



Testimony

Before the Subcommittees on Government Operations and Health Care, Benefits, and Administrative Rules, Committee on Oversight and Government Reform, House of Representatives

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IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds

Statement of Jessica Lucas-Judy, Acting Director,
Strategic Issues

Accessible Version

Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi, and Members of the Subcommittees:

Thank you for the opportunity to discuss our January 2017 report on the Internal Revenue Service's (IRS) customer service.¹ As taxpayers file their returns for 2016, it is important that the IRS ensures timely and quality service. In recent years, IRS has experienced declining resources and an increased workload. For example, in December 2015, we reported that IRS provided the lowest level of telephone service during fiscal year 2015 compared to prior years.² Callers experienced long wait times and difficulty in reaching an IRS assistor. The severe decline in service highlights the challenges of managing IRS's operations and underscores the importance of IRS making tough decisions to improve service. Maintaining quality customer service is important because it helps taxpayers comply with the tax code.

IRS also has been confronted with the growing problem of identity theft (IDT) refund fraud over the past several years. IDT refund fraud occurs when a fraudster obtains an individual's Social Security number, date of birth, or other personally identifiable information (PII), and uses it to file a fraudulent tax return seeking a refund.³ This crime is an evolving and costly problem that causes hardship for legitimate taxpayers who are victimized and demands an increasing amount of IRS resources. IDT refund fraud burdens honest taxpayers because authenticating their identities is likely to delay the processing of their returns and refunds. IRS estimates that at least \$14.59 billion in IDT tax refund fraud was

¹GAO, *2016 Filing Season: IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds*, [GAO-17-186](#) (Washington, D.C.: January 31, 2017).

²GAO, *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies*, [GAO-16-151](#) (Washington, D.C.: Dec. 16, 2015). For additional information see our Key Issues web page on tax administration, http://www.gao.gov/key_issues/tax_administration/issue_summary.

³This testimony discusses IDT refund fraud and not employment fraud. IDT employment fraud occurs when an identity thief uses a taxpayer's name and Social Security number to obtain a job.

attempted in calendar year 2015—of which it prevented at least \$12.35 billion (85 percent), but at least \$2.24 billion (15 percent) was paid.⁴

My remarks today highlight the findings from our January 2017 report on aspects of IRS's customer service, including for those who are victims of IDT refund fraud. Accordingly, this testimony addresses (1) how well IRS provided service to taxpayers in 2016 compared to its performance in prior years, and (2) its efforts to improve service for IDT victims, including selected internal control processes.

To conduct this work, we analyzed IRS documents and data for fiscal years 2011 through 2016 related to the filing season and reviewed 16 randomly selected IDT cases open or closed during a 10-month period in 2015 and 2016. We also conducted 5 discussion groups with 15 IRS assistors and 13 managers who handle IDT cases, and interviewed IRS officials and external stakeholders, such as representatives from the tax preparation industry. The results of the case studies and discussion groups are not generalizable but provide a better understanding of the characteristics of various IDT cases that IRS handles as well as the perspectives of IRS assistors and managers handling IDT cases. We compared IRS actions to federal standards for evaluating performance and internal control. Our January 2017 report includes a detailed explanation of the methods used to conduct our work. The work on which this testimony is based was performed in accordance with generally accepted government auditing standards.

In summary, we found that IRS provided better telephone service to callers during the 2016 filing season—generally between January and mid-April—compared to 2015. However, its performance during the full fiscal year remained low. Furthermore, IRS does not make this nor other types of customer service information easily available to taxpayers, such as in an online dashboard. Without easily accessible information, taxpayers are not well informed of what to expect when requesting services from IRS. We also found that IRS has improved aspects of service for victims of IDT refund fraud. However, inefficiencies contribute to delays, and potentially weak internal controls may lead to the release

⁴Given current and emerging risks, in 2015, we expanded our high risk area on the enforcement of tax laws to include IRS's efforts to address IDT refund fraud. See GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, [GAO-17-317](#) (Washington, D.C.: Feb. 15, 2017).

of fraudulent refunds. In turn, this limits IRS's ability to serve taxpayers and protect federal dollars.

Specifically, IRS's file retrieval and scanning processes contributed to delays and unnecessary requests for documents, potential weaknesses in IRS's internal control processes could lead to IRS paying refunds to fraudsters, and IRS does not notify taxpayers when a dependent's identity appears on a fraudulent return. Accordingly, we recommended that IRS display customer service standards and performance online; review its retrieval and scanning processes; improve existing data or collect new data to monitor how and why assistors release refunds before closing an IDT or duplicate return case; and revise its notices to IDT victims. IRS disagreed with our recommendation to improve data for monitoring refund releases, stating that the problem is not widespread and current processes are sufficient. We maintain that the data IRS uses are not sufficient to make such a determination. IRS agreed with the remaining three recommendations.

IRS Improved Telephone Service Compared to Last Year, but Does Not Make Customer Service Information Easily Available

In our January 2017 report, we found that IRS provided better telephone service to callers during the 2016 filing season compared to 2015.⁵ For example, IRS's level of telephone service—which is defined as the percentage of people who want to speak with an assistor and were able to reach one—was 72 percent during the 2016 filing season compared to 37 percent during the 2015 filing season. This was the highest level of service reached during this time since 2011. In addition, during the 2016 filing season, taxpayers waited about 11 minutes to speak with an IRS assistor, which was substantially better than IRS expected and an improvement over the close to 23-minute average in the previous filing season.

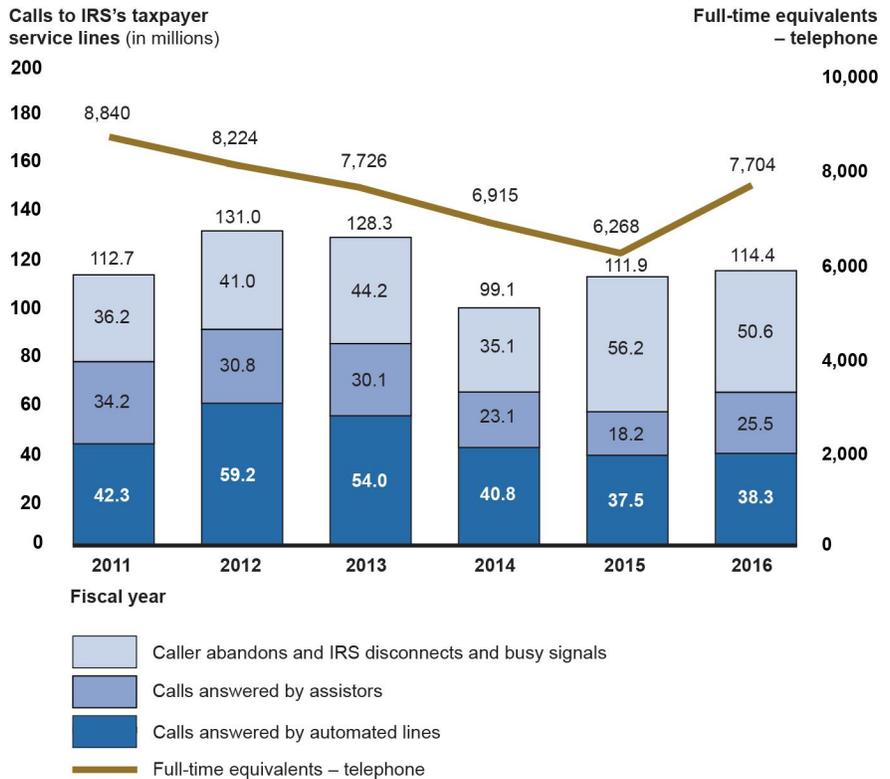
⁵Most taxpayers file their tax returns between mid-January and April 15, which is the deadline for filing individual income tax returns. However, millions of taxpayers receive extensions from IRS, which allows them to delay filing (but not payment) until as late as October 15.

Figure 1 shows that, in fiscal year 2016, call volume increased from 111.9 million calls to slightly more than 114 million calls (about 2 percent) and full-time equivalents answering phone calls increased from 6,268 to 7,704 (about 23 percent) compared to the prior year.⁶ Total calls where taxpayers abandoned the call, were disconnected, or received a busy signal declined by about 10 percent (from 56.2 million in 2015 to 50.6 million in 2016). IRS officials attributed the improvements to additional appropriations from the Congress and user fee funds, which in part allowed for more hiring and use of overtime compared to the prior year.⁷

⁶Full-time equivalents represent the total number of hours worked based on IRS payroll data divided by the number of compensable hours applicable to each fiscal year. For example, in fiscal year 2016 there were 2,096 compensable hours.

⁷Federal agencies may assess a fee to users when providing goods and services. These fees are referred to as user fees. While IRS does not need congressional approval of its user fee spending plan, it must obtain approval from the Department of the Treasury and the Office of Management and Budget. For fiscal year 2016, IRS was directed to wait 30 days following the submission of the user fee spending plan before obligating these funds. 161 Cong. Rec. H10135-36 (Dec. 17, 2015). For additional information about IRS's budget, see GAO, *IRS 2017 Budget: IRS Could Improve Presentation of Budget Data in Its Congressional Justification*, [GAO-16-695](#) (Washington, D.C.: July 21, 2016).

Figure 1: IRS's Ability to Answer Telephone Calls Improved Compared to Last Year but Remains Lower than Prior Years



Source: GAO analysis of IRS data. | GAO-17-492T

Data Table for Figure 1: IRS's Ability to Answer Telephone Calls Improved Compared to Last Year but Remains Lower than Prior Years (Calls in millions)

	2011	2012	2013	2014	2015	2016	Percentage change 2011 and FY 2016
Total calls	112.7	131.0	128.3	99.1	111.9	114.4	-18.6%
Calls answered by automated lines	42.3	59.2	54.0	40.8	37.5	38.3	-38.3%
Calls answered by assistors	34.2	30.8	30.1	23.1	18.2	25.5	-35.0%
Caller abandons and IRS disconnects and busy signals	36.2	41.0	44.2	35.1	56.2	50.6	19.8%
Full-time equivalents - telephone	8,840	8,224	7,726	6,915	6,268	7,704	-26.0%

IRS provides key stakeholders, including Congress and federal oversight agencies, historical performance data and forecasts concerning what it expects to deliver during the fiscal year, such as for telephone level of service. However, this information is not necessarily designed for or accessible to taxpayers. One exception is that, on the telephone, IRS provides taxpayers with an expected wait time to speak with an assistor. Key performance information, such as level of service and average wait time, is not easily available to taxpayers when they access IRS's website. IRS does not make such information or other types of customer service information easily available to taxpayers, such as in an online dashboard. Without easily accessible information, taxpayers are not well informed on what to expect when requesting services from IRS. Therefore, we recommended that IRS display customer service standards and performance online so that it is easily accessible and improves the transparency of its service. IRS agreed with this recommendation.

IRS Improved Aspects of Service but Inefficiencies and Potentially Weak Internal Controls Reduce IRS's Ability to Serve IDT Victims and Protect Federal Dollars

In our January 2017 report, we found that IRS has improved aspects of service for victims of IDT refund fraud.⁸ For example, IRS formed an IDT reengineering team to improve customer service and began implementing the team's recommendations to streamline the process, such as consolidating inventory and better managing IDT case flow. However, inefficiencies contribute to delays, and potentially weak internal controls may lead to the release of fraudulent refunds. In turn, this limits IRS's ability to serve taxpayers and protect federal dollars. While IRS has reduced its backlog of IDT cases and formed a team to improve its handling of these cases, we identified three areas for potential improvement, as follows:

- **Inefficiencies in file retrieval and scanning.** We found that file retrieval and scanning processes contributed to delays and unnecessary requests for documents. For example, in 2 of 16 IDT cases we reviewed, resolution was delayed by at least 1 month while

⁸[GAO-17-186](#).

an assistor waited for another unit to retrieve and scan documents into IRS's system. In one of those cases, the document request was unnecessary because the assistor closed the case without the document. In our discussion groups with IRS staff, 14 of 28 assistors and managers generally agreed that delays in receiving scanned documents were a primary factor that delayed case resolution. Assistors and managers described a typical waiting period of more than 30 days for document requests to be fulfilled. IRS officials noted that some documents must be retrieved from IRS's paper records storage facilities, which can take time to locate and then scan. Inefficient processes and unnecessary requests to retrieve and scan documents can delay case resolution and refunds to the legitimate taxpayer. As a result, we recommended that IRS review its retrieval and scanning procedures to identify training or guidance needs. IRS agreed with this recommendation.

- **Weaknesses in internal control processes.** We found that potential weaknesses in IRS's internal control processes could lead to IRS paying refunds to fraudsters. In discussion groups with us, IRS assistors and managers said some assistors may release refunds even if indicators on the account show that the tax return is under review for IDT, or two returns have been filed for that taxpayer. Some participants said assistors answering telephone calls can release these holds because they do not understand the codes on the taxpayer's account. IRS officials said that these errors are not widespread and provided data that they said would support their position. However, we identified weaknesses in those data, which IRS officials acknowledged. We recommended that IRS should improve existing data and collect new data, as needed, to effectively monitor how often and why IRS staff release refunds before closing an IDT (or duplicate return) case. Based on these data, IRS should take corrective steps such as providing training or guidance to assistors.

IRS disagreed with this finding and recommendation. In its written response, IRS stated that we concluded that frozen refunds were being erroneously released to fraudsters by customer service employees.⁹ This was incorrect. As stated in our report, we identified a potential weakness that could lead to releases of fraudulent refunds. IRS also said that it was aware that some refunds are released by assistors prior to the case being closed and that its current methods are sufficient for detecting such errors and the problem is not

⁹[GAO-17-186](#).

widespread. However, as we noted, the data that IRS provided do not include sufficient information for IRS to determine the extent to which the problem exists nor the total number of erroneous refunds.

After several discussions with IRS officials about the weaknesses we identified in the data, officials acknowledged these weaknesses and explained that they generated some of these data in response to our findings. Nevertheless, officials maintained that their current methods are sufficient. We stand by our finding that the data IRS provided are not sufficient to monitor how often and why assistors are releasing refunds before IDT or duplicate return cases are closed, and we believe that the associated recommendation is warranted. In response to our draft report, in January 2017 officials provided another analysis of IRS data that they said showed this type of error does occur but may not be as widespread as the discussion group participants suggested. We will continue to work with IRS to determine if these additional data are sufficient to address our recommendation.

- **No notification for dependents.** We found that IRS does not notify taxpayers when a dependent's identity appears on a fraudulent return. According to IRS officials, the agency does not consider a dependent to be a victim if his or her Social Security number had been used as a dependent on a fraudulent return. However, IRS has previously provided guidance to taxpayers when a dependent was a victim of identity theft. After one data breach in 2015, IRS notified taxpayers and provided information on actions that parents could take to protect a minor's identity when their dependents were also victims. By not notifying taxpayers that their dependents' information may have been used to commit fraud, IRS is limiting taxpayers' ability to take action to protect their dependents' identity. Therefore, we recommended that IRS revise its notices to IDT victims to include information such as whether dependents were claimed on the fraudulent return and how to request a redacted copy of the fraudulent return. IRS agreed with this recommendation.

Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi, and Members of the Subcommittees, this concludes my prepared remarks. I look forward to answering any questions that you may have.

GAO Contact and Staff Acknowledgments

For questions about this statement, please contact me at (202) 512-9110 or lucasjudyj@gao.gov. Contact points for our Offices of Congressional

Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony were Joanna Stamatiades, Assistant Director; Jehan Chase; James Cook; Robert Gebhart; Kirsten B. Lauber; Kimberly Madsen; Erin Saunders-Rath and Robert Robinson.

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