

Highlights of [GAO-13-132T](#), testimony before the Subcommittee on Government Organization, Efficiency and Financial Management, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

Identity theft is a growing and evolving problem that imposes a financial and emotional toll on its victims. As of September 30, 2012, IRS had identified almost 642,000 incidents of identity theft that impacted tax administration in 2012 alone, a large increase over prior years. A taxpayer may have his or her tax refund delayed if an identity thief files a fraudulent tax return seeking a refund using a legitimate taxpayer's identity information.

GAO was asked to describe identity theft issues at IRS and limits to what is known about the extent of identity theft. GAO updated its analysis on identity theft with current data on identity theft cases and interviewed IRS officials. GAO also reviewed past GAO reports to identify key attributes of successful performance measures and compare information provided by the Global Report.

## What GAO Recommends

To improve information available to IRS management and Congress, GAO recommends that IRS update the Global Report to provide definitions and data sources, where such information is missing; document procedures used to compile and validate the data; and describe limitations of the data presented.

IRS officials agreed with our recommendations. Based on their comment, we revised language in the report to clarify that, like other forms of fraud, IRS conducts criminal investigations only in the most serious identity theft-related refund fraud cases.

View [GAO-13-132T](#). For more information, contact James R. White at (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

# IDENTITY THEFT

## Total Extent of Refund Fraud Using Stolen Identities is Unknown

### What GAO Found

Understanding the extent and nature of identity theft-related refund fraud is important to crafting a response to it, but Internal Revenue Service (IRS) managers recognize that they do not have a complete picture. Program officials said that one of the challenges they face in combating this type of fraud is its changing nature and how it is concealed. While perfect knowledge about cases and who is committing the crime will never be attained, the better IRS understands the problem, the better it can respond and the better Congress can oversee IRS's efforts. IRS officials described several areas where the extent and nature of identity theft is unknown.

- *Total number and cost of fraudulent returns.* IRS does not know the full extent of the occurrence of identity theft. Officials said that they count the refund fraud cases that IRS identifies but that they do not estimate the number of identity theft cases that go undetected.
- *Identity of the thieves.* Unless IRS pursues a criminal investigation, IRS generally does not know the real identity of the thieves.
- *Whether a fraudulent return is an individual attempt or part of a broader scheme.* Identifying new schemes or significant cases, such as one thief using numerous taxpayer identities, depends on analysts noticing patterns or other indications that a few cases may be part of a larger scheme. As a result, some schemes or cases involving multiple taxpayers may go undetected.
- *Characteristics of known identity theft returns.* IRS officials told us that the agency does not systematically track characteristics of known identity theft returns, including the type of return preparation (e.g., paid preparer or software), whether the return is filed electronically or on paper, or how the individual claimed a refund (e.g., check, direct deposit, or debit card).

While much remains unknown about identity theft, IRS has taken steps to organize what it knows in a newly developed Refund Fraud and Identity Theft Global Report (Global Report). The Global Report consolidates and tracks information about identity theft incidents and IRS detection and resolution efforts from multiple sources within IRS. The report provides information to IRS senior management and a standard source of information for responding to data requests from external entities. GAO's selected review of the Global Report against key attributes of successful performance measures found that it had many of the attributes useful for program monitoring, but also had some areas where additional information or clarification would make the report more helpful. Updating the Global Report to provide information on definitions, data sources, and limitations such as the unknown number of undetected fraudulent returns, could help ensure users have a more complete picture of the data and its strengths and limitations. The quality of the report will also be enhanced by the institution of process controls to help ensure consistency in how the data in the report are compiled, verified and validated.