federal Bureau of Prisons regarding the Memorandum of Understanding since January 2010. Figure 2 provides an overview of actions the IRS has taken to finalize a Memorandum of Understanding with the Federal Bureau of Prisons since passage of this legislation.



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**Figure 2: Actions Taken to Finalize the Memorandum of Understanding
With the Federal Bureau of Prisons**

Date	Event
October 15, 2008	Inmate Tax Fraud Prevention Act signed into law.
October 2008	The IRS assembled a team to develop a Memorandum of Understanding with the Federal Bureau of Prisons.
November 2008 - October 2009	The IRS and the Federal Bureau of Prisons developed numerous drafts of the Memorandum of Understanding based on review/input from both agencies.
January 2010	The IRS met with the Federal Bureau of Prisons several times to discuss the Memorandum of Understanding. *****8***** *****8***** *****8*****The IRS requested an opinion from the Department of Justice Chief Counsel regarding the Federal Bureau of Prisons' concerns with its ability to disclose data to the Department of Justice and/or the prisoner.
March - April 2010	Representatives from IRS Chief Counsel and the Criminal Investigation Division met to discuss the progress on the Memorandum of Understanding.
July 2, 2010	Congress passed the Homebuyers Assistance and Improvement Act of 2010 allowing the IRS to share prisoner tax data with State Departments of Corrections.
July 27, 2010	The IRS received a response from the Department of Justice Chief Counsel resolving the Federal Bureau of Prisons' concerns.
August 31, 2010	The IRS sponsored the Prisoner Tax Compliance Summit. The purpose of the Summit was to address prisoner tax compliance and develop a plan to detect, resolve, and prevent noncompliant filings by prisoners. The Summit involved IRS Civil and Criminal Divisions and the Federal Bureau of Prisons.
September 29, 2010	IRS Chief Counsel completed the review of the Memorandum of Understanding and forwarded the revised agreement for processing.
October 2010	The IRS stated it is on target to have the Memorandum of Understanding with the Federal Bureau of Prisons signed by November 30, 2010. The IRS plans to contact the first State in early November to begin the Memorandum of Understanding process. As a result, no data have been disclosed.

Source: IRS Criminal Investigation Division.

The IRS faces the same challenges in sharing data with State officials. The IRS will have to establish a separate Memorandum of Understanding with each State governing the sharing of prisoner tax data. However, the IRS was not provided the authority to share data with State



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Departments of Corrections until July 2010. This does not provide much time for the IRS to establish the necessary agreements with each State before the law expires in December 2011. Management indicated that it met with representatives of the State of Nevada on November 2, 2010. According to IRS management, State representatives are looking forward to starting the prisoner data exchange and hope to have a Memorandum of Understanding signed before the start of the upcoming filing season.⁷ Nevada will serve as a pilot for the upcoming filing season prior to including all States. The IRS's goal is to have a Memorandum of Understanding for each State in place prior to the 2012 processing year (January 2012). Given the amount of time it has taken for the IRS to develop a Memorandum of Understanding with the Federal Bureau of Prisons (more than 22 months), we are concerned that the IRS will be unable to have all the State agreements in place by December 31, 2011, when the authority to share prisoner tax return data ends.

According to the IRS, the first prisoner tax return data will be shared with the Federal Bureau of Prisons and State Departments of Corrections within 90 days of the signing of the Memorandum of Understanding. Using this guidance, the IRS should begin sharing data with the Federal Bureau of Prisons by March 2011. However, because the IRS does not plan to have the Memoranda of Understanding with the States completed until closer to the end of Calendar Year 2011, it is unlikely the IRS will be in a position to share prisoner tax data with many of the States until after its authority expires.

The IRS indicated that the temporary authority to share prisoner tax data was a test to evaluate the effect that the sharing of this information would have on reducing and preventing prisoner fraud. Our discussions with individuals within the IRS and Federal Bureau of Prisons indicate that the sharing of prisoner tax return information will be beneficial toward this goal. Further, prison officials indicated prisoners may use tax refunds to fund other illegal activity within the prison system such as drug trafficking. Prison officials believe that by reducing the flow of money into the prisons, they can also reduce other illegal activity. As such, the IRS should work to extend the data sharing authority to allow ample time for the IRS to establish the framework needed to ensure disclosures are proper and evaluate the benefit of such disclosures.

Legislative Recommendation

Recommendation 1: To provide adequate time to allow for the exchange of information and determine the benefits of the exchange, the IRS should work with the Department of the Treasury to seek legislation to extend the period of time the IRS has to disclose prisoner tax return data to the Federal Bureau of Prisons and State prison officials.

Management's Response: IRS management agreed with this recommendation and will work with the Department of the Treasury to seek legislation that would provide an

⁷ The filing season is the period from January through mid-April when most individual income tax returns are filed.



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extension of the time allowed to disclose prisoner tax return data to the State and Federal prison officials.

The Calendar Year 2009 Report to Congress on Prisoner Fraud Is Incomplete

The Inmate Tax Fraud Prevention Act did not specify when the IRS's first report on the filing of false/fraudulent prisoner tax returns was to be published. The Act was signed on October 15, 2008, and as such, we believe the IRS should have issued the first annual report shortly after the end of Calendar Year 2009. The IRS did not issue its Calendar Year 2009 report on the filing of false/fraudulent prisoner tax returns until September 2010.

The report stated that the IRS identified 44,944 false/fraudulent prisoner tax returns during Calendar Year 2009.⁸ However, the processes the IRS uses to identify prisoner tax returns may result in the IRS understating the amount of prisoner fraud. For example, we identified 54,410 tax returns filed by prisoners for which the IRS did not identify the tax return as a prisoner tax return. As such, these individuals would not be subjected to the specialized fraud checks the IRS has developed for prisoner-filed tax returns and, therefore, may never be identified as a false/fraudulent prisoner tax return. Further, the information reported to Congress is limited to only those tax returns filed by prisoners that the IRS chose to evaluate for fraud.

Processes used by the IRS to identify tax returns filed by prisoners were not effective. Our review identified 54,410 returns filed by prisoners that were not identified by the IRS.

The primary process the IRS uses to identify tax returns filed by prisoners and to determine if a prisoner tax return is false/fraudulent follows:

- Tax returns are sent through the Electronic Fraud Detection System (EFDS). The EFDS consists of a series of filters the IRS has designed to evaluate tax returns for potential fraud. Once in the EFDS, the tax return is matched to the prisoner file to determine if the tax return was filed by a prisoner.
- If the individual filing the tax return matches a prisoner on the prisoner file, a prisoner indicator is set on the tax return.
- Tax returns with a prisoner indicator are then evaluated for fraud based on predefined criteria specific to prisoner fraud. If a tax return filed by a prisoner does not receive a prisoner indicator, the tax return will not be subjected to the specialized fraud checks the IRS has developed to identify prisoner fraud.

⁸ See Appendix VI for this report.



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Processes do not identify all tax returns filed by prisoners

The criteria used by the IRS to determine if a tax return was filed by a prisoner does not ensure all prisoner tax returns are identified. Our analysis identified 54,410 tax returns that were filed by prisoners during Calendar Year 2009 that were not assigned a prisoner indicator.

- 28,313 (52 percent) tax returns did not meet the IRS’s criteria for inclusion in the EFDS. The criteria used to identify tax returns for EFDS analysis showed that not all tax returns filed by prisoners will be sent to the EFDS. *****2(a)*******
*******2(a)*******
*******2(a)*******
*******2(a)*******.
- 22,832 (42 percent) tax returns were processed through the EFDS but were not assigned a prisoner indicator. Although these tax returns met IRS criteria for setting a prisoner indicator on the tax return, our data showed the indicator was not set. Management agreed that 17,416 of the 22,832 tax returns were not assigned a prisoner indicator but did not provide an explanation as to why. *******2(a)*******
*******2(a)*******
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*******2(a)*******
*******2(a)*******
- 3,265 (6 percent) tax returns met the criteria for inclusion in the EFDS but were not processed through the EFDS. As a result, these tax returns did not have a prisoner indicator and were not subject to the IRS’s special prisoner fraud checks. Management agreed these tax returns were not included in the EFDS but did not provide an explanation as to why they were not included.

Information reported to Congress is limited to only those prisoner tax returns the IRS evaluates for fraud

As we have previously reported,⁹ the majority of tax returns identified as being filed by prisoners are not screened by the IRS to assess the potential that the tax return is fraudulent. The number of prisoner tax returns screened for fraud is based on the likelihood that fraud is present and resources are available to review tax returns. If a tax return filed by a prisoner does not meet certain criteria, it will not be reviewed for fraud. As a result, the number of false or fraudulent

⁹ *The Internal Revenue Service Needs to Do More to Stop the Millions of Dollars in Fraudulent Refunds Paid to Prisoners* (Reference Number 2005-10-164, dated September 28, 2005) and *Expanded Access to Wage and Withholding Information Can Improve Identification of Fraudulent Tax Returns* (Report Number 2010-40-129, dated September 30, 2010).



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prisoner tax returns the IRS reported in its Calendar Year 2009 report is limited to only those tax returns the IRS selected to work and identified as false/fraudulent. The report does not state the total number of tax returns filed by prisoners nor does it tell Congress how many of the tax returns filed by prisoners the IRS chose to evaluate for fraud.

Limitations in the IRS's prisoner tax return selection criteria and resources may be allowing prisoners to receive fraudulent refunds. We analyzed a subset of the 540,984 prisoner tax returns we identified. *****2(a)*****

*****2(a)*****¹⁰ *****

*****2(a)*****

*****2(a)*****

2(a)*. We reported similar concerns in a September 2010 audit report.¹¹ In that report, we reported that the majority of Tax Year (TY) 2009 prisoner tax returns the IRS identified through March 24, 2010, were not screened for potential fraud. Further analysis of these tax returns claiming refunds showed that the tax returns were filed by individuals who had no wage information reported by employers.

While the IRS can report on the number of false/fraudulent tax returns it identifies, it cannot measure the extent of prisoner tax fraud. The IRS's processes do not effectively ensure tax returns filed by prisoners are identified. In addition, IRS criteria to select tax returns for fraud assessment do not ensure all prisoner tax returns identified are evaluated for fraud. As a result, the information provided in the IRS's Calendar Year 2009 Report to Congress understates the extent of prisoner tax filing fraud.

The Inmate Tax Fraud Prevention Act required the IRS to report to Congress on the number of false or fraudulent prisoner tax returns the IRS identified. However, to provide adequate context, we believe the report should also provide information on the total number of prisoner returns as well as an assessment of the IRS's ability to prevent prisoner fraud. For example, it would be helpful to identify any known limitations or problems the IRS faces in identifying tax returns filed by prisoners and stopping refunds claimed before they are issued. Such information would help Congress in determining whether the IRS has the authority and resources it needs to improve its efforts to combat prisoner tax refund fraud.

¹⁰ We focused our analysis on tax returns filed by individuals incarcerated for an entire tax year and who filed as Single or Head of Household because these individuals have little opportunity to earn reportable income during the tax year. In addition, filing as Single or Head of Household eliminates the probability that reported income was earned by a spouse.

¹¹ *Expanded Access to Wage and Withholding Information Can Improve Identification of Fraudulent Tax Returns* (Report Number 2010-40-129, dated September 30, 2010).



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Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Provide Congress with a complete assessment of potential prisoner fraud by revising the annual report to include the total number of tax returns filed by prisoners, the number selected for fraud screening, and the number verified false/fraudulent.

Management's Response: IRS management indicated it would continue to report to Congress all of the prisoner information that is required to be reported by the Inmate Tax Fraud Prevention Act of 2008, such as the number of false and fraudulent returns associated with prisoner filings. In addition, the IRS will respond to future Congressional requests pertaining to prison-related fraud.

Recommendation 3: Ensure all tax returns filed by prisoners are processed through the EFDS and that all tax returns filed by prisoners receive a prisoner indicator.

Management's Response: IRS management partially agreed with this recommendation. Management stated the process was reviewed earlier this year and improvements were made that will improve the IRS's ability to identify those individuals who are incarcerated and assign a prisoner indicator to their accounts. Those individuals who are incarcerated later in the tax year, after the cutoff date necessary for completion of our prisoner file for the coming filing season, will continue to present a challenge with regard to immediately assigning a prisoner indicator. The IRS will continue to take steps to improve processes in this area.

Recommendation 4: Revise prisoner filters to verify the validity of wages and withholding associated with prisoners incarcerated for a year who filed tax returns claiming a refund. For example, these filters should ensure that all tax returns filed by prisoners who are incarcerated for the full tax year and who file as Single or Head of Household are screened and verified for fraud before the tax refund is issued to the prisoner.

Management's Response: IRS management partially agreed with this recommendation. The IRS currently has screens in place to verify the validity of wages and withholding associated with prisoners identified through the voluntary prisoner list from Federal and State authorities. The logistics of acquiring the prisoner data from a myriad of local, State, and Federal facilities require a specific cut-off date for data collection. Therefore, it would not be possible to limit the filters to prisoners incarcerated for the full tax year. The IRS will ensure identified returns, such as returns filed by prisoners claiming Single or Head of Household filing status where it cannot ascertain prison release during the tax year, are considered for examination or other appropriate compliance treatments.



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The Internal Revenue Service Is Working to Improve the Reliability of the Prisoner Data It Uses to Identify Fraudulent Prisoner Tax Returns

Our review of the process used by the Criminal Investigation Division to compile the 2009 prisoner data file identified a lack of managerial oversight to ensure the accuracy and reliability of this file. This is despite the fact that the prisoner file is the single most effective tool that the IRS has to identify potentially fraudulent prisoner tax returns at the time a tax return is filed and prior to issuance of the refund. Our analysis of the 2009 prisoner file identified that key data contained in this file were inaccurate and/or incomplete.

The IRS was unable to identify whether prisoner data were received from all facilities.

Processes were not in place to validate the accuracy and completeness of the 2009 prisoner file

Our analysis of the 2009 prisoner file identified that approximately 12 percent (360,540 records) of almost 3 million records in the 2009 prisoner file were either missing information and/or had inaccurate information.¹² For example, we identified records with missing or inaccurate SSNs, questionable dates of birth, and questionable release dates. It is imperative that this information is accurate because the IRS must rely on it to identify those tax returns most at risk for fraud. For example, the IRS uses the SSN and name shown on the prisoner file to determine if a tax return was filed by a prisoner. Equally important is the accuracy of the date indicating when an individual was incarcerated. The IRS must rely on this date to determine if an individual was incarcerated during the tax year. Our review identified that the Criminal Investigation Division did not establish processes/procedures to evaluate and attempt to correct missing and/or inaccurate information provided by the Federal Bureau of Prisons and State Departments of Corrections.

Inaccurate and/or missing information in the annual prisoner file is an issue we previously reported in September 2005.

In addition, we identified that processes were not established to evaluate the completeness of information included in the 2009 prisoner file. Based on discussions with Criminal Investigation Division management, the IRS had not compiled a master list of Federal and State prisons to evaluate the completeness of the data provided. As a result, the IRS was unable to identify whether prisoner data were received from all facilities and/or to take actions to reach out to non-reporting facilities.

Missing/inaccurate information in the annual prisoner file is the same issue we identified and reported on in a September 2005 report. We reported that approximately 19 percent

¹² See Appendix IV for the details of this measure.



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(550,000 of 2.8 million) of the prisoner records in the 2004 prisoner data file were missing information and/or were inaccurate.¹³ For example, some of the prisoner records did not have a valid SSN or were duplicated in the file.

The IRS is taking steps to improve the prisoner file data

We notified IRS management of our concerns with the reliability of the prisoner file data in August 2010. Management responded that it was aware of the need to improve the accuracy of information in the prisoner file data and was working with the Federal Bureau of Prisons and State Departments of Corrections toward this goal. In its Calendar Year 2009 report on false/fraudulent prisoner tax returns, the IRS reported it has taken the following steps to improve the completeness and accuracy of the data it receives from prison officials:

- Established a cross-functional Pre-Refund Program Executive Steering Committee that chartered a business process improvement effort to address the quality of the prisoner file and streamline the process.
- Initiated outreach efforts to leaders of the Federal Bureau of Prisons and State Departments of Corrections to develop a greater understanding of the issues related to tax compliance in the prison community to improve the IRS's ability to address these unique issues.

In addition, the IRS plans to develop a detailed process to validate prisoner data received from the Federal Bureau of Prisons and State Departments of Corrections as part of the process of compiling the annual prisoner file. Because the IRS is still in the process of developing its data validation plans, it could not provide us with details on how it plans to validate the data or which data elements it will validate. However, our preliminary review of the IRS's efforts to improve the quality of the prisoner data indicates these efforts should improve the overall quality of the prisoner file.

Recommendation

Recommendation 5: The Commissioner, Wage and Investment Division, should develop a process to assess the reliability (accuracy and completeness) of data received from Federal and State prisons. In addition, a process should be developed to communicate with those prison facilities that provide missing/inaccurate information in an attempt to obtain corrected information.

Management's Response: IRS management agreed with this recommendation. A result of the Prisoner Tax Compliance Summit held this summer was the formation of a

¹³ *The Internal Revenue Service Needs to Do More to Stop the Millions of Dollars in Fraudulent Refunds Paid to Prisoners* (Reference Number 2005-10-164, dated September 28, 2005).



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cross-functional team that is investigating standardizing and improving the accuracy of data received from the prisons. The IRS will continue to seek opportunities to improve the accuracy of the data.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the IRS’s efforts to reduce prisoner fraud, including an assessment of the IRS’s compliance with the Inmate Tax Fraud Prevention Act of 2008.¹ To accomplish our objective, we:

- I. Assessed the IRS’s efforts to implement the provisions of the Inmate Tax Fraud Prevention Act of 2008.
 - A. Reviewed the draft Memorandum of Understanding. We also met with the Criminal Investigation Division and the Federal Bureau of Prisons to obtain their opinion on the implementation’s progress. In addition, we created a timeline of IRS’s efforts to implement the Act.
 - B. Requested information from the IRS and the Federal Bureau of Prisons on the facilities under their jurisdiction. We also requested their perspective on the usefulness of receiving prisoner tax return data.
- II. Assessed the completeness and accuracy of the data contained in the IRS’s Calendar Year 2009 Report to Congress.
 - A. Evaluated the reliability of the prisoner indicator. We identified 601,677 prisoner tax returns by matching the Individual Return Transaction File² to the TY 2008 prisoner file. We then matched the 601,677 prisoner tax returns to the EFDS to determine if the prisoner tax return had a prisoner indicator. We identified 54,410 prisoner tax returns that were either not on the EFDS or were on the EFDS but did not have a prisoner indicator.
 - B. Evaluated the accuracy and completeness of the information provided to Congress in the Calendar Year 2009 Report to Congress. We used the TY 2008 and TY 2009 prisoner files and the Individual Return Transaction File *****2(a)*****
*****2(a)*****. Next, we analyzed the transaction codes on the Individual Return Transaction File for the 32,276 tax returns we identified to determine if the IRS had evaluated the tax return for potential fraud. We then determined if the tax returns that were not evaluated for fraud *****2(a)*****

¹ Pub. L. No. 110-428, 122 Stat. 4839.

² Contains all edited, transcribed, and error-corrected data from the U.S. Individual Income Tax Returns (Form 1040 series) and related forms.



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*****2(a)*****

*****³ *****

III. Determined the completeness and reliability of the IRS prisoner file. We evaluated the process the Criminal Investigation Division used to collect, validate, and consolidate prisoner data into the TY 2009 prisoner file. We verified the SSNs contained in the TY 2009 prisoner file against the Social Security Administration’s High Group Listings showing the SSN groups issued as of May 2008. We also evaluated the reasonableness of the date of birth and prisoner release dates contained in the TY 2009 prisoner file. Our analysis identified 360,540 prisoner records that had missing and/or inaccurate SSNs, dates of birth, and/or release dates.

Data Validation Methodology

Part of our objective was to determine if the IRS prisoner file was reliable. We conducted specific audit tests as discussed in Step III. These tests were designed to identify inaccurate, incomplete, or missing prisoner data. In addition, our testing was designed to determine if prisoner information was provided by all prison facilities within each State and the Federal Bureau of Prisons. The results of our assessment are included on page 10 of this report. We also used the IRS Integrated Data Retrieval System⁴ to validate the accuracy of data contained in the Individual Return Transaction File, the EFDS, and the Individual Master File.⁵ Specifically, we validated 6 tax return records on the Individual Return Transaction File, 198 tax return records on the EFDS file, and the Master File transaction codes on 24 tax return records.

Internal controls methodology

Internal controls relate to management’s plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: ensuring the provisions of the Inmate Tax Fraud Prevention Act are implemented, identifying and evaluating the validity of prisoner tax returns, validating prisoner information received from the Federal Bureau of Prisons and State Departments of Corrections, and ensuring prison information is provided by each facility within the Federal Bureau of Prisons and each State.

³ The Data Center Warehouse provides data and data access services through the Treasury Inspector General for Tax Administration Intranet.

⁴ The IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer’s account records.

⁵ The IRS database that maintains transactions and records of individual tax accounts.



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Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

Russell P. Martin, Director

Deann L. Baiza, Audit Manager

Sharla J. Robinson, Lead Auditor

Karen C. Fulte, Senior Auditor

Lawrence N. White, Senior Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Chief, Criminal Investigation Division SE:CI
Deputy Chief, Criminal Investigation Division SE:CI
Deputy Commissioner of Operations, Wage and Investment Division SE:W
Deputy Commissioner of Services, Wage and Investment Division SE:W
Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division
SE:W:ETARC
Director, Refund Crimes, Criminal Investigation Division SE:CI:RC
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Director, Earned Income Tax, Wage and Investment Division SE:W:ETARC:E
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Director, Planning and Strategy, Criminal Investigation Division SE:CI:S:PS
 Chief, Program Evaluation and Improvement, Wage and Investment Division
 SE:W:S:PRA:PEI



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 360,540¹ prisoner records in the annual prisoner file that contain missing or inaccurate information (see page 10).

Methodology Used to Measure the Reported Benefit:

We analyzed the TY 2009 prisoner file to determine if the information contained in the file was reliable. Our analysis included tests to determine if the prisoner file contained valid SSNs, dates of birth, and prisoner release dates.

We matched the first five digits of the SSNs contained in the prisoner file to the Social Security Administration's records of SSNs issued through May 2008. Our analysis identified 326,248 prisoner SSNs that do not appear to have been issued by the Social Security Administration. Further analysis of these SSNs indicates some of the SSNs on the prisoner file contain all zeros or were blank.

We evaluated the prisoner date of birth on the prisoner file for reasonableness. Our analysis identified 995 records with questionable dates of birth. Specifically, we found:

- 928 records with a blank date of birth.
- 7 records with a date of birth during the 1800s.
- 27 records with a date of birth between 1900 and 1910.
- 33 records with a date of birth after 2008.

We also analyzed the prisoner release date for reasonableness. Our analysis identified 33,520 prisoner records with a release date prior to Calendar Year 2007. The IRS requests the Federal Bureau of Prisons and State Departments of Corrections provide information for individuals who are incarcerated *****2(a)*****. Data are to be

¹ The numbers presented below for the 3 categories will not add up to 360,540 because the prisoner file contained duplicate records and a prisoner record could have more than one field with data reliability issues.



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provided through August 31 of the current year. As a result, the TY 2009 prisoner file should only contain records for individuals incarcerated for 365 days or more between January 1, 2007, and August 31, 2009. Individuals who were released from prison before Calendar Year 2007 should not be included in the TY 2009 prisoner file.



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Appendix V

*Internal Revenue Service Request for Prisoner
Information*

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

Criminal Investigation

July 1, 2009

Dear

The purpose of this letter is to once again request prison and prisoner inmate information which is used by the Internal Revenue Service to detect fraudulently filed tax returns submitted in the names and social security numbers of prisoners located within your jurisdiction. The filing of false returns is not an isolated happening nor is it confined only to prisoners. However, prisoners continue to demonstrate their determination to obtain false tax refunds as evidenced by the increase we are seeing in fraudulent prisoner refund schemes.

For the past several years, you have supplied valuable information which has assisted in protecting our nation's revenue by identifying millions of dollars in potentially fraudulent returns filed by prisoners. You are our most important source of prisoner identity information. We would like to extend our thanks for assistance provided in previous years. You have contributed significantly to our ongoing efforts to reduce the government's vulnerability to fraud and abuse by preventing the loss of substantial dollars in false refunds. It is paramount that we continue our cooperative efforts.

As in prior years, there are two files requested: one for prisoner information and the other for prisoner/institution information. *****2(a)*****
*****2(a)*****
*****2(a)*****. It is vital that we received accurate and timely information to allow us to ensure that prisoner identity information is not utilized to perpetrate fraud. Please send the information directly to Susan DiBenedetto, Management and Program Analyst, Refund Crimes office, no later than September 15, 2009 (see attached for address).

Please contact me at 202-622-7140 if you have any questions regarding this request. You may also contact Management and Program Analyst Susan DiBenedetto at 202-927-4063, or the Acting Director of Systems and Analysis, Marilyn Davidson at 202-622-4676.

Sincerely,

/s/ John Fowler

John S. Fowler
Director, Refund Crimes

Enclosures

cc: [name of technical contact]



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Appendix VI

Calendar Year 2009 Report on False and Fraudulent Prisoner Tax Returns¹

H.R. 7082 (Public Law No: 110-428) – Inmate Tax Fraud Prevention Act of 2008

Background:

This report is issued pursuant to the requirements of H. R. 7082 (Public Law No: 110-428) cited as the 'Inmate Tax Fraud Prevention Act of 2008 (the Act)' which was enacted on October 15, 2008. In addition to amending Title 26 USC Section 6103 to allow for the Internal Revenue Service (IRS) to make disclosures of certain return information of prisoners to the head of the Federal Bureau of Prisons, the Act also requires that "The Secretary of the Treasury shall annually submit to Congress and make publicly available a report on the filing of false and fraudulent returns by individuals incarcerated in Federal and State prisons. Such report shall include statistics on the number of false and fraudulent returns associated with each Federal and State prison."

Introduction:

The IRS annually processes millions of tax returns, including those filed by incarcerated individuals. These individuals, like all other taxpayers, have a legal obligation to pay their taxes and are entitled to a refund of any overpaid taxes. For calendar year 2009, the IRS identified over forty-four thousand *false* returns filed by prisoners. The IRS takes this and all forms of fraud seriously and precautions have been instituted to prevent associated refunds from being issued.

The IRS has fraud detection systems in place to identify and prevent the issuance of tax refunds based on false returns. These systems include the ability to determine whether the individual filing is incarcerated. While these systems have greatly enhanced the way the IRS identifies false returns, IRS is still unable to detect all false returns. Each year, the Director of Refund Crimes requests information from the Federal Bureau of Prisons (BOP), the 50 states, and the District of Columbia regarding all prisoners on roll over the previous 32 months. The information is provided on a voluntary basis by the prisons and no Federal or state correctional institution is under legal obligation to



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provide this data. Consequently, the completeness and accuracy of the data received is not always ideal and thus affects the IRS's ability to identify fraudulent returns filed by prison inmates. It should be noted, however, that the BOP has provided the IRS with prisoner data on every occasion that it has been requested in order to assist the IRS in its efforts to combat prisoner tax fraud. Furthermore, the BOP has also provided expertise to IRS officials regarding additional measures taken to reduce fraudulent filings, including the BOP's verification of negotiable instruments sent to inmates from the U.S. Treasury.

Furthermore, IRS's Criminal Investigation Division (CI) cannot prosecute every prisoner who commits refund fraud because we must be prudent with the Federal Government's limited investigative and prosecutorial resources. Investigations of prisoner refund fraud commonly involve the use of stolen identities and frequently involve co-conspirators that are not incarcerated. Hence, CI focuses its efforts on identifying those on the "outside" that assist with these schemes.

In May 2010, the responsibility for maintaining and assembling the prisoner file was transferred from CI to the Wage and Investment Division (W&I). Prior to this, a cross-functional Executive Steering Committee (ESC)—The Pre-Refund Program ESC—chartered a business process improvement effort to address the quality of the prisoner file and to streamline the process. W&I adopted and expanded this plan. High-level components of the plan included development of a letter to State and Federal prison authorities and technical contacts requesting that the authorities submit a file of prisoners incarcerated during the past 32 months, as well as a list of prison facilities and addresses. The resulting 102 files (from the states, D.C., and the Federal Bureau of Prisons) will be consolidated and perfected in the fall of 2010 for systemic access and matching. The plan also includes outreach from the Office of the Commissioner, W&I to leaders in the Federal Bureau of Prisons and state agencies. This outreach effort will be followed up with interviews with officials to develop a greater understanding of the issues relating to tax compliance in the prisoner community to improve IRS's ability to address these unique issues. In addition to the collection of the data, W&I is pursuing a modeling effort to improve IRS's ability to identify prisoners in real time with Earned Income Tax Credit claims for which they are ineligible. Finally, W&I has actively participated in an audit by the Treasury Inspector General for Tax Administration of the First Time Homebuyer Credit compliance effort that noted fraudulent claims by prisoners.

States have identified refund fraud within their respective institutions as a significant threat and have indicated a desire to obtain information on fraudulent refund schemes and impose criminal or administrative sanctions on the offending inmates. In the past, Title 26 USC Section 6103 Disclosure Laws did not allow for the sharing of tax return information with prisons (state or Federal). Some progress was made in 2008 with the



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enactment of the Inmate Tax Fraud Prevention Act, which authorizes IRS to disclose tax return information to the Federal Bureau of Prisons. However, Federal inmates represent only 6.6 percent of the fraudulent returns filed by all prisoners. We anticipate that the recent enactment of the Homebuyer Assistance and Improvement Act of 2010 (Public Law 111-198) will result in even more progress. The Homebuyer Assistance and Improvement Act authorizes the disclosure of tax return information to state prison officials and should result in closer cooperation between the IRS and state prison officials in shutting down fraudulent refund schemes.

Findings:

For calendar year 2009, the IRS identified 44,944 false returns filed by prisoners. Below is a synopsis of the number of false and fraudulent returns associated with each Federal and state prison.

Table 1 (attached): Summarizes the identified fraudulent returns received from incarcerated individuals by state. The table includes data for all 50 states as well as the District of Columbia and the Federal Bureau of Prisons. Identified inmates incarcerated in Florida, California and Georgia account for 19,841 of the identified fraudulent tax returns filed. These three states account for over 44 percent of the 44,944 false prisoner returns identified.

Table 2 (attached): Summarizes the identified false and fraudulent returns received from individuals classified as prisoners by institution within each state. The table includes data for all 50 states as well as the District of Columbia and the Federal Bureau of Prisons. In certain instances, totals for individual institutions were below statistical reporting requirements and are aggregated by state as denoted by an asterisk (*). In other instances, data for the states was aggregated with other states at the end of the report in line item "Aggregation of State Institutions below statistical requirements." These instances are denoted in Attachment 2 with a caret (^).



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Appendix VII

Management's Response to the Draft Report



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

Criminal Investigation

December 15, 2010

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Victor S. O. Song
Chief, Criminal Investigation (SE:CI)

SUBJECT: Response to Draft Audit Report—Significant Problems Still Exist With the Internal Revenue Service Efforts to Identify Prisoner Tax Refund Fraud (Audit # 201040010)

Stopping prisoner tax refund fraud is an area of continued focus for the Internal Revenue Service (IRS). We agree that prisoner tax refund fraud is a very serious issue and appreciate the TIGTA's acknowledgment of the progress we have made in this area.

Your report recognizes the Wage and Investment Division's new role, and the support that Criminal Investigation (CI) is providing with this transition. We also want to assure you that this transition does not change CI's commitment to investigate and seek criminal prosecution when prisoners perpetrate egregious tax crimes. In fact, this transition will allow CI to focus more effectively on this aspect.

This year, the IRS made several changes and enhancements to address prisoner tax issues. The IRS' efforts include outreach to assist prisoners, as well as enforcement to combat prisoner fraud and tax non-compliance.

Some of this year's accomplishments include:

- Working with the Federal Bureau of Prisons (FBOP), all the states, and the District of Columbia to collect and consolidate prisoner information for the 2011 tax processing year.
- Developing an Information Technology application that will further assist the IRS in identifying prisoners and resolving false claims.
- Holding a prisoner tax compliance summit in late August 2010 between IRS executives and FBOP officials to develop a strategy to detect, resolve, and prevent non-compliant prisoner tax filing.



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- Chartering four cross functional teams to develop a five year plan to increase prisoner compliance:
 - Data exchange team: focused on improving quality of the information IRS receives on prisoners.
 - Outreach team: focused on educating prisoners enrolled in Pre-Release Reentry programs on meeting their tax obligations.
 - Compliance team: focused on improving business rules and selection criteria for detecting and resolving false prisoner returns.
 - Memorandum of Understanding (MOU) team: focused on facilitating data exchanges per the Inmate Tax Fraud Prevention Act.
- Educating FBOP staff on Frivolous Filings. As a result, the FBOP will be determining whether FBOP policy changes could hinder prisoners from creating and filing false returns and documents in the future.

The IRS disagrees with the assertion in the report that the **calendar year 2009 report to Congress is incomplete**. The IRS did report all false or fraudulent prisoner tax returns identified, as required under the Inmate Tax Fraud Prevention Act. The TIGTA report identifies an additional 54,410 returns filed by prisoners that were not assigned a prisoner indicator, inferring that these should have been screened and potentially reported to Congress. The IRS agrees that 3,265 prisoner returns that should have been processed through the Electronic Fraud Detection System (EFDS) were not. However, the remaining returns identified by TIGTA deserve additional clarification as follows:

- The 28,313 tax returns identified in the report on page seven were actually identified and purposely excluded from further review. These prisoner returns did not meet one of the requirements for input into the EFDS: paper filed tax returns claiming refunds of less than one dollar. Since these returns had a refund of less than one dollar, they do not contribute to the problem of false tax refunds going to prisoners.
- The report also states on that an additional 22,832 tax returns were processed through EFDS but did not receive a prisoner indicator. The IRS' records indicate the number of returns not receiving a prisoner indicator in EFDS was actually 17,416. These 17,416 tax returns may not have received a prisoner indicator, but were in fact screened for fraud using the same methodology as all tax returns input to EFDS.

It is also important to note that there are numerous ways a prisoner could, and does, earn income while incarcerated. Prisoners, like all other taxpayers, are responsible for paying federal income taxes on all taxable income. They further may choose to file a



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tax return claiming a refund of withholdings, even if their income does not meet the minimum filing requirement. Some prison systems pay minimum wage to their prisoners which total more than the minimum filing requirement. Also, many “white collar” prisoners continue to have investments and businesses operating while they are in prison. They are receiving income from these investments/businesses in the form of distributions, dividends, interest, and other income. Depending on the amount of these earnings, these prisoners may also be required to file a tax return and may be entitled to a tax refund, which could be significant.

Attachment



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ATTACHMENT

The Commissioner, Wage and Investment Division should:

RECOMMENDATION 1: To provide adequate time to allow for the exchange of information and determine the benefits of the exchange, the IRS should work with the Department of the Treasury to seek legislation to extend the period of time the IRS has to disclose prisoner tax return data to the Federal Bureau of Prisons and State prison officials.

CORRECTIVE ACTION

We agree with this recommendation. The IRS will work with the Department of the Treasury to seek legislation that would provide an extension of the time allowed to disclose prisoner tax return data to the State and Federal prison officials.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

Director, Earned Income Credit Office and Pre Refund Program, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2: Provide Congress with a complete assessment of potential prisoner fraud by revising the annual report to include the total number of tax returns filed by prisoners, number selected for fraud screening, and the number verified false/fraudulent.

CORRECTIVE ACTION

We will continue to report to Congress all of the prisoner information that is required to be reported by the Inmate Tax Fraud Prevention Act of 2008, such as the number of false and fraudulent returns associated with prisoner filings. In addition, IRS will respond to future Congressional requests pertaining to prisoner-related fraud.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A



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RECOMMENDATION 3: Ensure all tax returns filed by prisoners are processed through the Electronic Fraud Detection System and that all tax returns filed by prisoners receive a prisoner indicator.

CORRECTIVE ACTION

We partially agree with this recommendation. The process was reviewed early this year, and improvements were made that will improve our ability to identify those individuals who are incarcerated and assign a prisoner indicator to their account. Those individuals who are incarcerated later in the tax year, after the cutoff date necessary for the compilation of our prisoner file for the coming filing season, will continue to represent a challenge with regard to immediately assigning a prisoner indicator. We will continue to take steps to improve processes in this area. *****2(a)*****

IMPLEMENTATION DATE

Completed

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 4: Revise prisoner filters to verify the validity of wages and withholding associated with prisoners incarcerated for a year who filed tax returns claiming a refund. For example, these filters should ensure that all tax returns filed by prisoners who are incarcerated for the full tax year and who file as Single or Head of Household are screened and verified for fraud before the tax refund is issued to the prisoner.

CORRECTIVE ACTION

We partially agree with this recommendation. The IRS currently has screens in place to verify the validity of wages and withholding associated with prisoners identified through the voluntary prisoner listing from Federal and State authorities. We continue to work with the prisoner authorities to ensure the prisoner data file is as accurate and complete as possible. The logistics of acquiring the prisoner data from a myriad of local, state, and federal facilities require a specific cut-off date for data collection. Therefore, it would not be possible to limit our filters to prisoners who were incarcerated for the full tax year. We will ensure identified returns, such as returns filed by prisoners claiming Single or Head of Household filing status where we cannot ascertain prison release during the tax year, are considered for examination or other appropriate compliance treatments.



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IMPLEMENTATION DATE

December 15, 2011

RESPONSIBLE OFFICIAL

Director, Earned Income Credit Office and Pre Refund Program, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 5: The Commissioner, Wage and Investment Division, should develop a process to assess the reliability (accuracy and completeness) of data received from Federal and State Prisons. In addition, a process should be developed to communicate with those prison facilities that provide missing/inaccurate information in an attempt to obtain corrected information.

CORRECTIVE ACTION

We agree with this recommendation. A result of the Prisoner Tax Compliance Summit held this summer was the formation of a cross functional team that is investigating standardizing and improving the accuracy of data received from the prisons. We will continue to seek opportunities to improve the accuracy of the data.

IMPLEMENTATION DATE

January 15, 2012

RESPONSIBLE OFFICIAL

Director, Earned Income Credit Office and Pre Refund Program, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

IRS will monitor this corrective action as part of our internal management system of controls.