



November 2017

# IDENTITY THEFT

## Improved Collaboration Could Increase Success of IRS Initiatives to Prevent Refund Fraud

# GAO Highlights

Highlights of [GAO-18-20](#), a report to congressional committees

## Why GAO Did This Study

IRS estimates that fraudsters attempted at least \$14.5 billion in IDT tax refund fraud in tax year 2015. Since 2015, GAO's High-Risk List has included IRS's efforts to address IDT refund fraud. Starting with its March 2015 Security Summit, IRS has partnered with state tax administrators and tax preparation companies, among others, on initiatives aimed at better preventing and detecting IDT refund fraud.

GAO was asked to examine IRS's efforts to collaborate with these partners. This report, among other things, (1) describes actions taken to implement the ISAC and RRT, (2) evaluates the extent to which the ISAC pilot aligns with leading practices for pilot design, and (3) identifies actions, if any, that IRS could take to improve the ISAC pilot.

GAO reviewed planning and other documents on the initiatives. It interviewed IRS and state officials and industry and trade organization representatives, among others involved in the ISAC and RRT. GAO also conducted four non-generalizable focus groups with state and industry partners.

## What GAO Recommends

GAO recommends IRS ensure (1) the ISAC better aligns with leading practices for effective pilot design, and (2) the ISAC Partnership develops an outreach plan to expand membership and improve understanding of the ISAC's benefits. IRS and the ISAC Board state and industry co-chairs agreed with the recommendations.

View [GAO-18-20](#). For more information, contact Jessica Lucas-Judy at (202) 512-9110 or [lucasjudy@gao.gov](mailto:lucasjudy@gao.gov).

November 2017

## IDENTITY THEFT

### Improved Collaboration Could Increase Success of IRS Initiatives to Prevent Refund Fraud

## What GAO Found

The Internal Revenue Service (IRS) launched an Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (ISAC) pilot for the 2017 filing season. It aims to allow IRS, states, and tax preparation industry partners to quickly share information on identity theft (IDT) refund fraud. The ISAC pilot includes two components: an online platform run by IRS to communicate data on suspected fraud, and an ISAC Partnership, a collaborative organization comprised of IRS, states, and industry, which is intended to be the governance structure. As of November 2017, the ISAC had 48 members: 31 states (including full members and those receiving alerts only), 14 tax preparation companies, and 3 financial institutions. In addition, IRS is using a Rapid Response Team (RRT) in partnership with states and industry members to coordinate responses to IDT refund fraud incidents that pose a significant threat within 24 to 72 hours of being discovered. IRS deployed the RRT for six incidents in 2016 and once in 2017.

GAO found that the ISAC pilot aligns with key aspects of all five leading practices for effective pilot design GAO previously identified, but none fully. For example, IRS has worked to incorporate stakeholder input, but its message about the ISAC's benefits has not fully reached states. Further, IRS does not have criteria for assessing whether the pilot's objectives have been met. Without this assessment and better alignment with leading practices, IRS, its partners, and Congress will have difficulty determining the effectiveness of the pilot and whether to implement it more broadly.

Leading practice	GAO assessment
<b>STAKEHOLDER COMMUNICATION</b>	mostly aligned 
<b>OBJECTIVES</b>	mostly aligned 
<b>SCALABILITY</b>	partially aligned 
<b>ASSESSMENT</b>	minimally aligned 
<b>DATA-ANALYSIS PLAN</b>	minimally aligned 

Source: GAO assessment of ISAC pilot alignment with leading practices. | GAO-18-20

IRS has taken actions to improve the ISAC pilot, but the ISAC Partnership does not have an outreach plan. While the ISAC Senior Executive Board limited industry participation to partners who participated in its Security Summit, the ISAC has obtained support from trade organizations. However, officials from almost all states represented in our focus groups noted that they either had not used, or were unfamiliar with, the ISAC-specific resources. While the ISAC Board has taken steps to engage stakeholders, the ISAC Partnership does not have an outreach plan to increase membership and improve states' and industry partners' understanding of the ISAC's benefits. Without such a plan, less effective collaboration is likely among stakeholders and opportunities to prevent IDT refund fraud may be missed.

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## Abbreviations

Board	ISAC Senior Executive Board
COP	community of practice
ETAAC	Electronic Tax Administration Advisory Committee
FTA	Federation of Tax Administrators
IDT	identity theft
IP	Internet Protocol
IRS	Internal Revenue Service
ISAC	Information Sharing and Analysis Center
PII	personally identifiable information
PIN	Personal Identification Number
RRT	Rapid Response Team
Treasury	Department of the Treasury

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November 28, 2017

The Honorable Orrin Hatch  
Chairman  
The Honorable Ron Wyden  
Ranking Member  
Committee on Finance  
United States Senate

The Honorable Kevin Brady  
Chairman  
The Honorable Richard Neal  
Ranking Member  
Committee on Ways and Means  
House of Representatives

Identity theft (IDT) tax refund fraud is an evolving and costly problem that causes hardship for legitimate taxpayers who are victims of the crime and demands an increasing amount of the Internal Revenue Service's (IRS) resources. IDT refund fraud occurs when a refund-seeking 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.<sup>1</sup> This crime burdens honest taxpayers because authenticating their identities is likely to delay the processing of their returns and refunds. IRS estimates that at least \$14.5 billion in IDT tax refund fraud was attempted in tax year 2015, of which it prevented at least \$12.3 billion (85 percent). Of the amount attempted, IRS estimated it paid at least \$2.2 billion (15 percent).<sup>2</sup>

Given current and emerging risks, in 2015 we added IRS's efforts to address IDT refund fraud to our high-risk area for enforcement of tax

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<sup>1</sup>This report 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.

<sup>2</sup>Because of the difficulties in estimating the amount of undetectable fraud, the actual amount could differ from these estimates.

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laws.<sup>3</sup> This is part of our broader body of work on IDT refund fraud since 2014.<sup>4</sup> We previously reported that IRS had undertaken substantial research efforts to combat this problem, such as estimating the cost of IDT refund fraud.<sup>5</sup> The efforts also include examining the size of the problem and evaluating whether IRS's methods for authenticating taxpayers provide reasonable assurance that the authentication determination is accurate. Our work and associated recommendations have helped IRS continue to adapt as it confronts new and evolving schemes.

To further address IDT refund fraud, IRS held a Security Summit in March 2015, with representatives such as state tax administrators and industry partners, including tax preparation and software firms and financial institutions. Following the Summit, seven working groups were created to combat IDT refund fraud in different ways.<sup>6</sup> These working groups—composed of Security Summit partners—have collaborated on various initiatives aimed at better detecting and preventing IDT refund fraud.

You asked us to examine IRS's efforts to collaborate with state and industry partners to combat IDT refund fraud. This report (1) describes actions Security Summit partners are taking to implement two initiatives, an Information Sharing and Analysis Center (ISAC) and a Rapid Response Team (RRT); (2) evaluates the extent to which the ISAC pilot aligns with leading practices for pilot design; and (3) identifies actions, if any, that IRS could take to improve the ISAC pilot.

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<sup>3</sup>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). Also see GAO's key issues page on tax administration, [http://www.gao.gov/key\\_issues/tax\\_administration/issue\\_summary#t=0](http://www.gao.gov/key_issues/tax_administration/issue_summary#t=0)

<sup>4</sup>GAO, *Identity Theft and Tax Fraud: IRS Needs to Improve its Ability to Locate Fraudsters and Monitor Identity Theft Controls*, [GAO-17-46SU](#) (Washington, D.C.: Nov. 15, 2016); *Identity Theft and Tax Fraud: IRS Needs to Update Its Risk Assessment for the Taxpayer Protection Program*, [GAO-16-508](#) (Washington, D.C.: May 24, 2016); *Identity Theft and Tax Fraud: Enhanced Authentication Could Combat Refund Fraud, but IRS Lacks an Estimate of Costs, Benefits and Risks*, [GAO-15-119](#) (Washington, D.C.: Jan. 20, 2015); and *Identity Theft: Additional Actions Could Help IRS Combat the Large, Evolving Threat of Refund Fraud*, [GAO-14-633](#) (Washington, D.C.: Aug. 20, 2014). See GAO's website for the status of each recommendation made in these reports.

<sup>5</sup>[GAO-16-508](#).

<sup>6</sup>The seven working groups are Authentication; Communication and Taxpayer Awareness; Financial Services; Information Sharing; Information Sharing Analysis Center; Strategic Threat Assessment and Response; and Tax Professionals.

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We selected the ISAC and RRT from among those initiatives identified in the June 2016 IRS Commissioner's Security Summit Update Report as the focus of our review because of their importance, the potential for a major effect on IDT refund fraud, and the timeline for planned actions.

To address each objective, we reviewed documents from IRS, the ISAC Senior Executive Board (Board), the ISAC working group, and the Information Sharing working group. These documents included meeting minutes, planning documents, the biweekly ISAC dashboard, and weekly ISAC updates from IRS's contractor. We observed a training session IRS's contractor conducted for new ISAC members, and we received a demonstration from the contractor of the ISAC online platform capabilities.<sup>7</sup> In addition, we conducted semistructured interviews with IRS, state, and industry co-leads of the ISAC and Information Sharing working groups; ISAC Board co-chairs; the outreach and metrics ISAC Board subgroups; and trade organizations including the Federation of Tax Administrators and American Coalition of Taxpayer Rights.<sup>8</sup>

To further address all objectives, we conducted four focus groups in March and April 2017—two sessions with states and two sessions with industry partners. We randomly selected states from among those with an official who participated in the ISAC or Information Sharing working groups and from among those that had not been involved in either working group. We selected industry partners from among those involved in those working groups. We excluded from our sample states or industry partners with whom we previously conducted—or planned to conduct—a separate semistructured interview. We asked similar questions of each focus group with some variation between state and industry groups. We transcribed the focus group sessions and analyzed the data to identify common themes and patterns. We used these sessions to provide illustrative examples of state and industry perceptions of the accomplishments of, and challenges to implementing, the ISAC and RRT.

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<sup>7</sup>IRS refers to the online platform as the operational platform.

<sup>8</sup>We contacted, but were unable to schedule a meeting with, one of the co-leads.

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The responses are non-generalizable and do not reflect opinions of all states or industry partners.<sup>9</sup>

To evaluate the extent to which the ISAC aligns with the five leading practices for pilot design, we reviewed our prior work and compared IRS actions against these practices and criteria.<sup>10</sup> Our April 2016 report describes the criteria we developed for evaluating pilot design and the methodology we used to do so.<sup>11</sup> Further, we compared IRS actions to the internal control standard for having a plan to meet its objective.<sup>12</sup> See appendix I for additional details on the objectives, scope, and methodology.

We conducted this performance audit from August 2016 to November 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

Viewed broadly, IDT refund fraud is comprised of two crimes: (1) stealing or compromising PII and (2) using stolen (or otherwise compromised) PII to file a fraudulent tax return and collect a fraudulent refund. Figure 1 presents an example of how fraudsters may use stolen PII and other information, real or fictitious (e.g., sources and amounts of income), to complete and file a fraudulent tax return and receive a refund. In this example, a taxpayer may alert IRS of IDT refund fraud. Alternatively, IRS can detect IDT refund fraud through its automated filters that search for

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<sup>9</sup>Eleven states participated in the focus groups. For the purposes of this report, we characterize the responses to the focus group questions as “most” when eight or more states responded the same way. Additionally, we characterize the response to focus group questions as “some” when four to seven states responded the same way and a “few” when two to three states responded similarly.

<sup>10</sup>GAO, *DATA Act: Section 5 Pilot Design Issues Need to Be Addressed to Meet Goal of Reducing Recipient Reporting Burden*, [GAO-16-438](#) (Washington, D.C.: Apr. 19, 2016).

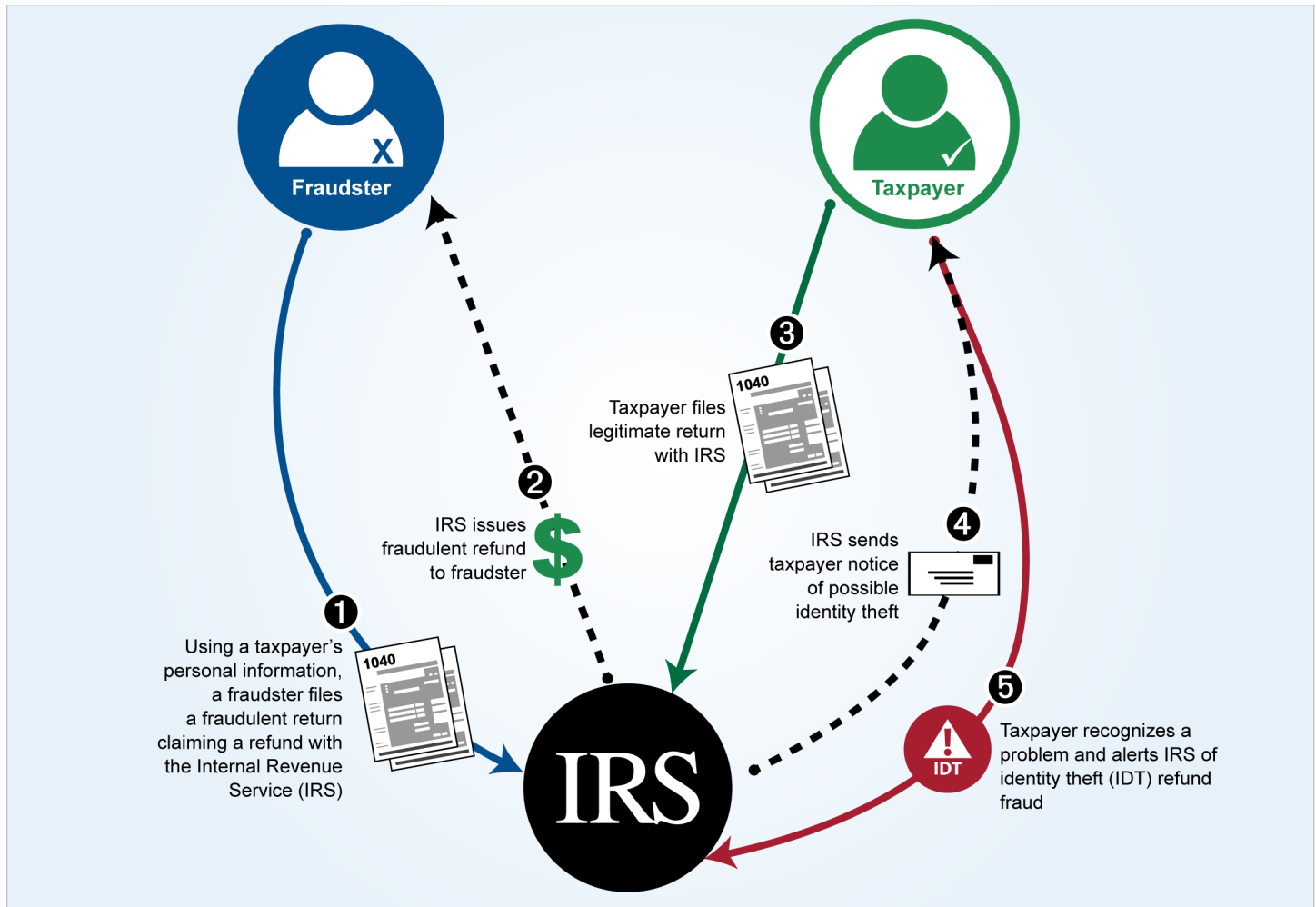
<sup>11</sup>[GAO-16-438](#).

<sup>12</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).



specific characteristics as well as through other reviews of taxpayer returns.<sup>13</sup>

**Figure 1: Example of a Successful Identity Theft Refund Fraud Attempt**



Source: GAO analysis. | GAO-18-20

<sup>13</sup>Both the ISAC and the RRT are focused on individual IDT refund fraud. According to IRS, the number of individuals reporting that they are IDT fraud victims has declined but IDT involving business-related tax returns has increased. In July 2017, IRS reported in a news release that through May 2017, about 107,000 taxpayers reported being victims of IDT, compared to the same period in 2016 and 2015 when 204,000 and 297,000 victims were reported, respectively.

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## Information Sharing and Analysis Centers

In May 1998, Presidential Decision Directive 63 introduced and promulgated the concept of ISACs, which help critical infrastructure owners and operators protect facilities, personnel, and customers from cyber and physical security threats and other hazards. ISACs typically collect, analyze, and disseminate actionable threat information to their members and provide members with tools to mitigate risks and enhance resiliency. ISACs have been used in other sectors such as energy, financial services, and surface transportation to facilitate coordination between public and private entities. We have reported that ISACs have developed diverse management structures and operations to meet the requirements of their respective critical infrastructure sectors.<sup>14</sup> Likewise, we also have assessed federal support to fusion centers, information sharing platforms between the government and the private sector that prevent and respond to criminal and terrorist activity.<sup>15</sup>

ISAC characteristics differ across various sectors; however, we have reported common challenges—including information sharing—that need to be addressed for an ISAC to be successful.<sup>16</sup> Barriers to information sharing may stem from practical considerations because the benefits of sharing information are often difficult to discern, while the risks and costs of sharing are direct and foreseeable. As a result, we have noted that it is important to lower the practical risks of sharing information through both

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<sup>14</sup>See, for example, GAO, *Cybersecurity: DHS's National Integration Center Generally Performs Required Functions but Needs to Evaluate Its Activities More Completely*, [GAO-17-163](#) (Washington, D.C.: Feb. 1, 2017); *Vehicle Cybersecurity: DOT and Industry Have Efforts Under Way, but DOT Needs to Define Its Role in Responding to a Real-world Attack*, [GAO-16-350](#) (Washington, D.C.: Mar. 24, 2016); *Cybersecurity: Bank and Other Depository Regulators Need Better Data Analytics and Depository Institutions Want More Usable Threat Information*, [GAO-15-509](#) (Washington, D.C.: July 2, 2015); *Cybersecurity: National Strategy, Roles, and Responsibilities Need to Be Better Defined and More Effectively Implemented*, [GAO-13-187](#) (Washington, D.C.: Feb. 14, 2013); and *Critical Infrastructure Protection: Establishing Effective Information Sharing with Infrastructure Sectors*, [GAO-04-699T](#) (Washington, D.C.: Apr. 21, 2004).

<sup>15</sup>See, for example, GAO, *Information Sharing: DHS Is Assessing Fusion Center Capabilities and Results, but Needs to More Accurately Account for Federal Funding Provided to Centers*, [GAO-15-155](#) (Washington, D.C.: Nov. 4, 2014); *Information Sharing: Federal Agencies Are Helping Fusion Centers Build and Sustain Capabilities and Protect Privacy, but Could Better Measure Results*, [GAO-10-972](#) (Washington, D.C.: Sept. 29, 2010); *Homeland Security: Federal Efforts Are Helping to Address Some Challenges Faced by State and Local Fusion Centers*, [GAO-08-636T](#) (Washington, D.C.: Apr. 17, 2008); *Homeland Security: Federal Efforts Are Helping to Alleviate Some Challenges Encountered by State and Local Information Fusion Centers*, [GAO-08-35](#) (Washington, D.C.: Oct. 30, 2007).

<sup>16</sup>[GAO-04-699T](#).

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technical means and policies, and to develop internal systems that are capable of supporting operational requirements without interfering with core operations.

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## IRS's ISAC

### IRS's Information Sharing and Analysis Center Mission

The mission is to provide a secure platform via a sustainable public/private partnership to facilitate information sharing, consistent with applicable law, and analytics necessary to detect, prevent, and deter activities related to stolen identity refund fraud.

Source: Internal Revenue Service (IRS) | GAO 18-20

IRS's ISAC—the Identity Theft Tax Refund Fraud-Information Sharing and Analysis Center—is intended to improve collaboration and information sharing among IRS, states, and industry partners and began as a pilot in January 2017. (See sidebar.) Two entities operate under the ISAC umbrella. One entity is the ISAC Partnership, a collaborative organization run jointly by IRS, states, and industry partners. The other entity is the ISAC online platform, which is controlled by IRS and includes an early warning alarm system that allows states and industry partners to share information related to IDT refund fraud and schemes more quickly to better defend against fraud.<sup>17</sup>

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## Additional Information Sharing Efforts

Outside of the ISAC, four other efforts have supported information sharing about potential IDT refund fraud for years.

- **Suspicious Filer Exchange:** The Federation of Tax Administrators (FTA) operates an online platform for states to share information—including record-level data—among themselves about suspected fraud.<sup>18</sup>
- **Industry Leads Program:** This IRS-operated program requires tax preparation companies to perform post-filing analysis and provide, on a recurring and timely basis, information to IRS on IDT refund fraud patterns and indices as a condition of electronically filing returns. IRS then provides this information to states, which are to use the information to bolster their fraud detection and prevention efforts.
- **External Leads Program:** This IRS-operated program involves third parties such as banks or other financial institutions providing information to IRS about questionable refunds. If the questionable refund is confirmed as fraudulent, IRS requests that the financial institution return the refund.

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<sup>17</sup>IRS funds the ISAC's online platform through IRS's Wage & Investment Division budget because officials view it as a mechanism for improving tax administration.

<sup>18</sup>FTA represents the principal tax collection agencies of the 50 states, the District of Columbia, Philadelphia, PA, and New York, NY. Its goal is to improve the quality of state tax administration by providing services to state tax authorities and administrators.

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- **Opt-In Program:** IRS operates this program that allows financial institutions to electronically reject suspicious refunds and return them to IRS and indicate why the institution is rejecting the refunds.
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## Rapid Response Team

The RRT, which began in the 2016 filing season, coordinates responses to IDT refund fraud incidents that IRS, states, or industry partners believe pose a significant and immediate threat to taxpayers or the tax system. The Information Sharing work group is responsible for managing the RRT and is led by one representative each from IRS, states, and industry. The main component of the RRT process is a call among relevant IRS, state, and industry partners to coordinate a response to the incident. IRS's goal is to convene the call within 24 to 72 hours after an incident is discovered. The RRT process describes the next steps for the first 3 days after an incident is identified.

The RRT process differs depending on whether the incident is reported by IRS, a state, or an industry partner, based on the laws governing information sharing discussed later in this report. For example, if a state identifies an incident, the RRT process indicates that the state should share that information—including Social Security numbers as appropriate—with IRS and other states on the next business day and with industry in the next 2 to 3 days. If IRS or an industry partner identifies an incident, the RRT process indicates that IRS or the industry partner should share relevant information in the next 2 to 3 days.

In the 2016 filing season, the RRT was deployed for six incidents. For example, as we reported in January 2017, IRS announced in February 2016 that cybercriminals had stolen more than 100,000 e-file Personal Identification Numbers (PIN) from an online tool.<sup>19</sup> Stolen e-file PINs could be used to file fraudulent federal tax returns.

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<sup>19</sup>GAO, *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.: Jan. 31, 2017).

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## IRS Has Taken Significant Actions to Facilitate Information Sharing through the ISAC and RRT

IRS implemented the ISAC in 2017 to facilitate information sharing among IRS, state, and industry partners—subject to disclosure prohibitions—by launching an online platform, establishing a governance structure, and recruiting members. IRS and state officials and industry representatives attributed increased trust and improved relationships to IRS's efforts in recent years. Additionally, IRS coordinated with state and industry partners to establish the RRT in 2016, which has been initiated once thus far in 2017.

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### IRS Actions to Implement the ISAC Include Launching the Online Platform and Recruiting Members

The ISAC online platform provides two capabilities—alerts and record-level data—which facilitate information sharing.

- **Alerts:** This capability consists of alerts on potential IDT refund fraud that have been identified by IRS, states, or an industry partner and shared on the ISAC online platform. Alerts are available to all states and Security Summit partners who sign a terms of use agreement. Alerts include detailed information about identified schemes, indicators of suspicious activity, and types of accounts targeted, among other things. Alerts may also include anecdotal evidence from ISAC members who have already been targeted by this scheme.
- **Record-level data and analysis:** This capability consists of several tools to facilitate IDT refund fraud prevention and detection, including a secure data transfer tool that members can use to input IDT refund fraud data and record-level data. Record-level data may include PII or other details about suspected fraud. States and industry partners share record-level data with the ISAC. However, according to IRS officials, IRS does not due to legal restrictions. This part of the ISAC also contains, among other things, analytic reports which identify, for example, Internet Protocol (IP) addresses associated with potential fraud. This space is only accessible to full ISAC members.<sup>20</sup>

Information that is shared and available to be reviewed by various ISAC stakeholders is controlled by disclosure laws within the Internal Revenue Code. According to IRS officials, IRS does not contribute Federal Tax Information to the ISAC because those data are protected from disclosure under section 6103 of the Internal Revenue Code, which generally prohibits IRS from disclosing tax returns or return information. Similarly, IRS does not control or have ownership of any record-level data on the

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<sup>20</sup>States and industry members of the Security Summit were invited to join the ISAC.

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ISAC. Instead, IRS receives record-level data directly from states and industry partners through other channels such as the External Leads Program. IRS can, however, still contribute alerts that do not include record-level data.

Moreover, unless exempted, section 7216 of the Internal Revenue Code prohibits disclosure or use of taxpayer information by preparers of returns and imposes criminal penalties on knowing or reckless disclosure.<sup>21</sup>

Disclosure of information from one preparer to another preparer or disclosure to federal, state, or local officials to inform them of activities that may constitute a crime is permitted by Department of the Treasury (Treasury) regulation.<sup>22</sup> As seen in figure 2, tax preparation companies—covered under section 7216 and referred to as industry 7216—have full access to all of the information provided to the ISAC. However, financial institutions—not covered under section 7216 and referred to as industry non-7216—are not able to view record-level data submitted by, or comingled with data from, tax preparation companies. Three of the 17 industry members of the ISAC are financial institutions—non-7216 entities—and therefore have this more limited view.

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<sup>21</sup>For the purposes of this report, we use the term tax preparation companies to refer to members of industry that prepare returns or assist taxpayers with filing returns, such as through software. Tax preparers include any person engaged in the business of preparing or assisting in preparing returns or providing auxiliary services in connection with the preparation of returns (e.g., persons developing software to prepare returns or e-file returns) or any person who prepares another person's return for compensation. I.R.C. § 7216(a); Treas. Reg. § 301.7216-1(b)(2).

<sup>22</sup>Treas. Reg. § 301.7216-2(d), (q).

**Figure 2: Access to Information Sharing and Analysis Center Records and Alerts by Stakeholder Type**

		IRS	States	Tax Preparation Companies	Financial Institutions
Data	Non-federal tax information from Internal Revenue Service (IRS)	●	●	●	●
	Record-level data from states and all non-tax information record-level data	■	●	●	●
	Record-level data from tax preparation companies	■	●	●	■
Alerts	Alerts submitted by IRS, states, or financial institutions	●	●	●	●
	Alerts submitted by tax preparation companies	●	●	●	■
Other resources	Analytical work products with data from any stakeholder and visualization tools	●	●	●	■
	Analytical work products with IRS and state data only	●	●	●	●

● Visible in the Information Sharing and Analysis Center (ISAC)

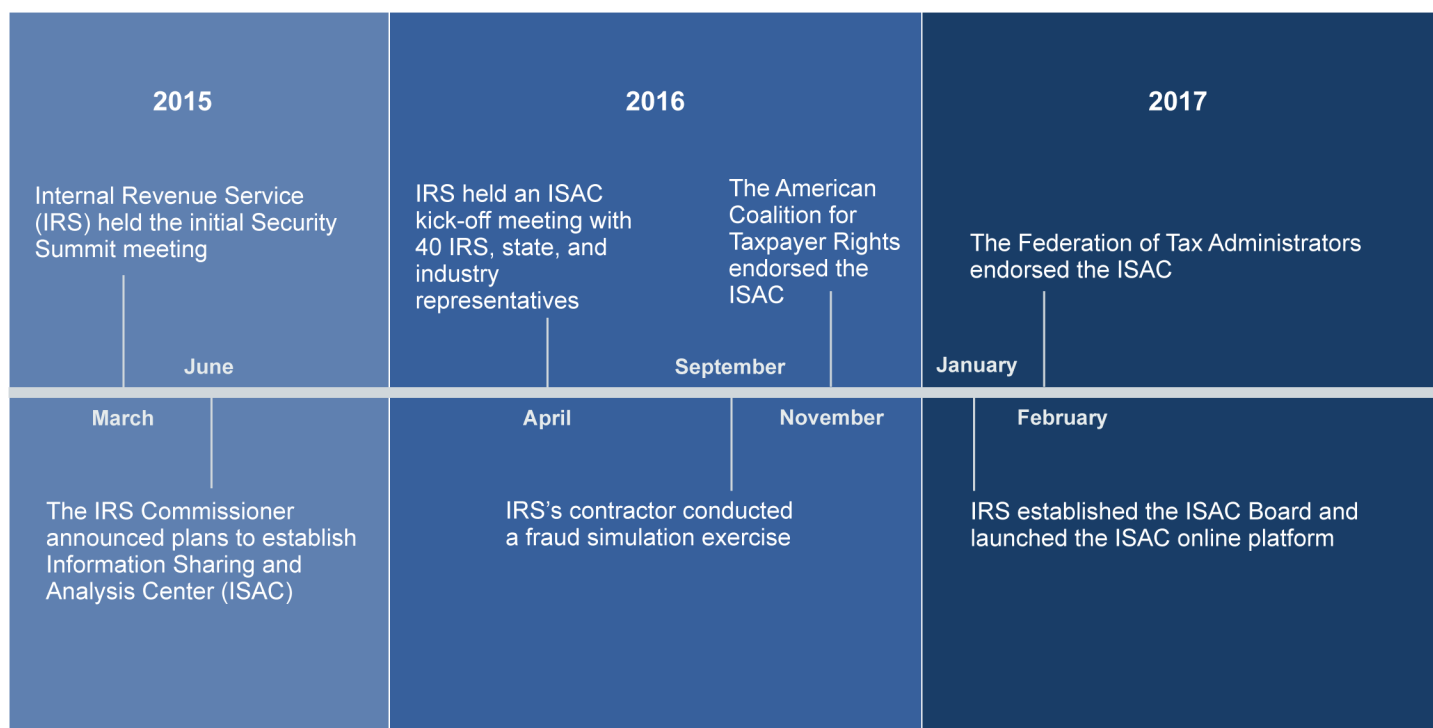
■ Not visible in the ISAC

Source: GAO analysis of IRS documents. | GAO-18-20

IRS contracted with a company to facilitate information sharing among partners.<sup>23</sup> The contractor developed and manages the online platform and also analyzes data on IDT fraud, which it makes available to IRS's ISAC members. In addition, IRS developed a governance structure for the ISAC. Figure 3 shows these and other key events.

<sup>23</sup>IRS's contractor serves as a "trusted third party," which is defined as a not-for-profit entity that is free from commercial conflicts of interest. The contractor's role is to consolidate data provided to the ISAC and conduct research and data analysis under the direction of the IRS Executive Official.

**Figure 3: ISAC Key Events from 2015 to 2017**



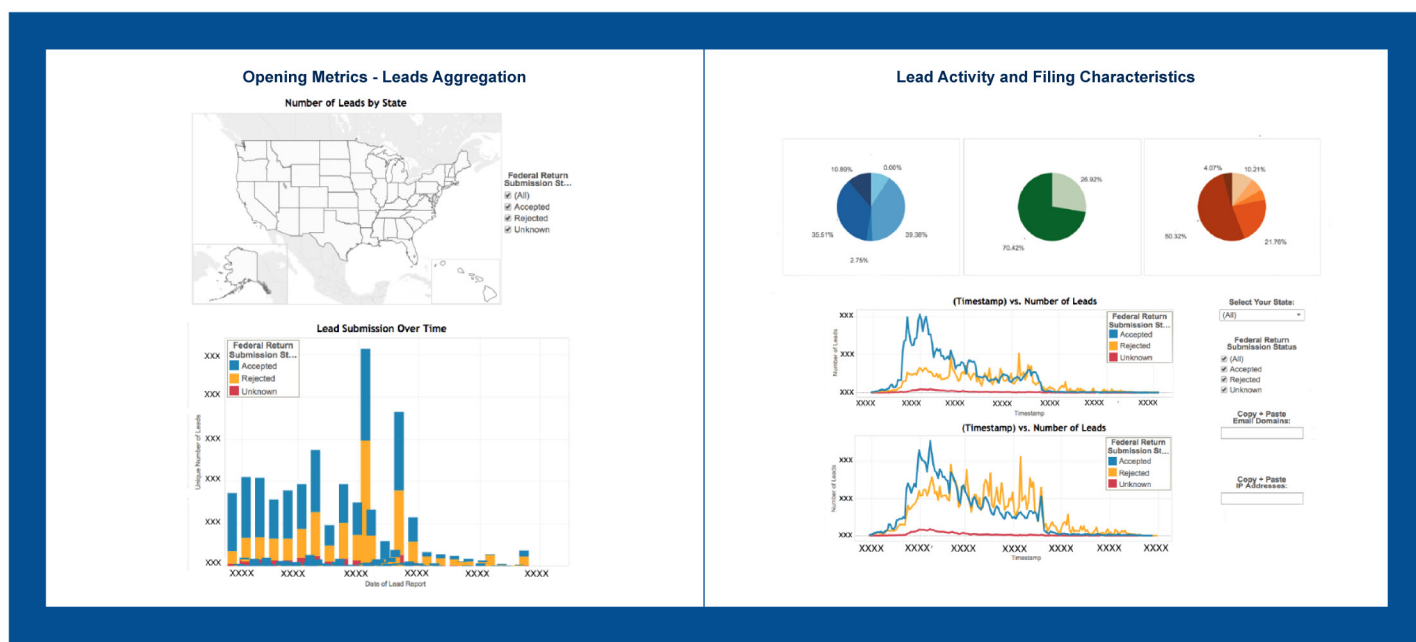
Source: GAO analysis of IRS documents. | GAO-18-20

Three of IRS's goals for the ISAC when it launched in 2017 were to (1) launch the online platform, (2) establish the governance structure, and (3) recruit new members.

In terms of its first goal, as noted, the online platform became operational January 23, 2017. IRS's contractor provided ISAC members with training on how to use the online platform and how to use the data visualization tools. (See figure 4.) The data visualization tools include charts and figures with data on trends in refund fraud. The tools are available to members of the ISAC with the exception of financial institutions that cannot view data visualization tools compiled with tax preparation company data (as noted in figure 2 earlier).



Figure 4: Example of ISAC Data Visualization Tool with Illustrative Data



Source: Internal Revenue Service. | GAO-18-20

The ISAC also established a community of practice (COP) that brings together fraud analysts from IRS, states, and industry partners to share leading practices. The intent is to encourage dialogue among staff involved in implementing fraud prevention strategies. In our focus groups, an industry official said that the COP has been a positive experience for industry, but most state officials said they were not familiar with the COP.

In terms of establishing a governance structure, the ISAC Partnership is governed by the ISAC Senior Executive Board (Board) that consists of 15 members, with 5 representatives each from IRS, states, and industry. The Board is principally responsible for crafting mission or vision statements for the ISAC Partnership, recommending ISAC operating procedures, and nominating new ISAC Platform participants and recommending the removal of such participants, among other responsibilities. An IRS executive official must approve any recommendation by the Board that affects the online platform. The partnership also includes three subgroups: metrics, outreach, and governance.

IRS also made progress on its goal of recruiting new participants. As of November 2017, the ISAC had 24 full state members, 7 alerts-only state

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members, 14 tax preparation company members, and 3 financial institution members. An additional 7 states have membership pending. In total, 38 states are members (either full members or those receiving only alerts) or have membership pending. Goals moving into the 2018 filing season include increasing the participation of current members, exploring additional analytical capabilities, and establishing and refining performance metrics.

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### Partners Attributed Improved Collaboration to the Security Summit and ISAC

In our focus groups, industry representatives said that they see ISAC collaboration as critical to managing IDT threats. The ISAC is intended to go beyond other efforts, most notably in that it brings IRS, states, and industry together in equal partnership and allows for communication among all stakeholders. IRS reports over 1.8 million leads submitted to the ISAC from 14 partners. However, the number of leads does not reflect their quality. Industry representatives we spoke with in our focus groups said that they would like feedback from IRS on the usefulness of industry leads so that they can adjust their fraud filters and provide more accurate leads.

These comments about the usefulness and quality of industry leads are consistent with what our prior work has found on the value of external leads. Specifically, in 2014, we recommended that IRS take the following actions on its External Leads Program:

1. provide aggregated information on both the success of external leads in identifying suspicious returns, and also emerging trends (pursuant to section 6103 restrictions), and
2. develop a set of metrics to track external leads by the submitting third party.<sup>24</sup>

IRS has taken steps to address these recommendations, including developing timeliness metrics for managing leads and holding six feedback sessions with financial institutions participating in the External Leads Program. As of November 2017, we are following up with industry members to determine if they consider the feedback accurate, timely, and actionable. Without such feedback, the more than 600 external parties participating in the External Leads Program do not know if the leads they

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<sup>24</sup>[GAO-14-633](#).

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provide to IRS are useful and they may not be able to assess their success in identifying IDT refund fraud or improve their detection tools.

In the focus groups, both state officials and industry representatives said the relationship among IRS, states, and industry has improved as a result of increased collaboration over the last several years. As of November 2017, the ISAC had 48 members.<sup>25</sup> Further, IRS officials said they think trust and the relationship between all parties has and is continuing to improve. Likewise, in the focus groups, industry officials cited benefits of improved coordination from the Security Summit. For example, one industry representative cited IRS's pushing out communications faster because of the Security Summit, while another noted that participation in the summit has made IRS officials more accessible.

However, in focus groups, a few state officials noted that because IRS is compartmentalized, they have found their interactions with IRS to be inconsistent. For example, these state officials reported some IRS units are more responsive than others and that information sometimes is not shared among IRS units.

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### IRS Established the RRT in 2016 and Initiated the RRT Process Once in the 2017 Filing Season

As part of establishing the RRT, IRS outlined the responsibilities of IRS, states, and industry to respond to significant IDT refund fraud incidents. As noted earlier in this report, the RRT was activated six times in 2016. IRS initiated the RRT once in the 2017 filing season for a data breach related to the Department of Education.

In March 2017, IRS and the Department of Education responded to security concerns and removed access on <https://www.fafsa.gov> and <https://www.StudentLoans.gov> to IRS's Data Retrieval Tool—the online process through which student financial aid applicants obtain their family's tax information. IRS suspects that fraudsters used personal information obtained elsewhere to access the Data Retrieval Tool in an attempt to access tax information, particularly adjusted gross income.

As of April 6, 2017, IRS reported that fewer than 8,000 fraudulent returns from this incident had been filed, processed, and issued refunds, but IRS estimated that about 100,000 taxpayers may have been affected. The Data Retrieval Tool was taken offline while IRS and the Department of

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<sup>25</sup>This total includes both full and alerts-only state members.

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Education made updates and will not be available for completing applications for the current school year (2017-2018). As of November 2017, taxpayers could use the Data Retrieval Tool for completing financial aid applications for the next school year (2018-2019). While IRS initiated the RRT for this incident, an industry official said that the information provided in the press release was more detailed than what was previously provided to industry partners via the RRT.

The RRT is administered separately from the ISAC. According to IRS officials, they intend to eventually integrate components of the RRT into the ISAC to further streamline information sharing. Specifically, IRS envisions the ISAC serving as the primary mechanism for states and industry partners to report and escalate IDT refund fraud incidents by facilitating communication among participants. IRS does not have a timeline for this integration.

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## The ISAC Pilot Partially Aligns with Leading Practices for Pilot Design, but IRS Does Not Have a Plan to Improve Alignment






In 2016, we identified five leading practices for designing a well-developed and documented pilot program: (1) ensuring stakeholder communication, (2) establishing objectives, (3) ensuring scalability, (4) having an assessment methodology, and (5) developing a data-analysis plan.<sup>26</sup> These practices enhance the quality, credibility, and usefulness of evaluations and help ensure that time and resources are used effectively. Each leading practice shares common elements but serves a unique purpose and builds on the other. For example, four of the five leading practices recommend either establishing criteria for assessing whether the pilot's objectives have been met or developing a data plan necessary for effectively evaluating the pilot.

While the ISAC pilot is in nascent stages, IRS has taken steps that partially align with key aspects of all five leading practices. (See figure 5.)




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<sup>26</sup>GAO-16-438.

**Figure 5: GAO's Assessment of the Information Sharing and Analysis Center (ISAC) Pilot's Alignment with Leading Practices**

Leading practice	Description	GAO assessment
<b>Stakeholder communication</b>	Ensure appropriate two-way stakeholder communication and input at all stages of the pilot project, including design, implementation, data gathering, and assessment	
<b>Objectives</b>	Establish well-defined, appropriate, clear, and measurable objectives	
<b>Scalability</b>	Identify criteria or standards for identifying lessons about the pilot to inform decisions about scalability and whether, how, and when to integrate pilot activities into overall efforts	
<b>Assessment</b>	Clearly articulate assessment methodology and data gathering strategy that addresses all components of the pilot program and includes key features of a sound plan	
<b>Data-analysis plan</b>	Develop a detailed data-analysis plan to track the pilot program's implementation and performance and evaluate the final results of the project and draw conclusions on whether, how, and when to integrate pilot activities into overall efforts	

GAO assessment of ISAC pilot alignment with leading practices

-  Mostly aligned
-  Partially aligned
-  Minimally aligned

Source: GAO assessment. | GAO-18-20

## Stakeholder communication



**Ensure appropriate two-way stakeholder communication:** In 2016, we reported that it is critical that agencies identify who the relevant stakeholders are and communicate early and often to address their concerns and convey the initiative's overarching benefits.<sup>27</sup>

IRS's efforts mostly aligned with this practice because IRS included stakeholder input during the design, implementation, and preliminary stages of the data-gathering and assessment phases of the pilot. IRS,

<sup>27</sup> [GAO-16-438](#).

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through the ISAC working group and the Board, communicated with stakeholders before, during, and after forming the ISAC. Such communication helped ensure that stakeholders were engaged and that their views were understood and incorporated. For example, in 2016, IRS's contractor conducted a preliminary assessment and interviews to compile and present stakeholder views and aspirations for the ISAC. This process included meeting with state officials and industry partners about ISAC preferences, suggestions, concerns, and risks. According to the IRS ISAC Executive Official, ahead of the ISAC launch, IRS established several mechanisms to ensure ongoing stakeholder input, including coordinating with both state and industry trade organizations, including the FTA and the American Coalition of Taxpayer Rights, to gain their endorsement.<sup>28</sup>

IRS and its contractor also solicited feedback at conferences, such as FTA's annual conferences. During a 3-day fraud simulation exercise hosted by IRS's contractor, participants discussed partner actions, needs, and processes to inform the ISAC's development. Additionally, IRS conducted a stakeholder analysis which documented stakeholders' engagement in the ISAC Partnership. This is intended to inform the development of the ISAC communications plan. Finally, the ISAC's Partnership governance structure, which includes representatives from states and industry, helps facilitate communication among stakeholders.

Despite these efforts, IRS's message about the ISAC's benefits has not fully reached states. In our focus groups, a few state officials reported they are unclear about the benefit of the ISAC. To help improve communication, the Board invited relevant trade organizations to participate in its July Board meetings. IRS officials reported that the message about the benefits of the ISAC may not have initially reached states because it took time to build trust among state and industry partners. FTA confirmed that states may not have understood the benefits of working with IRS and industry partners and were wary of joining the ISAC. Further, IRS officials said that some trade organizations that endorsed the ISAC had differing views about the organization of the ISAC—such as who should be invited to participate—which made it challenging for IRS to effectively garner support. A few states reported in our focus groups that FTA's endorsement was important to their decision

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<sup>28</sup>The American Coalition for Taxpayer Rights is an advocacy organization comprised of tax preparation and software companies and financial institutions that works on taxpayer rights and the tax compliance system.

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to join the ISAC. Until IRS further communicates the ISAC's benefit to current and potential stakeholders, IRS and the ISAC Board may face challenges in reaching their goal of increasing robust participation in the ISAC. We discuss how IRS can improve its outreach to state and industry partners later in this report.

## Objectives



### **Establish well-defined, appropriate, clear, and measurable**

**objectives:** In our 2016 report, we found that well-formulated objectives help ensure that appropriate evaluation data can be collected from the outset of the pilot so that data are available for measuring performance against clear goals and standards. Broad objectives should be translated into specific researchable questions that articulate what will be assessed.<sup>29</sup> Additionally, we have reported that agencies should establish measurable goals for determining when the pilot progresses from one stage to the next to improve their ability to evaluate the success of the pilot.<sup>30</sup>

IRS's efforts mostly aligned with this leading practice. For example the ISAC's charter sets forth objectives, which include (1) exchanging information among participants, (2) providing a forum for real-time responses to fraud schemes, and (3) promoting strategies to detect and prevent fraud. In February 2017, the Board established the metrics subgroup to assess the performance of the ISAC and develop metrics. The Board noted that metrics are essential for showing the value added by the ISAC compared to other efforts. The ISAC Roadmap, a planning document that outlines three developmental phases over 4 years, shows that IRS and the Board have considered an implementation plan, as well as how the online platform might evolve in the areas of program operations, infrastructure, analytics, and partner engagement. Additionally, IRS's contractor anticipated and developed risk mitigation strategies to handle scenarios that might arise before, during, and after the ISAC's launch and interfere with reaching the pilot's objectives. Finally, ahead of ISAC's launch, the contractor refined key operational attributes to help define ISAC's full desired capabilities.

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<sup>29</sup>[GAO-16-438](#).

<sup>30</sup>GAO, Small Businesses: IRS Considers Taxpayer Burden in Tax Administration, but Needs a Plan to Evaluate the Use of Payment Card Information for Compliance Efforts, [GAO-15-513](#) (Washington, D.C.: June 30, 2015); Program Evaluation: Strategies to Facilitate Agencies' Use of Evaluation in Program Management and Policy Making, [GAO-13-570](#) (Washington, D.C.: June 26, 2013); and Designing Evaluations: 2012 Revision (Supersedes PEMD-10.1.4), [GAO-12-208G](#) (Washington, D.C.: Jan. 31, 2012).

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However, IRS has not translated its objectives into specific, researchable questions that articulate what will be assessed. For example, one of the ISAC's objectives is to facilitate the exchange of information among members. While IRS closely monitors members' use of the ISAC, IRS does not have performance goals, such as desired participation levels, or a plan to assess progress towards those goals, such as members' usage of ISAC data and tools. These are needed to ensure that appropriate evaluation data are collected during the pilot. Furthermore, IRS does not have measurable goals to determine when the pilot should progress to full implementation.

In the early stages of a new program or initiative within a program, evaluation questions tend to focus on program process—on how well authorized activities are carried out and reach intended recipients. We have previously reported that common evaluation questions include the following:

- Is the program being delivered as intended to the targeted recipients?
- Have any feasibility or management problems emerged?
- What progress has been made in implementing changes or new provisions?<sup>31</sup>

According to IRS officials, the ISAC pilot is still in early stages; they did not know what to expect the first year but knew they wanted to focus on building trust and, therefore, did not set goals for participation. However, we have previously reported that without well-defined, appropriate, clear, and measurable objectives, it will be difficult to ensure appropriate evaluation data are collected and available to measure performance against the objectives and goals.<sup>32</sup> In short, it will be difficult for IRS to know whether it achieved its objectives. Without knowing this, IRS will have difficulty justifying investing additional resources.

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<sup>31</sup> [GAO-12-208G](#).

<sup>32</sup> [GAO-16-438](#).



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## Scalability



**Ensure scalability of pilot design:** The purpose of a pilot is generally to inform a decision on whether and how to implement a new approach in a broader context. Identifying criteria or standards for identifying lessons about the pilot will help inform an agency's decisions about scalability and when to integrate pilot activities into overall efforts. We previously reported that the criteria and standards should be observable and measureable events, actions, or characteristics that provide evidence that the pilot objectives have been met.<sup>33</sup>

IRS's efforts in designing the ISAC partially aligned with this leading practice. First, IRS identified and integrated lessons learned into its pilot. For example, ahead of ISAC's launch, IRS's contractor identified potential capabilities of the ISAC based on lessons learned from four ISACs from other industries and a 2-day collaborative session in summer 2015. In February 2017, 1 month after the ISAC's launch, the Board established the metrics subgroup to develop evaluation criteria to determine the extent to which the pilot objectives have been met. According to ISAC Board officials, the metrics subgroup is developing and testing metrics that the ISAC Board expects to use beginning in the 2018 filing season. The metrics are designed to measure participation in the ISAC, contribution of data or information to the ISAC, and the effectiveness of the data or information provided.

IRS also took steps to improve the ISAC pilot design, which will help it scale the pilot in the future. For example, in May 2017, IRS's contractor presented lessons learned from the 2017 filing season, including what was accomplished, what should be changed in future filing seasons, and areas for future attention to consider how well the lessons learned can be applied when the pilot is scaled up. The contractor's presentation also outlined recommendations from a May 2017 independent assessment of the ISAC, including the current status of each recommendation and actions needed to implement them. In addition, during the July 2017 ISAC Board meeting, IRS's contractor discussed lessons learned, and the IRS ISAC Executive Official discussed takeaways thus far from standing up the ISAC. Finally, IRS took steps to establish criteria for assessing the pilot's performance, but these steps are primarily related to participation, access, and data contribution requirements.

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<sup>33</sup> [GAO-16-438](#).

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IRS does not have criteria that would inform decisions about the ISAC's scalability, including when it is appropriate to include more state and industry members, how to identify additional members, or how to expand the functionalities of the online platform. For example, IRS has yet to articulate the criteria to determine the appropriate time frame for the ISAC to remain in the pilot stage and does not have a plan to decide how and when the ISAC will move from the pilot stage into full implementation. However, IRS officials have said that the ISAC will likely continue in pilot phase through the 2018 filing season.

According to IRS officials, IRS had prioritized other activities and is now turning its attention to plans for scaling the pilot. Without measurable evaluation criteria that provide evidence that the ISAC pilot objectives have been met, the Board will have difficulty assessing the ISAC's performance and making decisions about scalability.

## Assessment



**Clearly articulate an assessment methodology:** In 2016, we reported that key features of an assessment methodology include a strategy for comparing the pilot's implementation and results with other efforts; a clear plan that details the type and source of the data necessary to evaluate the pilot; and methods for data collection, including the timing and frequency.<sup>34</sup>

While IRS's efforts minimally aligned with this leading practice, it has taken some steps to clearly articulate its assessment methodology. For example, according to the IRS ISAC Executive Official, IRS plans to evaluate the extent to which the revenue protected by the ISAC pilot compares to existing fraud detection and prevention efforts, including the External Leads Program. To help accomplish this, IRS took preliminary steps to collect and track metrics related to ISAC's performance and compare ISAC's efforts against other mechanisms to combat fraud. For example, IRS's contractor collects and disseminates program metrics and ISAC analytics weekly, including the total number of members, leads, alerts, and Internet Protocol (IP) addresses. This is intended to help assess progress in expanding the ISAC and identifying fraud. In addition, the metrics subgroup started comparing ISAC leads against information collected from the states as part of its effort to assess ISAC data quality.

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<sup>34</sup>[GAO-16-438](#).

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However, IRS has not completed an assessment methodology and data gathering strategy that outlines the type and source of data necessary to evaluate the pilot to assess the progress in achieving each of the ISAC's objectives, including whether the ISAC successfully facilitates the exchange of information and helps detect and prevent fraud. IRS also does not have a strategy for comparing the pilot's implementation and results with other efforts. For example, while IRS officials expect to determine federal revenue protected by the ISAC and compare that to other efforts, IRS has not formalized this plan and IRS officials do not expect to start until at least October 2017, when the needed data become available. Additionally, according to IRS's ISAC Executive Official, state and industry partners—who are important stakeholders in the ISAC—may not be able to track dollars protected through the ISAC. As a result, IRS may only know the federal dollars protected, while the amount protected at the state level may remain unknown. This makes it more difficult to communicate the potential benefits to states. Furthermore, the ISAC could be collecting additional data to better meet its objectives. While quantifying federal dollars protected is a key indicator of the ISAC's success, that metric alone will not demonstrate the ISAC's benefit and effectiveness.

Without a documented strategy to compare the ISAC pilot to other efforts and a methodology that details the type and source of data necessary to evaluate the pilot—beyond the federal dollars protected by the ISAC that would otherwise have been undetected—IRS may find it difficult to assess the effectiveness of the pilot, identify areas for improvement, and demonstrate its capabilities compared with other efforts.

#### Data-analysis plan



**Develop a data-analysis plan:** In conjunction with a clearly articulated assessment methodology, a detailed data-analysis plan identifies who will analyze the data as well as when and how data will be analyzed to assess the pilot's performance and draw conclusions about how to improve procedures moving forward. As we previously reported, the results will show the successes and challenges of the pilot, and in turn, how the pilot can be incorporated into broader efforts.<sup>35</sup>

While IRS's efforts minimally aligned with this leading practice, it has taken some steps to measure performance at the activity level. For example, IRS worked with its contractor to regularly track and report

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<sup>35</sup> [GAO-16-438](#).

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engagement metrics; user statistics; and analytics on alerts, leads, and device IP addresses, which at times are categorized and aggregated. (See figure 4 earlier in this report for an example of the ISAC data visualization tool with illustrative data.) IRS's contractor also surveyed ISAC members to better gauge user experience with alerts and what participants found to be most valuable on the online platform. In response to other recommendations to develop metrics for measuring ISAC's performance and success, the contractor's May 2017 ISAC evaluation outlined actions, including beginning to track recommended metrics and exploring means of quantifying the benefit.

However, IRS has not formalized the plan to determine the amount of revenue protected nor has it developed a detailed data-analysis plan to determine how the ISAC pilot's performance will be tracked. The ISAC's metrics subgroup reported that it is working to develop preliminary performance metrics to benchmark the ISAC pilot's progress. It acknowledged that metrics and a detailed analysis plan are essential to demonstrate the ISAC's benefit. The subgroup reported it is in the process of developing them. Without a detailed data analysis and evaluation plan that identifies data sources and criteria, IRS cannot fully determine or demonstrate the pilot's performance and challenges. As a result, IRS, its partners, and Congress will have difficulty determining the ISAC's effectiveness and whether IRS should expand the pilot.

IRS officials said they are still learning about the five leading practices for pilot design, and as noted, the ISAC at least partially aligns with each one. According to internal control standards in the federal government, an agency should formulate plans to achieve its objectives in order to meet them.<sup>36</sup> Without such a plan to inform decisions about the ISAC's benefits and performance, IRS, its partners, and Congress will have difficulty determining the effectiveness of the pilot and whether to proceed with full implementation.

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<sup>36</sup>[GAO-14-704G](#).

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## The ISAC Board Should Develop an Outreach Plan to Improve the Pilot

IRS took actions to improve the ISAC pilot, including waiving the requirement for states to contribute data. However, IRS does not have an outreach plan to increase membership or inform states about the ISAC's benefits.

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## IRS Waived the Data Contribution Requirement for 2017 and Improved Collaboration with Endorsing Organizations

IRS officials determined that requiring participating states to contribute data on suspected fraud may be a potential barrier and limit participation in the ISAC. Therefore, IRS waived the data contribution requirement for the first year and one state subsequently contributed data to the ISAC in the 2017 filing season. However, as of October 2017, 5 states had contributed data and 8 states had submitted 29 alerts. In our focus groups, officials from a few states reported they were concerned about the data contribution requirement and were unsure if they had the resources to contribute such data and did not fully understand the terms of the data contribution requirement. IRS officials attribute the low data contribution this year to it taking time to build trust among partners. The ISAC Board sought to reframe the discussion about data contribution and, in July 2017, changed the language to describe data contribution as a data/information opportunity.

Endorsing organizations are another potential tool to increase participation in the ISAC. Five trade organizations—American Coalition of Taxpayer Rights, Council for Electronic Revenue Communication Advancement, Computer and Communications Industry Association, the Free File Alliance, and FTA—are supporting the ISAC Partnership as endorsing organizations. According to IRS, endorsing organizations provide additional support for the ISAC concept and are uniquely positioned to serve as links between the ISAC and the sectors they represent. While they are not ISAC members and therefore cannot access the online platform, their role is important to build connections between stakeholders. However, according to FTA officials, IRS did not effectively leverage FTA to communicate the benefits to states during the first year of the pilot, but IRS and the ISAC Board have since taken important steps to improve collaboration.

FTA endorsed the ISAC in February 2017 and, in our focus groups, both state and industry officials said the endorsement was important for securing more widespread state participation. According to FTA, IRS did not incorporate its feedback about the probable response from states to the ISAC, which FTA officials believe may have resulted in a lower-than-

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expected rate of participation by states in the early months of the ISAC. According to IRS officials, IRS attempted to work with endorsing organizations while standing up the ISAC online platform and received comments from FTA and an industry trade organization that reflected different interests and priorities. According to IRS officials, IRS attempted to find a middle ground. More recently, the Board attempted to better engage endorsing organizations by including them in a July 2017 meeting about planning the next steps for the ISAC.

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### Taxpayer Data Safeguards Determine Access to Information Shared in the ISAC

IRS, states, and industry partners have all faced data safeguarding challenges to participating in the ISAC. For example, IRS is unable to share taxpayer or record-level data in the ISAC due to the section 6103 safeguards discussed earlier in this report. In a June 2017 report to Congress, the Electronic Tax Administration Advisory Committee (ETAAC) recommended IRS identify, analyze, and mitigate barriers that preclude IRS from sharing information in the ISAC.<sup>37</sup> IRS officials said that IRS not sharing information in the ISAC limits the full benefit of the ISAC. While the ISAC is designed to be a three-pronged collaboration between IRS, states, and industry, because IRS does not view or contribute record-level data, such data only flows between states and industry. This limits the full value of the ISAC. Further, it may be challenging for the ISAC partnership to meet a key goal of increasing participation among state and industry members if a key stakeholder in the partnership is unable to fully participate. IRS officials said the agency is considering options to allow it to participate more fully in the ISAC. Specifically, IRS included a request for a legislative change to section 6103 in a report to Treasury. This request is an important step to enable the ISAC to be an effective information sharing and collaboration tool.

Likewise, some states faced legal hurdles to joining the ISAC. According to FTA, while it outlined potential concerns about those hurdles in a memo to state legal counsels, it expected those would be manageable for states.

Furthermore, some industry partners face difficulties in accessing the ISAC's online platform. As previously mentioned and shown in figure 2,

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<sup>37</sup> See IRS, *Electronic Tax Administration Advisory Committee Annual Report to Congress* (Washington, D.C.: June 2017). ETAAC was formed and authorized under the IRS Restructuring and Reform Act of 1998, with the purpose of providing input to IRS on electronic tax administration.

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tax preparation companies—covered under section 7216 and referred to as 7216 industry partners—have full access to all of the information provided to the ISAC. However, financial institutions—not covered under section 7216 and referred to as non-7216 industry partners—have limited access to information in the ISAC. According to IRS officials, IRS is considering a request from financial institutions to amend regulations under section 7216 to allow them greater access to the ISAC.

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### ISAC Partnership Has Not Developed an Outreach Plan to Improve State and Industry Partners' Participation

In the 2017 filing season, contribution levels from IRS, states, and industry partners varied significantly. While IRS invited states and Security Summit partners to participate, other stakeholders—such as industry partners that are not members of the Security Summit—have not been included. While IRS has taken steps to reach out to state and industry partners, IRS and the ISAC Partnership have opportunities to more fully engage stakeholders.

One challenge to state participation is that there has been a disconnect, at times, between the ISAC Board's and states' perceptions of how the ISAC can be used to prevent and detect fraud. For example, IRS views the ISAC as the key tool for information sharing between IRS, states, and industry partners in the future. However, officials from all states represented in our focus groups noted that they either had not used, or were unfamiliar with, the ISAC-specific resources—such as the data visualization tools shown previously in figure 4. These are intended to help users identify IDT refund fraud trends more broadly. Moreover, officials from a few states reported IRS already sends more data on suspected fraud through other channels than they can effectively process with their current resources.

IRS is working to quantify the benefits of the ISAC, which could help enhance states' understanding. The ISAC Board is working with IRS's research organization to quantify the refund fraud averted and federal dollars protected by analyzing Treasury receipts. According to IRS, it is working with ISAC state members to communicate the value of the ISAC to their leadership and share key activities, as appropriate, to enable their continued involvement. IRS and the ISAC Board also took several steps to inform states and members of industry—both members of the ISAC and non-members—about the benefits of the ISAC. For example, IRS's contractor provided training to users of the ISAC to demonstrate the platform's functionality and tools. In addition, IRS officials presented information about the ISAC at conferences with tax industry partners.

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Relatedly, ETAAC recently recommended that IRS encourage greater participation in the ISAC by stakeholders involved in tax administration.<sup>38</sup>

In addition to inviting states to join the ISAC, IRS invited industry partners who were members of the Security Summit to join. Security Summit industry partners account for the majority of tax returns IRS accepts using a paid preparer or tax software. The ISAC Board limited industry participation in the ISAC Partnership to Security Summit partners because it was concerned about securely authenticating new members and scaling up the size of the pilot to accommodate additional participants.

Furthermore, although three ISAC members are non-7216 financial institutions, IRS does not consider banks or credit unions—both of which cash refund checks—to be fully represented in the ISAC. IRS officials said they were focused on engaging tax preparation companies and building trust among existing stakeholders. In June 2017, ETAAC recommended that IRS should address expanding the participation of financial institutions in the ISAC, as well as in other efforts.<sup>39</sup>

Although the ISAC Partnership does not have an outreach plan, such a plan could, for example, address how to expand ISAC membership or the disconnect between the benefits identified by the ISAC Board and how states perceive the ISAC can be used to prevent and detect fraud in their states. According to IRS officials, the ISAC Partnership has not developed a plan yet because it has been focused on other priorities.

Project management standards state that when an entity is planning a project—that is, a temporary endeavor to create a unique product, service, or result—it is important to define relevant activities and determine the scope, sequence, and schedule of those activities, among other things.<sup>40</sup> In addition, federal Standards for Internal Control in the Federal Government state that federal agencies should establish plans to help ensure goals and objectives—such as increasing participation in the

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<sup>38</sup>See IRS, *Electronic Tax Administration Advisory Committee Annual Report to Congress* (Washington, D.C.: June 2017).

<sup>39</sup>See IRS, *Electronic Tax Administration Advisory Committee Annual Report to Congress* (Washington, D.C.: June 2017).

<sup>40</sup>See Project Management Institute, *A Guide to the Project Management Body of Knowledge (PMBOK guide)*, 5th ed. (Newtown Square, PA: 2013).



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ISAC—can be met.<sup>41</sup> Additionally, internal control standards state that documentation of agency decisions and activities is important because it provides a means to retain organizational knowledge, mitigate the risk of having that knowledge limited to a few personnel, and communicate that knowledge to external parties, as appropriate. Furthermore, we have reported that without developing a user outreach plan, an agency risks being unable to provide services to its users where they need them most.<sup>42</sup> For the ISAC, this could mean less effective collaboration among stakeholders or missed opportunities to prevent IDT refund fraud.

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## Conclusions

IRS has taken important steps to improve its ability to respond to the ongoing challenge of IDT refund fraud. Among these efforts, the ISAC and RRT show promise for increasing information sharing and collaboration among IRS, states, and industry to help detect and prevent IDT refund fraud and coordinate responses to fraud incidents. The ISAC pilot goes beyond existing fraud information sharing efforts and has strengthened collaboration among stakeholders. While IRS has taken actions that partially align with key aspects of five leading practices for effective pilot design, its actions do not fully align with any of the practices. Further, IRS has not developed criteria for assessing whether the pilot's objectives have been met. Without this assessment and better alignment with leading practices for pilot design, IRS, its partners, and Congress will have difficulty determining the effectiveness of the pilot and whether and when to proceed with full-scale implementation.

The benefit of the ISAC can only fully be realized when there is robust participation among stakeholders. However, officials from all states represented in our focus groups noted that they either had not used, or were unfamiliar with, the ISAC-specific resources. Part of the issue is that IRS has not effectively communicated the benefits of the ISAC to states, so they can better understand how the ISAC will help them combat IDT refund fraud. Developing an outreach plan to broaden membership to additional states, non-Security Summit members of industry, and financial institutions would further promote stakeholders collaborating and sharing fraud information.

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<sup>41</sup>[GAO-14-704G](#).

<sup>42</sup>GAO, *Performance.gov: Long-Term Strategy Needed to Improve Website Usability*, [GAO-16-693](#) (Washington, D.C.: Aug. 30, 2016).

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## Recommendations for Executive Action

We are making the following two recommendations to IRS:

The Acting Commissioner of Internal Revenue should ensure that the Information Sharing and Analysis Center (ISAC) pilot better aligns with leading practices for effective pilot design. This should include

- establishing criteria for assessing whether the pilot's objectives have been met before making decisions about its scalability and whether, how, and when to proceed to full implementation; and
- developing a data analysis plan that identifies data sources and criteria necessary for effectively evaluating the pilot.  
(Recommendation 1)

The Acting Commissioner of Internal Revenue should ensure that the ISAC Partnership develops an outreach plan to expand membership and improve states' and industry partners' understanding of the ISAC's benefits. (Recommendation 2)

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## Agency Comments and Third-Party Views

We provided a draft of this report to IRS and the co-chairs of the ISAC Board for comment. In written comments reproduced in Appendix II, IRS agreed with both recommendations. IRS reported it will be finalizing an Identity Theft Tax Refund Fraud Pilot Management Plan to help it better align the ISAC pilot with leading practices for pilot design. Additionally, IRS reported it will work with the ISAC Board to ensure that the Board develops an outreach plan to expand membership and improve states' and industry partners' understanding of the ISAC's benefits.

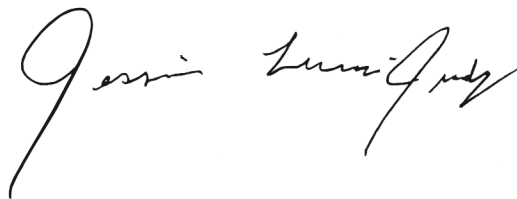
In an email dated October 27, 2017, the ISAC Board state and industry co-chairs also agreed with both recommendations and provided technical comments which were incorporated, as appropriate.

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We are sending copies of this report to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We are also sending copies to the Acting Commissioner of Internal Revenue, the Secretary of the Treasury, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at (202) 512-9110 or [lucasjudyj@gao.gov](mailto:lucasjudyj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink, reading "Jessica Lucas-Judy". The signature is written in a cursive, flowing style.

Jessica Lucas-Judy  
Director, Tax Issues  
Strategic Issues

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# Appendix I: Objectives, Scope, and Methodology

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The objectives of this engagement were to (1) describe actions Security Summit partners are taking to implement an Information Sharing and Analysis Center (ISAC) and a Rapid Response Team (RRT); (2) evaluate the extent to which the ISAC pilot design aligns with leading practices; and (3) identify actions, if any, that the Internal Revenue Service (IRS) could take to improve the ISAC pilot.

We selected the ISAC and RRT from among those initiatives identified in the June 2016 IRS Commissioner's Security Summit Update Report as the focus of our review because of their importance, the potential for a major effect on IDT refund fraud, and the timeline for planned actions. Although the External Leads Process and the Industry Leads Process are discussed in this report, we did not select them for in-depth review.

To address all objectives, we reviewed IRS, ISAC Senior Executive Board (Board), ISAC working group, and Information Sharing working group documents. These included meeting minutes, planning documents, the biweekly ISAC dashboard, and IRS's contractor's weekly ISAC updates. We also observed a training session IRS's contractor conducted for new ISAC members and we received a demonstration of the ISAC online platform capabilities, including the visualization tools. (See figure 4.) In addition, we conducted semistructured interviews with IRS, state, and industry co-leads of the ISAC and the Information Sharing working groups; ISAC Board co-chairs; the outreach and metrics ISAC Board subgroups; and trade organizations including the Federation of Tax Administrators and American Coalition of Taxpayer Rights.<sup>1</sup>

To further address all objectives, we conducted four focus groups in March and April 2017—two sessions with states and two sessions with industry partners:<sup>2</sup>

1. Five representatives from members of industry that were involved in the ISAC or RRT.
2. Seven representatives from members of industry that were involved in the ISAC or RRT.

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<sup>1</sup>We contacted, but were unable to schedule a meeting with, one of the co-leads.

<sup>2</sup>For the purposes of this report, we treated the District of Columbia as a state. We excluded states that do not tax earned income.

3. Six officials from states randomly selected from among those with an official who participated in the ISAC or Information Sharing working groups.
4. Five officials from states randomly selected from among those that had not been involved in either working group.

We excluded from our focus group sample those states or industry partners with whom we previously conducted—or planned to conduct—a separate semistructured interview.

We asked similar questions for each focus group with some variation between state and industry groups. We recorded and transcribed the focus group sessions for review. We analyzed the focus group transcripts to identify common themes, patterns, and comments. We used these focus group discussions to provide illustrative examples of state and industry perceptions of the benefits and challenges to implementing the ISAC and RRT. However, the responses are non-generalizable and do not reflect opinions of all states or industry partners. Because of concerns about identifying which state and industry partners have been involved in these fraud prevention efforts, we are not identifying the focus group participants or the state officials and industry representatives that we interviewed.

To evaluate the extent to which the ISAC aligns with the five leading practices for pilot design, we reviewed our prior work and compared IRS actions against these practices and criteria.<sup>3</sup> Our April 2016 report describes the criteria we developed for evaluating pilot design and the methodology we used to do so.<sup>4</sup> For this work, we evaluated each subcomponent of the leading practices to determine if it met fully, mostly, partially, or not at all with the criteria. Each of those assessments was subsequently verified by another individual.

To identify actions, if any, that IRS could take to improve the ISAC pilot, we assessed IRS and the ISAC Board's efforts to implement the ISAC

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<sup>3</sup>[GAO-16-438](#) and [GAO-15-513](#).

<sup>4</sup>[GAO-16-438](#).

pilot using internal control standards and performance management standards.<sup>5</sup>

We conducted this performance audit from August 2016 to November 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>5</sup>[GAO-14-704G](#) and Project Management Institute, *A Guide to the Project Management Body of Knowledge (PMBOK guide)*, 5th ed. (Newtown Square, PA: 2013).

# Appendix II: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

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

November 1, 2017

Jessica Lucas-Judy  
Director, Tax Issues  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Ms. Lucas-Judy:

We reviewed the draft report entitled *Identity Theft: Improved Collaboration Could Increase Success of IRS Initiatives to Prevent Refund Fraud (GAO-18-20)*. We appreciate your acknowledgment of IRS's achievements in standing up the Identity Theft and Tax Refund Fraud Information Sharing and Analysis Center (ISAC).

In 2015, the IRS's Security Summit undertook a holistic review of the threat of identity theft (IDT) refund fraud across the lifecycle of a tax return at both the federal and state levels. As one result, the IRS chartered the ISAC in December 2016 and began pilot operations on January 23, 2017 to provide a secure platform among members for sharing data and related analyses on ever-evolving patterns of IDT and tax refund fraud and to improve detection, prevention, and deterrence capabilities. In general, the Security Summit endeavors have resulted in improved fraud detection filters and systems leading to substantially fewer individuals reporting themselves as IDT victims. In fact, the number of self-reported victims has declined by two-thirds over the past two filing seasons, falling to 376,000 in 2016. Additionally, the IRS stopped 883,000 tax returns with confirmed links to identity theft in 2016, a 37% drop from the year before. The declines stem in part from the first-of-its-kind partnership between the IRS, state tax agencies, major tax-preparation companies and other tax industry participants.

As of October 2017, the ISAC has 37 member organizations from state revenue departments and the tax software and tax preparation industries. The two primary capabilities being piloted this year are: (1) sharing tax ecosystem alerts and (2) analyzing leads generated by the tax software and tax preparation industry and other member data.

Tax ecosystem alerts are similar to a neighborhood listserv<sup>1</sup> for the group membership. Members report and share information and observations on threats they encounter so that others can protect themselves against the same or similar actions. Past threats included the compromising of taxpayers' personally identifiable information through

<sup>1</sup> An application that distributes messages to subscribers on an electronic mailing list.

2

breaches of employer wage and withholding information and through the theft of client data from tax professionals. Information has also been shared on new and emerging schemes and from the monitoring of chatter on the dark web<sup>2</sup> about system vulnerabilities. The ISAC enables the members to use the alerts to identify suspicious returns in their own systems and stop processing returns seeking fraudulent refunds.

Members use the second capability, the analytical function, by submitting data to the ISAC to detect anomalies suggesting potentially fraudulent activity. This capability depends on the volume and quality of the data the ISAC receives from its members. In preparing for the 2018 filing season, the ISAC plans to perform several evaluations that will help identify data with the greatest predictive capabilities. We expect that with increased membership and improved understanding of which data are most relevant to identifying and reducing fraud, the ISAC will realize a greater level of effectiveness in the next filing season. Additionally, the partners plan to add more protections for the 2018 filing season, as well as share more data points from tax returns than in the past.

We agree with your recommendations on pilot design and already have acted to address them. The ISAC Partnership's Outreach Committee also has worked to enhance messaging to the state revenue departments, which the Committee believes will produce results in the coming months. The ISAC is not controlled by the IRS, but the IRS will work with its partners within the partnership to address your recommendations.

Attached are our comments and proposed actions to respond to your recommendations. If you have any questions, please contact Michael Beebe, Director, Return Integrity and Compliance Services, Wage and Investment Division, at 470-639-3250 or me at 202-317-4263.

Sincerely,



Kirsten B. Wielobob  
Deputy Commissioner for  
Services and Enforcement

Enclosure

<sup>2</sup> The part of the World Wide Web that is only accessible by means of special software, allowing users and website operators to remain anonymous or untraceable.



Enclosure

**Recommendations for Executive Action**

**RECOMMENDATION 1**

The Commissioner of Internal Revenue should ensure that the Information Sharing and Analysis Center (ISAC) better aligns the ISAC pilot with leading practices for effective pilot design. This should include establishing criteria for assessing whether the pilot's objectives have been met before making decisions about its scalability and whether, how, and when to proceed to full implementation, as well as developing a data analysis plan that identifies data sources and criteria necessary for effectively evaluating the pilot.

**COMMENTS**

We agree with this recommendation and will be finalizing an Identity Theft Tax Refund Fraud Pilot Management Plan.

**RECOMMENDATION 2**

The Commissioner of Internal Revenue should ensure that the ISAC Partnership develops an outreach plan to expand membership and improve states' and industry partners' understanding of the ISAC's benefits.

**COMMENTS**

We agree with this recommendation and will work with our partners within the ISAC Partnership to ensure that the partnership develops an outreach plan to expand membership and improve states' and industry partners' understanding of the ISAC's benefits.

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Jessica Lucas-Judy, (202) 512-9110, [lucasjudyj@gao.gov](mailto:lucasjudyj@gao.gov)

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## Staff Acknowledgments

In addition to the individual named above, the following staff made key contributions to this report: Joanna Stamatiades, Assistant Director; Melissa King, Analyst-in-Charge; Parul Aggarwal; Amy Bowser; Ann Czapiewski; Robert Gebhart; Layla Moughari; and Cynthia Saunders.

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Washington, DC 20548

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U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, DC 20548

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## Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, [spel@gao.gov](mailto:spel@gao.gov), (202) 512-4707  
U.S. Government Accountability Office, 441 G Street NW, Room 7814,  
Washington, DC 20548



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