

**Key Steps Have Been Initiated, but Additional  
Emphasis Is Needed on the Oversight of the  
Wage and Investment Fraud Program**

**October 2003**

**Reference Number: 2004-40-002**

**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.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

October 16, 2003

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Assistant Inspector General for Audit (Small Business and  
Corporate Programs)

SUBJECT: Final Audit Report - Key Steps Have Been Initiated, but  
Additional Emphasis Is Needed on the Oversight of the Wage  
and Investment Fraud Program (Audit # 200340033)

This report presents the results of our review of the Wage and Investment (W&I) Division's Reporting Compliance function fraud program. The overall objective of this review was to determine whether the W&I Division's Reporting Compliance function has an effective fraud program. The W&I Division's Reporting Compliance function is responsible for the oversight of the Correspondence Examination<sup>1</sup> and Automated Underreporter (AUR)<sup>2</sup> Programs.

In summary, the Reporting Compliance function is taking steps to strengthen its fraud program. Since the Internal Revenue Service (IRS) reorganization in 2001, the W&I Division has not developed a significant fraud program. Third parties, such as employers, banks, and brokerage firms, report most of the income for W&I Division taxpayers, and the W&I Division mainly relies on automated systems to identify fraudulent issues. However, the W&I Division recognizes the need to strengthen its Reporting Compliance fraud program by improving fraud awareness and coordinating with other IRS offices and functions. Correspondence Examination fraud coordinators have been appointed on each W&I Division campus<sup>3</sup> and meetings have been held with other IRS offices and functions to coordinate fraud program activities. In addition,

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<sup>1</sup> The Correspondence Examination Program addresses and examines issues on tax returns that can be resolved through written correspondence versus face-to-face contact with taxpayers. Issues generally involve overstated deductions and credits, and improper filing statuses and exemptions.

<sup>2</sup> The AUR Program is a computer-based program that matches taxpayer income and deductions submitted by third parties on information tax returns against amounts reported on individual income tax returns.

<sup>3</sup> The campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.

Reporting Compliance function managers have taken initial steps to address the needs of an AUR fraud program. Meetings have been held with other IRS offices and functions to plan fraud training and to coordinate fraud program activities.

Although the Reporting Compliance function has taken key steps to strengthen its fraud program, communication is fragmented and has not incorporated the necessary accountabilities. Reporting Compliance function management has not communicated to the Correspondence Examination and AUR Program managers their expectations for, or the importance of, the fraud program. The Correspondence Examination and AUR Programs do not have an effective system to control potential fraud cases referred to other IRS offices and functions. Additionally, Correspondence Examination and AUR Program employees have not received fraud training, and procedures are inconsistent among W&I Division campuses when referring cases with fraud indicators.

We recommended that the Commissioner, W&I Division, develop and implement a strategy for the Reporting Compliance fraud program that will communicate to management and employees the importance of the program. This strategy should include developing a method to track and measure the fraud program, fraud program guidance and directives, and fraud training for Reporting Compliance employees responsible for identifying indications of fraudulent taxpayer activity. In addition, selection criteria and performance measures should be established for the campus fraud coordinators.

Management's Response: W&I Division management agreed with our recommendations and recognizes the need to provide more consistent guidance and to improve their communication on fraud identification within the W&I Division Reporting Compliance function. In an effort to measure the effectiveness of the fraud program, the W&I Division Reporting Compliance function is planning to establish a database to track and monitor the activity of all fraud referrals. Management is also implementing a strategy to ensure uniform and consistent fraud training is provided to all W&I Division Reporting Compliance function examiners. In addition, existing fraud coordinator responsibilities, as outlined in the Internal Revenue Manual, will be used to measure campus fraud coordinator performance.

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

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

**Key Steps Have Been Initiated, but Additional Emphasis Is Needed  
on the Oversight of the Wage and Investment Fraud Program**

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## Key Steps Have Been Initiated, but Additional Emphasis Is Needed on the Oversight of the Wage and Investment Fraud Program

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### Background

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The mission of the Internal Revenue Service (IRS) is to provide taxpayers with top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. Taxpayers have the right to reduce, avoid, or minimize their taxes by legitimate means. When taxpayers do not comply with tax laws, enforcement actions (such as the examination of their tax returns) may be appropriate. The IRS uses various techniques and has an extensive system in place to identify tax returns with misreported income or with irregularities that indicate the possibility of fraud.

In Fiscal Year (FY) 2002, the IRS began realigning its resources and enforcement activities to focus on areas of noncompliance with the tax law. On May 7, 2003, the IRS Commissioner stated that one of the major focuses of the IRS would be to strengthen the integrity of the nation's tax system through enhanced enforcement activities. The Commissioner also stated the IRS must deter those who might be inclined to evade their legal tax obligations and appropriately pursue those who actually do so.

The IRS' Wage and Investment (W&I) Division supports this focus. The W&I Division serves about 122 million taxpayers who file a United States Individual Income Tax Return (Form 1040) without a Profit or Loss From Business (Sole Proprietorship) (Schedule C), Supplemental Income and Loss (Schedule E), or Profit or Loss From Farming (Schedule F) attached; without an Employee Business Expenses (Form 2106) attached; and without international activity. Third parties<sup>1</sup> report most of the income for this group, and the vast majority of taxes are collected through third party withholding. Most of these taxpayers deal with the IRS only when they file their tax returns, and approximately 97.6 million (80 percent) receive refunds and are highly compliant. When compliance issues do arise, they are often the result of taxpayer confusion and are often detected and selected through technology-based programs, such as the Correspondence Examination and Automated

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<sup>1</sup> Third parties such as employers, banks, brokerage firms, and others are required to file information returns to report income and certain deductions to the IRS.

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Underreporter (AUR) Programs in the W&I Division's Reporting Compliance function.

The Correspondence Examination Program addresses and examines issues on tax returns that can be resolved through written correspondence from the campuses<sup>2</sup> versus face-to-face contact with taxpayers. Issues generally involve overstated deductions and credits, and improper filing statuses and exemptions. The Correspondence Examination Program operates from five campuses: Andover, Massachusetts; Atlanta, Georgia; Austin, Texas; Fresno, California; and Kansas City, Missouri.

The AUR Program is a computer-based program that matches taxpayer income and deductions submitted by third parties on information tax returns against amounts reported on individual income tax returns. The IRS attempts to reconcile any discrepancies by corresponding with the taxpayers. If the discrepancies are not resolved, the taxpayers are assessed additional tax. This process is not considered an examination of a tax return. The AUR Program operates from three campuses: Atlanta, Georgia; Austin, Texas; and Fresno, California.

Examination of tax returns under these programs may disclose irregularities that indicate fraudulent taxpayer activities. These irregularities might result in the assessment of a civil or criminal penalty. The distinction between these penalties is the degree of evidence required to support them. In civil fraud cases, the Federal Government must prove fraud by clear and convincing evidence. In criminal cases, the Federal Government must present sufficient evidence to prove guilt beyond a reasonable doubt.

Due to the complexity of fraud issues, responsibilities for developing fraud issues on tax returns (cases) and for pursuing civil and criminal fraud penalties against taxpayers fall to other IRS offices and functions outside of the

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<sup>2</sup> The campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.

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W&I Division. Therefore, after W&I Division employees identify tax returns with indications of fraud, they refer the cases to these other areas for evaluation and development. If the case meets the criteria to assess a civil penalty, the case is referred to the IRS' Small Business/Self-Employed (SB/SE) Division. If the case meets the criteria to assess a criminal penalty, the case is referred to the IRS' Criminal Investigation (CI) function.

Reporting Compliance function management stated that the Correspondence Examination and AUR Programs are the two programs within the W&I Division to most likely encounter taxpayer fraud. However, with no effective system to track fraud referrals, neither Reporting Compliance function management nor the Treasury Inspector General for Tax Administration could accurately determine the number of fraud referrals made by these Programs.

This review was conducted in the W&I Division's Reporting Compliance function Headquarters in Atlanta, Georgia; and the IRS campuses located in Atlanta, Georgia; Austin, Texas; and Fresno, California, between March and July 2003. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### **The Reporting Compliance Function Has Taken Initial Steps to Strengthen Its Fraud Program**

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The W&I Division has not developed a significant fraud program. Third parties report most of the income for W&I Division taxpayers, and the W&I Division mainly relies on automated systems to identify fraudulent issues. In addition, W&I Division employees do not develop cases identified with potential fraud. However, W&I Division Reporting Compliance function management recognizes the need to strengthen its fraud program by improving fraud awareness and coordinating with other IRS offices and functions.

In 1997, the Congress appropriated funds to the IRS to help improve the administration of the Earned Income Tax

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Credit (EITC)<sup>3</sup> and reduce the number of instances where taxpayers overclaimed the EITC. Since then, these tax returns have been the primary inventory for the Correspondence Examination Program. Detecting fraud on tax returns claiming the EITC is mainly accomplished using systemic filters<sup>4</sup> and requires little fraud awareness or fraud identification skills on the part of the employees processing these tax returns.

In FY 2003, Correspondence Examination function management planned to increase their selection of tax returns for issues other than the EITC from approximately 44,000 closures in FY 2002 to 52,750. If resources allow, they plan to continue to increase the selection of non-EITC tax returns for examination in FY 2004. They recognize the impact this inventory shift will have on their Correspondence Examination fraud program and have already taken positive steps. For example:

- The Internal Revenue Manual (the IRS' manual of procedures and guidelines) is in the process of being updated for the Correspondence Examination fraud program.
- Fraud coordinators have been assigned on all five W&I Division campuses. They will provide guidance and training, and serve as Correspondence Examination fraud program liaisons with other IRS offices and functions.
- Training is being planned for the campus fraud coordinators. The goal is to train the fraud coordinators, who will then deliver their training to the Correspondence Examination Program function employees.

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<sup>3</sup> The EITC is a refundable credit established to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment rather than welfare.

<sup>4</sup> Systemic filters are criteria developed to identify tax returns with pre-determined characteristics that are considered at high risk for refund fraud. If the tax returns meet specific filter criteria, then they are selected for examination.



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- Meetings have been held with the other IRS offices and functions that will partner with the Correspondence Examination Program function in evaluating tax returns with indications of fraudulent taxpayer activities.

The AUR Program does not present significant fraud risk since most of the AUR inventory with fraud potential is pre-identified by systemic filters and forwarded to the IRS' CI function. However, they are taking steps to strengthen the AUR fraud program. For example:

- The Reporting Compliance function is in the process of securing an agreement with the CI function to provide information about identifying taxpayer fraud through presentations to the AUR Program employees.
- Meetings have been held to coordinate with the other IRS offices and functions that will partner with the AUR Program when referring tax returns that have indications of possible fraudulent taxpayer activities.
- Guidelines and desk procedures have been developed on AUR Program sites directing how to process and redirect inventory with suspected altered Wage and Tax Statements (Form W-2) or previously identified fraud issues to the CI function.

In July 2003, after we discussed these issues with the Correspondence Examination and AUR Program analysts, employees from the W&I Division and other IRS offices and functions met to discuss the framework for developing a fraud strategy within both Reporting Compliance programs. This will help ensure the fair, consistent, and equitable treatment of taxpayers in the W&I Division fraud program.

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### **The Reporting Compliance Fraud Program Is Fragmented and Does Not Incorporate the Necessary Accountabilities**

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Although the Reporting Compliance function has taken key steps to strengthen its fraud program, improvements are needed to provide reasonable assurance that the fraud program is effective and efficient. This is because the Reporting Compliance fraud program is fragmented and Reporting Compliance function management has not provided sufficient controls and oversight to ensure a coordinated program that is able to measure its effectiveness, ensure its employees are trained on fraud awareness, and ensure procedures and policies are

## **Key Steps Have Been Initiated, but Additional Emphasis Is Needed on the Oversight of the Wage and Investment Fraud Program**

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communicated and consistent. The General Accounting Office issues standards on internal controls that state that internal controls should be an integral part of an agency's management that provides, for example, reasonable assurance of the effectiveness and efficiency of agency operations.

### **Communication is fragmented and referrals are not monitored or measured**

Reporting Compliance function management has not communicated to its Correspondence Examination and AUR Program managers the expectations for or the emphasis to be placed on the fraud program. For example:

- Managers from the Correspondence Examination and the AUR Programs stated fraud program expectations and guidance have not been provided to them.
- Fraud program expectations and guidance have not been provided to the Correspondence Examination campus fraud coordinators.
- Correspondence Examination Program managers stated they have not received guidance on how to measure and evaluate the performance of the campus fraud coordinators.

In addition, the Reporting Compliance function does not have an effective system or process to track, monitor, or measure the quantity and quality of fraud cases referred to other IRS offices and functions. After cases are referred to other IRS offices and functions, the Correspondence Examination and AUR Programs no longer track or monitor them. Reporting Compliance function management does monitor the volume and type of AUR fraud referrals through internal process codes; however, these process codes do not clearly indicate the reason for the referral and may not capture them all.

Without a method to track, monitor, or measure the quality of fraud cases referred, the Reporting Compliance function cannot determine if the fraud program is working as intended or if adjustments are needed to ensure employees are well trained and effective in identifying taxpayer fraud.

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**Employees have not received fraud training and procedures**

Reporting Compliance function management believed fraud training was provided to the Correspondence Examination and AUR Program employees during their FY 2003 annual training. However, they did not specifically develop or deliver fraud training to either of these programs in FYs 2002 or 2003 and could not verify if fraud training was provided.

The Correspondence Examination function and AUR Program campus managers stated their employees have not received uniform or consistent fraud training. However, at the Austin Campus, some Reporting Compliance function employees have received fraud training. For example, the Austin Campus Fraud Coordinator sent for course material and developed a fraud awareness and identification training presentation. The training was given to the Austin Campus Correspondence Examination and some AUR Program employees.

However, none of the campus fraud coordinators have received training. This may have an impact on the Reporting Compliance fraud program. For example, one of the Correspondence Examination campus fraud coordinators did not know the criteria for referring a case for development and consideration of a civil fraud penalty.

Without adequate training and proper procedures, Reporting Compliance function employees might not have the skills to identify indications of fraud or properly refer cases. Reporting Compliance function management is in the process of developing fraud training for the Correspondence Examination campus fraud coordinators. The campus fraud coordinators will then be responsible for subsequently training the Correspondence Examination Program employees at each W&I Division campus. In addition, Reporting Compliance function management is coordinating with the CI function to provide AUR Program employees fraud training.

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### **Criteria are inconsistent among W&I Division campuses when referring cases with fraud indicators**

Guidance and directives provided for the Correspondence Examination and AUR fraud programs are not consistent. When employees identify cases with fraud indicators, they refer them to the campus fraud coordinators. These campus fraud coordinators determine if the cases should be referred to the SB/SE Division fraud referral specialists for fraud development. These SB/SE Division specialists dictate the criteria for acceptance of the referrals and make the final decision on whether the case should be further developed for fraud. These criteria are not consistent.

For example, on one W&I Division campus, the criteria for referring a Correspondence Examination case to the SB/SE Division for development and consideration of a fraud penalty are dependent on a multiyear pattern and a higher dollar tolerance level than on the other two W&I Division campuses reviewed. On those other campuses, the criterion for referring a case to the SB/SE Division for development and consideration of a fraud penalty is clear and convincing evidence. There are no multiyear or dollar criteria.

Similarly, the AUR campuses follow differing criteria when determining whether cases with suspected Form W-2 alterations should be forwarded to the CI function to be developed and considered for fraud penalties. Because the dollar tolerance levels defined in the local directives and the IRS' Law Enforcement Manual<sup>5</sup> differ, the dollar tolerance level on one AUR campus is five times greater than on the other two campuses.

Without the benefit of centralized oversight and guidance, fraud program policies and practices have been allowed to evolve independently on each W&I Division campus. As a result, inconsistent policies and practices have developed within the W&I Division Reporting Compliance fraud program that may have an adverse impact on tax administration by creating inconsistent treatment of taxpayers.

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<sup>5</sup> The Law Enforcement Manual contains material that is classified as "Official Use Only."

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### Recommendations

The Commissioner, W&I Division, should:

1. Develop and implement a strategy for the W&I Division Reporting Compliance fraud program that will communicate to W&I Division management and employees the importance of the Reporting Compliance fraud program and that will include:
  - A method to track and measure the activity and impact of the Reporting Compliance function fraud program.
  - Program guidance and directives that would ensure fair and consistent treatment of taxpayers.
  - Uniform and consistent fraud training for the W&I Division employees responsible for identifying indications of fraudulent taxpayer activity.

Management's Response: In an effort to measure the effectiveness of the fraud program, W&I Division Reporting Compliance function management is planning to establish a database to track and monitor the activity of all fraud referrals. They are also implementing a strategy to ensure uniform and consistent fraud training is provided to all W&I Division Reporting Compliance examiners. The campus fraud coordinators will be receiving fraud awareness training that they will then provide to all the examiners at their respective sites.

2. Establish selection criteria and performance measures for the campus fraud coordinators.

Management's Response: Existing fraud coordinator responsibilities, as outlined in the Internal Revenue Manual, will be used to measure campus fraud coordinator performance. Depending on the need, a specific position description may be developed at a later date.

**Key Steps Have Been Initiated, but Additional Emphasis Is Needed  
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**Appendix I**

**Detailed Objective, Scope, and Methodology**

The overall objective of this review was to determine whether the Wage and Investment (W&I) Division's Reporting Compliance function has an effective fraud program. We undertook this review as a result of the Internal Revenue Service's (IRS) increased emphasis on strengthening the integrity of the tax system through enhanced enforcement activities. To accomplish our overall objective, we:

- I. Determined whether the Reporting Compliance function had developed a strategy and provided oversight for its fraud program.
  - A. Interviewed Reporting Compliance function management to determine:
    1. The extent of the W&I Division fraud program and how management sets priorities for developing fraud referrals to support the IRS' overall compliance strategy.
    2. How these priorities are conveyed through management's expectations down to field level managers with corresponding measures for accountability.
    3. What program areas in the Reporting Compliance function have been identified as high risk for taxpayer fraud.
    4. How training is provided to Reporting Compliance function managers, fraud coordinators, and other personnel (including support personnel and tax examiners).
    5. How management monitors and ensures an effective W&I Division fraud program.
    6. How the Reporting Compliance function works with other IRS business units and functions to ensure it is staying proactive and effectively identifying taxpayer fraud.
    7. The current and future strategies, projects, and emphasis areas for the Reporting Compliance fraud program to ensure it remains proactive in identifying and addressing fraud.
  - B. Obtained available documentation from Reporting Compliance function management on:
    1. The W&I Division fraud program strategy.

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2. The required qualifications of the campus<sup>1</sup> fraud coordinators.
  3. The fraud training materials provided to the campus fraud coordinators and other Reporting Compliance function personnel.
  4. Performance measures for the campus fraud coordinators.
  5. Any guidance and directives issued for the W&I Division fraud program.
- II. Determined and evaluated the effectiveness of systems or processes used to track, monitor, and measure the quantity and quality of the potential fraud cases identified by Reporting Compliance function personnel.
- III. Determined whether the importance of the fraud program was communicated to the selected Correspondence Examination<sup>2</sup> campus fraud coordinators, if the coordinators were properly trained on fraud awareness and detection, and if processes and controls were in place on the W&I Division campuses to ensure an effective fraud program.
- A. Interviewed selected campus fraud coordinators and Correspondence Examination function managers to determine what expectations were communicated by Reporting Compliance function management concerning fraud emphasis and the Reporting Compliance fraud program.
  - B. Obtained and evaluated available documentation to determine what guidance and training were provided to Reporting Compliance function personnel that enabled them to identify potential fraud over the last 2 years.
  - C. Obtained available related documentation to determine what guidance was provided to W&I Division Correspondence Examination managers on how to evaluate their campus fraud coordinators' performance and the program.
- IV. Determined whether the importance of the fraud program was communicated to Reporting Compliance managers to ensure an effective fraud program and if Reporting Compliance function managers and employees were properly trained on fraud awareness and detection.
- A. Interviewed selected W&I Division campus Automated Underreporter (AUR)<sup>3</sup> and Correspondence Examination managers to determine what expectations were

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<sup>1</sup> The campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.

<sup>2</sup> The Correspondence Examination Program addresses and examines issues on tax returns that can be resolved through written correspondence versus face-to-face contact with taxpayers. Issues generally involve overstated deductions and credits, and improper filing statuses and exemptions.

<sup>3</sup> The AUR Program is a computer-based program that matches taxpayer income and deductions submitted by third parties on information tax returns against amounts reported on individual income tax returns.

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- communicated from Reporting Compliance function management concerning fraud emphasis and the W&I Division fraud program.
- B. Obtained and reviewed documentation to determine what guidance and training were provided to Reporting Compliance function campus personnel that enabled them to identify potential fraud. Specifically:
    - 1. Determined what training Reporting Compliance function managers and campus employees have received on fraud awareness and detection in the last 2 years.
    - 2. Determined whether Reporting Compliance function managers were taking a proactive or reactive approach to fraud detection.
  - V. Determined whether Reporting Compliance function campus personnel received planned training and if the training was effective.
    - A. Determined how training efforts were controlled and tracked and whether the Reporting Compliance function used the Administrative Corporate Education System, the IRS' national education and training database, to track fraud training.
    - B. Identified what training courses included fraud training.
    - C. Evaluated the sufficiency of the training and training materials to determine if they were effective in identifying fraud.
    - D. Interviewed selected W&I Division AUR and Correspondence Examination managers and campus fraud coordinators to obtain their assessment of the fraud training.



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**Appendix II**

**Major Contributors to This Report**

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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  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Compliance SE:W:CP  
Director, Reporting Compliance SE:W:CP:RC  
Director, Strategy and Finance SE:W:S  
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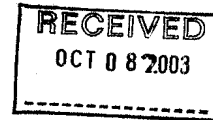
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Appendix IV

**Management's Response to the Draft Report**



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308



October 7, 2003

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Henry O. Lamar, Jr. *Henry O. Lamar, Jr.*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report: Key Steps Have Been Initiated, but  
Additional Emphasis Is Needed on the Oversight of the Wage  
And Investment Fraud Program (Audit # 200340033)

As your report acknowledges, we have taken key steps to strengthen our fraud program. In early 2003, we recognized the need to provide more consistent guidance and improve our communication on fraud identification within Wage and Investment (W&I) Reporting Compliance. While we are still in the early stages of implementing our strategy, we have already communicated our goals to our Correspondence Examination and Automated Underreporter (AUR) Program Managers and Campus Compliance Directors to reinforce the importance of a strong Fraud Referral Program. By partnering with other organizations within the IRS, W&I Reporting Compliance will work towards achieving the goal of deterring taxpayers from evading their tax obligations. Another goal is to provide consistency in our program by delivering training to all Campus Fraud Coordinators during the first half of fiscal year 2004.

Because W&I has mainly relied on automated systems in identifying fraudulent issues, the fraud coordinator position has been a collateral duty without a specific position description. However, as the workload of non-EITC examinations increases within the Correspondence Examination Program, along with the potential for identifying fraud, we will re-evaluate the need for a specific position description.

In an effort to measure the effectiveness of the program, W&I Reporting Compliance is considering establishing a database to track and monitor the activity of all fraud referrals. We may also develop a website to allow for communication between offices and a link to the Small Business/Self-Employed Division's National Fraud Program. This website provides contact information on the Area Office's Fraud Referral Specialists and other resources relative to the Fraud Program.

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Attached is a detailed response outlining corrective actions that we will take to address your recommendations.

If you have any questions, please contact Jim Grimes, Director, Reporting Compliance, at (404) 338-7643.

Attachment

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Attachment

### **RECOMMENDATION #1**

The Commissioner, W&I Division should develop and implement a strategy for the W&I Division Reporting Compliance fraud program that will communicate to W&I Division management and employees the importance of the Reporting Compliance fraud program and that will include:

- A method to track and measure the activity and impact of the Reporting Compliance function fraud program.
- Program guidance and directives that would ensure fair and consistent treatment of taxpayers.
- Uniform and consistent fraud training for the W&I Division employees responsible for identifying indications of fraudulent taxpayer activity.

### **CORRECTIVE ACTIONS**

We are implementing a strategy to ensure a successful fraud referral program within Reporting Compliance. Correspondence Examination and AUR are working together to provide uniform and consistent fraud training for all W&I Reporting Compliance examiners. Campus fraud coordinators will also receive fraud awareness training that they will provide to all examiners at their respective sites. This will ensure fair and consistent treatment of taxpayers.

We met this month with representatives from MITS to determine the feasibility of adapting one of the current tracking systems to monitor the fraud referrals. We will also look into using our existing AIMS system.

### **IMPLEMENTATION DATE**

The training of the fraud coordinators and the delivery of fraud awareness workshops will be completed by June 1, 2004. The tracking system will be available on January 1, 2005.

### **RESPONSIBLE OFFICIAL**

Director, Reporting Compliance, Wage and Investment Division.

### **CORRECTIVE ACTION MONITORING PLAN**

The Senior Managers, Correspondence Examination, and AUR will report progress on these actions to the Director, Reporting Compliance on a monthly basis.

### **RECOMMENDATION #2**

The Commissioner, W&I Division should establish selection criteria and performance measures for the campus fraud coordinators.

### **CORRECTIVE ACTIONS**

Because W&I mainly relied on automated systems in identifying fraudulent issues, the position of the fraud coordinator has been a collateral duty without a specific position

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description. We will use the specific responsibilities of the fraud coordinator, as outlined in IRM 4.19.1.1.6(5) to measure performance. However, as the workload of non-EITC examinations increases within the Correspondence Examination Program, along with the potential for identifying fraud, we will re-evaluate the need for a specific position description.

### **IMPLEMENTATION DATE**

Proposed: We will decide whether we need to develop a specific position description for the fraud coordinator by September 30, 2004. This will give us time to fully capture the impact of working non-EITC inventories to identify potential fraud.

### **RESPONSIBLE OFFICIAL**

Director, Reporting Compliance, Wage and Investment Division.

### **CORRECTIVE ACTION MONITORING PLAN**

The Senior Managers, Correspondence Examination, and AUR will report progress on these actions to the Director, Reporting Compliance on a monthly basis.