



COMMISSIONER


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

December 22, 1999

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MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM:

Charles O. Rossettli 
Commissioner of Internal Revenue

SUBJECT:

Draft Treasury Inspector General for Tax Administration (TIGTA)
Audit Report - The Internal Revenue Service (IRS) Can Improve
the Effectiveness of Questionable Refund Detection Team
Activities (Ref. #19990007)

Thank you for the opportunity to respond to your draft report dated November 1, 1999. The IRS' Questionable Refund Program is extremely important to the IRS' Revenue Protection Strategy and fraud detection in general. We appreciate your efforts in support of our objectives to improve the program.

I have attached our responses to the eight recommendations in the Draft Report. The very detailed information contained in your Draft Report is considered *FOR OFFICIAL USE ONLY* under the provisions of IRM 1.3, Disclosure of Official Information Handbook; IRS Notice 393 (Rev. 4/94), Information on an IRS Determination to Withhold Records Exempt from FOIA - Title 5 U.S.C. 552; and Department of Justice, FOIA Guide & Privacy Overview, Sept. 1998. I presume the final report will be published in similar form and, therefore, should be appropriately annotated and should not be released for public consumption. The merit of these recommendations is apparent, and corrective actions will be employed as indicated in the attachment.

Questions regarding this response should be directed to Gary D. Bell, National Director Tax Refund Fraud, OP:CI:ORF, at (202) 622-7140, or Bill Turner of his staff at (202) 622-7795.

Attachment

cc: Director, Policy and Information Division OP:CI:PI

This response 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:

2b = Law Enforcement Guideline(s)

2e = Law Enforcement Procedure(s)

**Response to Draft Internal Audit Report
The Internal Revenue Service (IRS) Can Improve the
Effectiveness of Questionable Refund Detection Team (QRDT)
Activities (Ref. #19990007)
November 24, 1999**

Recommendation #1

Establish national guidelines detailing the process QRDT personnel should follow 2b, 2e

2b, 2e

Assessment of Cause(s):

Detailed, written guidelines 2b, 2e

2b, 2e have not been issued by the Office of Refund Fraud (ORF).

Corrective Action(s):

We agree with this finding and the recommendation. National guidelines will be issued for the 2000 processing year.

Implementation Date:

Completed: _____

Proposed: 1/15/2000

Responsible Official(s):

Office of Refund Fraud DP:CI:ORF

Corrective Action(s) Monitoring Plan:

The corrective action employed by this recommendation will be incorporated into the formal Criminal Investigation Division Review and Evaluation Program for oversight and monitoring of continued performance in the Service Center Criminal Investigation Branches.

Recommendation #2

Review the cases identified by the Treasury Inspector General for Tax Administration on IRS computer records to determine whether the 2b, 2e

2b, 2e

Assessment of Cause(s):

Detailed, written guidelines 2b, 2e

2b, 2e have not been issued by the Office of Refund Fraud.

Corrective Action(s):

We agree with this finding and the recommendation. The applicable QRDTs will be requested 2b, 2e for the cases identified by the Treasury Inspector General for Tax Administration (TIGTA). Information regarding the specific cases was provided by TIGTA to the National Director, Tax Refund Fraud, on 12/03/99.

Implementation Date:

Completed: _____

Proposed: 1/15/2000

Responsible Official(s):

Office of Refund Fraud OP:Ct:ORF

Corrective Action(s) Monitoring Plan:

The corrective action employed by this recommendation will be incorporated into the formal Criminal Investigation Division Review and Evaluation Program for oversight and monitoring of continued performance in the Service Center Criminal Investigation Branches.

Recommendation #3

Ensure that QRDT personnel who are currently authorized to access the five Electronic Fraud Detection System's (EFDS) databases research this information on a more frequent basis when identifying fraudulent returns.

Assessment of Cause(s):

Apparently the QRDTs are not following the instructions issued by ORF to develop the complete scope of detected Questionable Refund Program (QRP) Schemes. All QRDTs have been approved to add EFDS users from the other QRDTs. For example, during processing year 1999, each QRDT was authorized up to 10 users to each Electronic Filing (ELF) host site. The purpose was twofold: 1) To screen ELF returns that were transhipped to a different ELF host site; 2) Conduct queries to develop QRP schemes.

Corrective Action(s):

We agree with this finding and the recommendation. The Office of Refund Fraud will reissue appropriate instructions to the Service Center Criminal Investigation Branch Chiefs.

Implementation Date:

Completed: _____

Proposed: 1/15/2000

Responsible Official(s):

Office of Refund Fraud OP:Ct:ORF

Corrective Action(s) Monitoring Plan:

The corrective action employed by this recommendation will be incorporated into the formal Criminal Investigation Division Review and Evaluation Program for oversight and monitoring of continued performance in the Service Center Criminal Investigation Branches.

Recommendation #4
 Assess the technical modifications necessary to enable additional QRDT personnel to access national EFDS information as appropriate.

Assessment of Cause(s):
 System limitation is not creating the problem cited. Instead, the QRDTs are not following procedures to fully develop detected QRP schemes. Each site had the capability of adding numerous users to other sites in 1999. In fact, during the ELF redistribution of work, most sites added up to 10 people to other ELF host sites for the purpose of scanning the daily QRP ELF work on EFDS.

Corrective Action(s):
 The Office of Refund Fraud will reissue instructions to the Service Center Criminal Investigation Branch Chiefs regarding the need to add users to the other ELF hosts for the purpose of QRP scheme development. Additionally, they must ensure that the research is conducted on a routine basis.

Implementation Date:

Completed: _____

Proposed: 1/15/2000

Responsible Official(s):

Office of Refund Fraud OP:CI:ORF

Corrective Action(s) Monitoring Plan:

The corrective action employed by this recommendation will be incorporated into the formal Criminal Investigation Division Review and Evaluation Program for oversight and monitoring of continued performance in the Service Center Criminal Investigation Branches.

Recommendation #5

Ensure that the TECS is used, as appropriate, to better identify fraudulent returns.

Assessment of Cause(s):

The QRDTs do not appear to be using TECS INTEL on a routine basis.

Corrective Action(s):

We agree with this finding and recommendation. The Office of Refund Fraud will issue instructions accordingly to the Service Center Criminal Investigation Branch Chiefs.

Implementation Date:

Completed: _____

Proposed: 1/15/2000

Responsible Official(s):
Office of Refund Fraud OP:CI:ORF

Corrective Action(s) Monitoring Plan:
The corrective action employed by this recommendation will be incorporated into the formal Criminal Investigation Division Review and Evaluation Program for oversight and monitoring of continued performance in the Service Center Criminal Investigation Branches.

Recommendation #6
Establish national procedures related to the use of TC 916/918 to ensure consistent treatment of taxpayers.

Assessment of Cause(s):
Criminal Investigation Branch (CIB) management does not appear to be approving and monitoring the TC 916/918 controls according to national procedures.

Corrective Action(s):
We agree with the finding and the recommendation. The Office of Refund Fraud will reissue national guidelines to the Service Center Criminal Investigation Branch Chiefs.

Implementation Date:

Completed: _____

Proposed: 1/15/2000

Responsible Official(s):
Office of Refund Fraud OP:CI:ORF

Corrective Action(s) Monitoring Plan:
The corrective action employed by this recommendation will be incorporated into the formal Criminal Investigation Division Review and Evaluation Program for oversight and monitoring of continued performance in the Service Center Criminal Investigation Branches.

Recommendation #7
Develop procedures to provide clear guidelines to CIBs on how the quarterly Control Case Inventory Reports should be reconciled, and when case controls should be removed.

Assessment of Cause(s):
Written, detailed guidelines have not been provided to the CIBs. The current IRM guidelines are general in nature.

Corrective Action(s):

We agree with the finding and the recommendation. The Office of Refund Fraud will issue detailed national guidelines to the Service Center Criminal Investigation Branch Chiefs.

Implementation Date:

Completed: _____

Proposed: 1/31/2000

Responsible Official(s):

Office of Refund Fraud OP:CI:ORF

Corrective Action(s) Monitoring Plan:

The corrective action employed by this recommendation will be incorporated into the formal Criminal Investigation Division Review and Evaluation Program for oversight and monitoring of continued performance in the Service Center Criminal Investigation Branches.

Recommendation #3

Re-emphasize to QRDT personnel the need to verify refunds for suspicious returns within established guidelines and release legitimate refunds as appropriate.

Assessment of Cause(s):

CIB management does not appear to be following the guidelines provided by the Office of Refund Fraud.

Corrective Action(s):

We agree with this finding and recommendation. The established guidelines will be reissued to the CIBs.

Implementation Date:

Completed: _____

Proposed: 1/15/2000

Responsible Official(s):

Office of Refund Fraud OP:CI:ORF

Corrective Action(s) Monitoring Plan:

The corrective action employed by this recommendation will be incorporated into the formal Criminal Investigation Division Review and Evaluation Program for oversight and monitoring of continued performance in the Service Center Criminal Investigation Branches.