



Treasury Inspector General for Tax Administration Office of Audit

PROCESSES ARE NOT SUFFICIENT TO MINIMIZE FRAUD AND ENSURE THE ACCURACY OF TAX REFUND DIRECT DEPOSITS

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Highlights

Highlights of Report Number: 2008-40-182 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) states that direct deposit provides taxpayers with a faster, more secure, more convenient means of receiving their tax refunds. However, the IRS has not developed processes to ensure that the more than 61 million Filing Season 2008 tax refunds were deposited only to an account in the name of the filer, as required by Federal direct deposit regulations. Consequently, there is an increased risk of refund fraud as well as the potential that inadvertent errors can result in depositing refunds into the wrong bank account.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of the TIGTA Fiscal Year 2008 Annual Audit Plan and is related to the Major Management Challenge of erroneous and improper payments. The overall objective of this review was to determine whether the IRS processes and controls over the direct deposit of refunds into taxpayer bank accounts are adequate to ensure that deposits are accurate and to identify potentially misrouted or fraudulent direct deposits.

WHAT TIGTA FOUND

The IRS has not developed sufficient processes to ensure that the more than 61 million Filing Season 2008 tax refunds were deposited to an account in the name of the filer. Federal regulations specify that non-vendor direct deposit payments should be made only to a deposit account in the name of the recipient. The IRS acknowledged that tax refunds are subject to payment guidance in the regulations but stated that the regulations do not specify responsibility for enforcing the requirements. The IRS places responsibility for compliance with Federal direct deposit regulations on the taxpayer—indicating it is the taxpayer's responsibility to ensure that their

tax refunds are only directly deposited into their accounts. TIGTA believes that the IRS is responsible for enforcing the requirement. Representatives from the Financial Management Service also stated that the IRS is responsible for enforcing the requirement.

The IRS has taken limited actions to ensure the accuracy of direct deposit information. Nonetheless, some tax refunds are being sent to accounts that are not in the name of the taxpayer. For Calendar Year 2007, over 700,000 bank accounts received 3 or more tax refunds, totaling approximately \$8.14 billion. In addition, during Calendar Year 2006, the IRS worked an estimated 1,800 cases in which a taxpayer's refund was deposited into an account not in their name resulting from a taxpayer or IRS transcription error, with most being taxpayer error.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, coordinate with responsible Federal agencies and banking institutions to develop a process to ensure that direct deposit payments are made only to a deposit account in the name of the recipient. Meanwhile, the IRS should limit the number of direct deposits being sent to the same account. Also, an education campaign should be developed to alert stakeholders of the requirements. Finally, the IRS should also improve procedures for assisting taxpayers in recovering their erroneously deposited tax refunds.

The IRS disagreed that it should coordinate with responsible Federal agencies and banking institutions because it is beyond the jurisdiction of the IRS. It also disagreed that it should limit the number of direct deposits to the same account because it would not meet the requirements of the regulations and because of difficulties implementing a similar control in the past. The IRS did not propose any significant corrective actions to address the first recommendation. IRS officials stated that they agreed with our other two recommendations and plan to take corrective actions.

TIGTA is concerned with the lack of proposed corrective actions for our first recommendation. Individuals have used direct deposit to commit refund fraud and there are instances in which thousands of refunds were sent to the same account in violation of Federal regulations. As the use of direct deposit grows, the risk of potential large-scale fraud will increase.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2008reports/200840182fr.pdf>

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