

**More Effective Procedures Are Needed to
Process Taxpayers' Claims That They Did Not
Request Employer Identification Numbers
Assigned to Them**

September 2005

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INSPECTOR GENERAL
for TAX
ADMINISTRATION

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MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

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FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - More Effective Procedures Are Needed to
Process Taxpayers' Claims That They Did Not Request
Employer Identification Numbers Assigned to Them
(Audit # 200430012)

This report presents the results of our review to evaluate the Internal Revenue Service's (IRS) controls over the various methods and procedures used for the issuance of Employer Identification Numbers (EIN). As part of this review, we determined whether there were additional steps the IRS could take to increase the efficiency and effectiveness of the processing of requests for EINs. This review was undertaken at the request of the IRS with information provided in part by the IRS Small Business/Self-Employed (SB/SE) Division Research function staff. We will conduct a subsequent audit to assess the compliance impact of EINs requested but not used in filing tax returns.

EINs are nine-digit numbers assigned by the IRS to sole proprietors, corporations, partnerships, estates, trusts, and other nonindividual entities for tax filing and reporting purposes. The EIN has become a standard identifier used by a variety of entities outside the Federal Government domain, and the uses of and needs for EINs extend well beyond the scope of filing Federal income or employment tax returns. Taxpayers can request EINs by telephone, fax, mail, or online,¹ using an Application for Employer Identification Number (Form SS-4). EIN applications are processed at the Brookhaven, New York; Cincinnati, Ohio; and Philadelphia, Pennsylvania, Campuses.²

¹ An EIN issued online is referred to as an I-EIN.

² The data processing arms of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

The information provided by taxpayers or their representatives to the Form SS-4 questions, such as names, addresses, Social Security Numbers, etc., is used to establish accounts on the IRS Business Master File.³

The IRS issued 9.3 million new EINs in Calendar Years 2000 through 2002. As of September 1, 2003, 4.2 million of those EINs were unused.⁴ In 2004, the IRS SB/SE Division Research function staff sent survey letters to a statistically valid sample of taxpayers who had requested and were assigned EINs but never used them. Research findings⁵ showed approximately 15 percent of taxpayers responding to the survey letters indicated they did not request the EINs.

As the administering authority for the EIN process, the Customer Account Services (CAS) function monitors the EIN growth rates. EINs issued unnecessarily affect resources, create burden on all taxpayers, and may signal compliance abuse or abusive-scheme activity. With a growing number of taxpayers applying for EINs online, and the almost immediate assignments of the EINs inherent in that method, any weaknesses in the system will be quickly magnified. Taxpayers also need to know what steps to take to ensure their own personal/financial protection if they believe EINs were issued without their knowledge or authorization.

In summary, we concluded the IRS needs more effective procedures to handle taxpayers' claims that they had not requested the EINs assigned to them. In addition, the EIN Application Processing Unit⁶ correspondence processing staffs lack procedures which would enable them to assist taxpayers claiming or implying that their personal information may have been used to obtain the EINs without their knowledge or authorization. The lack of effective procedures can result in poor customer service, inequitable treatment of taxpayers, and an increase in the number of issued but unused EINs. There is currently no way to ascertain the magnitude or growth of this problem. No records are kept on the number of taxpayers who contact the IRS and make such claims, and there is no system that tracks the number of subsequent EIN invalidations. Original Forms SS-4 are usually destroyed after processing, leaving no records to provide copies to taxpayers or for internal research.

To ensure the quality of customer service, reduce the number of EINs issued unnecessarily, and address taxpayers' claims that EINs were issued without their knowledge or authorization, we recommended the Director, CAS, Wage and Investment (W&I) Division, establish a diagnostic period (e.g., 1 year) during which original Forms SS-4 will not be destroyed but maintained at campuses so copies can be

³ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

⁴ "Use of an EIN" refers to taxpayers who file a Federal income tax return, which is supported and identified on the IRS Master File by the posting of a Transaction Code 150. Although an EIN appears unused by the IRS definition, this does not mean the EIN is not used outside the Federal Government domain (e.g., State licensing requirements). Inherent in the current EIN application process is the likelihood of a certain percentage of unused EINs.

⁵ *Who's Requesting EINs? An Analysis of the Growth Rate of Unused Employer Identification Numbers*, SB/SE Division Research function Report for Project 05.02.002.03, dated August 2004.

⁶ Referred to in this report as the EIN Unit.

provided to taxpayers or for internal research, create a recording/tracking system to determine the number of taxpayers contacting the IRS and claiming they did not request the EINs assigned to them and the number of resulting EIN invalidations, and analyze data collected to identify trends (e.g., volume, application method, campus, issue) and explore procedural improvements to eliminate problematic issues. We also recommended the Director, CAS, W&I Division, develop and clarify procedures to ensure such claims are processed accurately and increase the number of EIN Unit correspondence cases reviewed in the Program Analysis System;⁷ require the EIN Unit tax technicians to enter into the Integrated Case Processing System (ICP)⁸ all actions with respect to the handling of taxpayers' claims that they did not apply for the EINs assigned to them; and, at the end of the diagnostic period, determine what function should handle unresolved claims. In addition, we recommended the Director, CAS, W&I Division, advise taxpayers what steps to take if taxpayers claim or imply their identities have been used/stolen to obtain EINs.

Management's Response: The Commissioner, W&I Division, agreed with one recommendation, partially agreed with one recommendation, disagreed with four recommendations, and stated actions have been completed on one recommendation. The Commissioner agreed to improve the procedures implemented when taxpayers contact the IRS stating they did not request the EINs assigned to them. These taxpayers will be contacted and, if it is deduced that the requests were not legitimate, the Integrated Data Retrieval System (IDRS)⁹ or ICP System will be notated so IRS employees are alerted to possible misuse of the EINs. The Commissioner agreed that, if taxpayers believe their identities may have been compromised, the IRS will provide information on how to contact the Federal Trade Commission to receive assistance. In addition, the Commissioner stated the Accounts Management function will remain responsible for resolving inquiries from taxpayers indicating they did not request or need EINs.

However, the Commissioner disagreed with our recommendations to establish a diagnostic period during which original Forms SS-4 would not be destroyed but maintained at campuses for taxpayer assistance, internal research, and trend analyses and to explore processing improvements to eliminate problematic issues. The Commissioner also disagreed with our recommendations to create a recording/tracking system to determine the magnitude of the problem, increase the number of EIN Unit correspondence cases that are reviewed, and require that tax technicians record on the ICP System all actions taken with respect to these cases. Cost considerations were stated as the main reason for the disagreements with these recommendations. Management's complete response to the draft report is included as Appendix IV.

⁷ The Program Analysis System performs the national quality review for paper programs, which includes the EIN Units' correspondence inventory.

⁸ The ICP System supports the work performed by customer service representatives. Access is provided to multiple systems from a single workstation. Functionality includes inventory management, next case delivery, nationwide history, and follow-ups.

⁹ The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

Office of Audit Comment: Without the collection and analysis of information on the original Forms SS-4 during a limited diagnostic period, the IRS would be restricted from 1) determining why taxpayers are claiming they were assigned EINs they did not request, 2) identifying steps the IRS could take to eliminate the taxpayers' confusion, and 3) identifying the potential use of taxpayers' information to obtain EINs without their knowledge or consent. We do not agree that the taxpayers in our sample were confused or that 15.2 percent of the taxpayers that responded to the IRS survey letter and claimed they did not apply for EINs were "nonresponses."¹⁰ The SB/SE Division Research function cannot produce the taxpayers' responses or any documentation regarding subsequent conversations with these taxpayers.

Since this audit was undertaken at the request of the IRS due to its concern over the growth of issued but unused EINs and the resulting impact on resources and increased taxpayer burden, we believe the IRS should weigh the costs of conducting our recommended short-term analysis and expanded case review against the costs and burden associated with issuing EINs unnecessarily, handling inquiries from concerned taxpayers, and alerting taxpayers that EINs they did not request were issued to them without their knowledge or consent.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Curtis Hagan, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

¹⁰ Of the 6,262 taxpayers who were sent survey letters, 4,888 (78 percent) did not respond to the IRS. Of the 1,374 taxpayers who did respond, 209 (15.2 percent) claimed they did not apply for the EINs.

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More Effective Procedures Are Needed to Process Taxpayers' Claims That They Did Not Request Employer Identification Numbers Assigned to Them

Background

Employer Identification Numbers (EIN) are nine-digit numbers assigned to sole proprietors, corporations, partnerships, estates, trusts, and other nonindividual entities for tax filing and reporting purposes. The EIN has become a standard identifier used by a variety of entities outside the Federal Government domain. The uses of and needs for the EINs extend well beyond the scope of filing Federal income or employment tax returns.

Taxpayers can request EINs by telephone, fax, mail, or online,¹ using an Application for Employer Identification Number (Form SS-4). The EIN applications are processed in EIN Application Processing Units² at the Brookhaven, New York; Cincinnati, Ohio; and Philadelphia, Pennsylvania, Campuses.³ The information provided by taxpayers or their representatives to the questions on the Form SS-4, such as names, addresses, Social Security Numbers, etc., is used to establish accounts on the Business Master File (BMF).⁴

In October 2003, the IRS Small Business/Self-Employed (SB/SE) Division Research function issued the *EIN Interim Profile Report*, which provided various statistics regarding the growth in the percentage of “issued” versus “unused” EINs.⁵ According to this Report, the IRS issued 9.3 million new EINs in Calendar Years 2000 through 2002, and, as of September 1, 2003, 4.2 million of those EINs were unused. SB/SE Division researchers reported the number of requests for EINs, and ultimately unused EINs, was increasing.

¹ An EIN issued online is referred to as an I-EIN.

² Referred to in this report as EIN Units.

³ The data processing arms of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts. In Fiscal Year 2004, the Brookhaven and Philadelphia Campuses handled approximately 87 percent of the EIN inventory, while the Cincinnati Campus processed 11 percent of the inventory.

⁴ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

⁵ “Use of an EIN” refers to taxpayers who file a Federal income tax return, which is supported and identified on the IRS Master File by the posting of a Transaction Code 150.

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As the administrating authority for the EIN process, the Customer Account Services (CAS) function monitors EIN growth rates. CAS function management was concerned this trend might suggest more taxpayers were requesting EINs for reasons other than to satisfy IRS filing requirements.⁶

As a result of their concerns, CAS function management requested the assistance of the Treasury Inspector General for Tax Administration audit staff to help them determine if this trend of issued but unused EINs posed a potential compliance problem for the IRS.⁷ Therefore, this review was undertaken at the request of the IRS with information provided in part by the IRS SB/SE Division Research function staff.

This audit was conducted in accordance with *Government Auditing Standards* with information and cases obtained from the EIN Units at the Brookhaven, Cincinnati, and Philadelphia Campuses and from CAS function National Headquarters management and staff during the period January 2004 through February 2005. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁶ Although an EIN appears unused by the IRS definition, this does not mean the EIN is not used outside the Federal Government domain (e.g., State licensing requirements). Inherent in the current EIN application process is the likelihood of a certain percentage of unused EINs.

⁷ The IRS Criminal Investigation Division staff was also working with the CAS function on this project.

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The Internal Revenue Service Needs More Effective Procedures to Handle Taxpayers' Claims That They Did Not Request Employer Identification Numbers Assigned to Them

We determined the IRS needs more effective procedures to handle taxpayers' claims that they did not request the EINs assigned to them. The lack of effective procedures can result in poor customer service, inequitable treatment of taxpayers, and an increase in the number of issued but unused EINs on the BMF.

After taxpayers apply for EINs, the IRS sends notices⁸ to them confirming assignment of the EINs.⁹ If taxpayers or their representatives subsequently contact the IRS and claim they did not apply for the EINs assigned, tax technicians are required to research the accounts using the Integrated Data Retrieval System (IDRS)¹⁰ and determine if there has been any activity in the accounts associated with the EINs in question.

Based on the results of this research and information provided by the taxpayers, tax technicians correct account information, send correspondence to taxpayers requesting or providing additional information, and either invalidate¹¹ the assigned EINs or leave the EINs as assigned. If research indicates activity in the accounts of the EINs in question, cases are forwarded to a specific campus for resolution. Tax technicians may or may not notify taxpayers as to the actions taken by the IRS, depending on the circumstances.

Current procedures can result in poor customer service and inequitable treatment of taxpayers

When taxpayers claim they did not apply for the EINs assigned to them, the Internal Revenue Manual (IRM) provides some research procedures for the tax technicians to

⁸ Notices designated by Internal Revenue Manual 21.7.13.7.8.

⁹ Taxpayers applying for EINs online are assigned the EINs almost immediately, along with the ability to print out the IRS documents which assigned the EINs. Several days later, the online applications are printed and processed as paper applications at the designated campuses. If tax technicians processing these applications determine the EINs should not have been issued, the tax technicians invalidate the EINs on the BMF and send letters to taxpayers telling them not to use the EINs.

¹⁰ The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

¹¹ This is also referred to as the "cancellation" of an EIN. Tax technicians invalidate the EINs by using the IDRS to input Transaction Code 020 to taxpayers' BMF accounts. Tax technicians' managers must approve these invalidations.

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follow before making EIN account changes, including invalidating EIN accounts.¹² However, tax technicians cannot always determine from their research whether taxpayers are confused, forgetful, or trying to elude tax requirements/obligations or whether someone else requested the EINs without the taxpayers' knowledge and authorization. Most original Forms SS-4¹³ are routinely destroyed after processing, making it impossible for tax technicians to assist taxpayers who request copies of documents or to use the documents for internal research.

As a result, tax technicians sometimes make decisions based on taxpayers' statements and information obtained through the IDRS, which may or may not be accurate. In many instances, there are incomplete or nonexistent case histories on the IDRS or the Integrated Case Processing (ICP) System.¹⁴ Often, previous IRS actions and contacts with taxpayers are not clearly documented. Because of these limitations, tax technicians are not always able to provide adequate customer service with respect to problem resolution, and some taxpayers need to contact the IRS multiple times regarding the same problems.

In addition, taxpayers are not always treated equitably. For example, although research shows no activity in the EIN accounts of taxpayers identified as sole proprietors and taxpayers claim they never applied for these EINs, such EINs are generally not invalidated on the BMF. We could find no processing guidelines to substantiate this practice.

To further complicate the situation, taxpayers are sometimes informed that these EINs are invalidated, when in fact the EINs are not always invalidated on the BMF. These sole proprietor EINs remain on the BMF, contribute to the growing number of issued but unused EINs, and can create problems if these taxpayers apply for EINs in the future.

¹² IRM 21.7.13.6.

¹³ In some instances (e.g., telephone applications), there are no documents per se.

¹⁴ The ICP System supports the work performed by customer service representatives. Access is provided to multiple systems from a single workstation. Functionality includes inventory management, next case delivery, nationwide history, and follow-ups.

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Determining the magnitude or growth of issued but unused EINs is difficult

Currently, the IRS has no way to ascertain the magnitude or growth of this problem because no records are kept on the number of taxpayers who contact the IRS and make such claims. There is no requirement that provides for the collection or tracking of this information or the number of EIN invalidations that occur as a result.

In 2004, the IRS SB/SE Division Research function staff sent 6,262 survey letters to a statistically valid sample of taxpayers who had requested EINs in Calendar Years 2000 through 2002 but had never used the EINs. The survey results were included in the report entitled, *Who's Requesting EINs? An Analysis of the Growth Rate of Unused Employer Identification Numbers*.¹⁵ Of the 1,374 taxpayers responding to the IRS' survey, 209 (15.2 percent) claimed they did not request the EINs.¹⁶

We reviewed a judgmental sample of processed EIN application inventory at the Brookhaven Campus EIN Unit, including EIN correspondence cases.¹⁷ We noted several correspondence cases involved letters from taxpayers or their representatives that claimed they never requested the EINs assigned to them by the IRS.

We expanded our sample and requested the Brookhaven, Cincinnati, and Philadelphia Campus EIN Units photocopy any correspondence sent in by taxpayers or their representatives making similar claims during a period of several days. The EIN Units processing correspondence

¹⁵ SB/SE Division Research function Report for Project 05.02.002.03, dated August 2004.

¹⁶ No further information was able to be obtained from these taxpayers because the survey response forms were specifically designed to maintain the confidentiality of the respondents and contained no identifying taxpayer information.

¹⁷ See Appendix I for additional information on the sample. These correspondence cases consisted of a myriad of contacts from taxpayers regarding EIN-related issues and are reported as a separate category in the EIN Paper Comparison Reports. These internal Reports record the inventory worked in the SB/SE Division Brookhaven, Cincinnati, and Philadelphia Campus EIN Units.

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inventory at the Brookhaven and Philadelphia Campuses¹⁸ worked 2,123 correspondence cases during this collection period and identified 26 cases (1.2 percent) that met the criteria outlined above.¹⁹

Some of these 26 cases included EINs and I-EINs assigned to children, disabled, and/or elderly taxpayers. Some taxpayers requested copies of the EIN applications and specifically stated that they suspected someone used their identities. In addition, multiple EINs were assigned to some of the taxpayers, which they claimed they knew nothing about.

We performed research on each of the 26 cases²⁰ using the IDRS and ICP System and worked with EIN Unit lead tax technicians to reach a determination as to why these taxpayers were originally assigned EINs and whether subsequent actions taken by the IRS after the taxpayers' correspondence was processed resolved the taxpayers' problems.

Approximately 75 percent of these 26 taxpayers contacted the IRS within 60 days of receiving letters²¹ or notices from the IRS.²² Some taxpayers were contacting the IRS for the second time regarding the same matter.²³ The rest of the

¹⁸ The Cincinnati Campus processed only 8 percent of the 232,579 EIN Correspondence cases worked in Fiscal Year 2004. Although this Campus participated in our test, no cases meeting the criteria were identified. We chose to eliminate results from this Campus because we could not verify the accuracy of the test conducted, the low volume normally processed there, and the fact that it would not materially affect the outcome.

¹⁹ Approximately 35 percent of the EINs in question had been assigned online. Approximately 69 percent of the EINs were assigned to sole proprietors; another 27 percent involved entities identified as Limited Liability Companies. The rest were assigned to trusts.

²⁰ A 27th case was reviewed. While the case did not meet our specific criteria, we believed the case was significant enough to study since money-laundering allegations were involved.

²¹ IRM 21.7.13.7.7.

²² Sixteen of the 26 taxpayers (62 percent) contacted the IRS within 30 days of receiving Computer Generated Notices of New Employer Identification Number Assigned (CP 575 Notice) acknowledging receipt of their EIN applications and confirming the EINs assigned to them.

²³ Approximately 19 percent of the taxpayers were contacting the IRS for the second time.

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taxpayers contacted the IRS because they attempted to apply for EINs and were told EINs were already assigned to them, or the taxpayers were contacted by the Social Security Administration (SSA) or another function of the IRS regarding EINs they claimed they knew nothing about.

Initially, we found 23 of the 26 EINs in question were unused. There were returns posted to the accounts of the other three EINs, but we later determined the three EINs in question were assigned as the result of IRS processing errors.²⁴

We also determined the IRS correctly assigned 3 of the 23 unused EINs to taxpayers who claimed they did not apply for the EINs. Under certain circumstances, taxpayers who apply for EINs for Limited Liability Companies are also assigned an additional EIN.²⁵

In their correspondence to the IRS, some taxpayers stated they thought someone else was using their personal information to commit fraud. Other taxpayers' correspondence was stamped into the IRS Criminal Investigation Division's inventory but was returned to the EIN Unit inventory to be worked.²⁶

Subsequent actions by EIN Unit tax technicians did not resolve many problems

We could not determine from the IDRS, ICP System, or taxpayers' records what occurred with respect to the handling of some of the taxpayers' correspondence or if taxpayers were told what they needed to do to resolve the problems. Some of the EINs assigned to taxpayers who claimed they did not request EINs were invalidated while others were not, and we could not always determine why. Case histories are not retained on the IDRS long enough to perform necessary case research, and tax technicians are not required to input actions taken on the EIN Unit

²⁴ We determined only one of the three accounts was corrected by tax technicians after the processing of the taxpayers' correspondence. The other two taxpayers were still misassociated with accounts of other taxpayers.

²⁵ IRM 21.7.13.5.4.3.

²⁶ These cases did not appear to have been worked by the Criminal Investigation Division.

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correspondence cases to the ICP System. While some tax technicians did enter information to the ICP System, it was not always detailed enough to determine if the taxpayers' claims were resolved appropriately.

In general, we found that taxpayers claiming they did not apply for the sole proprietor EINs assigned to them were informed the EINs would be invalidated. However, tax technicians usually did not invalidate these EINs on the BMF even when there was no activity in the accounts, due to what appeared to be an informal, unwritten procedure. These taxpayers were still associated with these EINs on the IRS' database.

As mentioned above, when EINs were assigned due to IRS processing errors, the actions taken by tax technicians did not always completely resolve the problems. Taxpayers were still misassociated with EIN accounts belonging to other taxpayers, and some of the actions taken affected business information on the IRS' database, such as filing requirements and addresses.²⁷

Other taxpayers were requested to submit additional information, and the EINs assigned to them were not invalidated. However, it was not clear what these taxpayers were asked to submit or what they could submit to prove they did not request these EINs.

There is no system that tracks the number of subsequent EIN invalidations

Tax technicians invalidate the EINs by using the IDRS to input a certain transaction code²⁸ to the taxpayers' accounts. Procedures require tax technicians to secure the approval of their managers to invalidate EINs taxpayers claimed they did not request. There is currently no requirement that records of the number of EIN invalidations performed or the reasons for the invalidations be kept for tracking purposes on either local or national levels. Without a requirement to

²⁷ With respect to the handling of the case involving money-laundering allegations (27th Case), the tax technician removed the filing requirements for the company in error. There is no indication the case was sent for further review for fraud.

²⁸ Transaction Code 020.

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track EIN invalidations, there is no data captured for research or trend analyses.

Once EINs have been invalidated from the BMF, taxpayers no longer receive communication from the IRS regarding these EINs. However, many of the taxpayers' names were still linked to these EINs in the IRS' database, which might be confusing if these taxpayers apply for EINs in the future or if returns are filed at a future date using these EINs.

More oversight of these types of correspondence cases is necessary

As part of the National Quality Review Program, a certain number of the EIN Unit correspondence cases are reviewed in the Program Analysis System (PAS)²⁹ each quarter. The results are entered into the Quality Review Database if errors are found in the way cases were handled by tax technicians. In Fiscal Year 2004, only 19 of the 232,579 EIN Unit correspondence cases were reviewed in the PAS. None involved taxpayers claiming they did not apply for the EINs assigned to them.

We believe there needs to be additional oversight of the EIN Units' correspondence inventory to identify trends or case processing problems. In the cases we reviewed, it was not always clear from data on IRS systems why tax technicians made decisions to invalidate or not invalidate the EINs. This led us to conclude that tax technicians were sometimes compelled to make subjective decisions and, as a result, taxpayers were not always treated equitably.

In addition, taxpayers seeking assistance were not always helped. Some taxpayer accounts that were misassociated with the accounts of other taxpayers were not corrected, and, in some instances, the absence of case histories on the IDRS or entries into the ICP System created doubt that taxpayers' correspondence was processed appropriately.

²⁹ The PAS performs the national quality review for paper programs, which includes the EIN Units' correspondence inventory.

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Subsequent postings of returns³⁰ in Calendar Year 2005 to several of the accounts were unexplainable³¹ and resulted in the reestablishment of BMF accounts, reversals of EIN invalidations, and establishment of filing requirements. As of the end of our audit fieldwork, these problems were not resolved. Some taxpayers who were originally sent letters informing them that EINs were invalidated are now set up on the IRS' computer system to receive notices pertaining to these accounts.

To ensure the quality of customer service and the equitable treatment of taxpayers and to reduce the number of issued but unused EINs on the BMF, CAS function management needs to increase oversight of the processing of the EIN Units' correspondence inventory. More effective policies and procedures must be implemented to handle taxpayers' claims that they did not request the EINs assigned to them, and actions must be taken to understand the magnitude and growth of this problem.

Recommendations

The Director, CAS, Wage and Investment (W&I) Division, should:

1. Establish a diagnostic period (e.g., 1 year) during which original Forms SS-4 will not be destroyed but maintained at campuses so copies can be provided to taxpayers or for internal research.³²

Management's Response: Management disagreed with this recommendation, stating that establishing a diagnostic period during which time original Forms SS-4 would not be destroyed, but maintained at processing sites so copies

³⁰ Employer's Annual Federal Unemployment (FUTA) Tax Return (Form 940), Employer's Quarterly Federal Tax Return (Form 941), and Transmittal of Wage and Tax Statements (Form W-3).

³¹ In some instances, this could be the result of third-party reporting agent issues.

³² The SB/SE Research Division function also recommended the retention of all available information from the Forms SS-4 to gauge the motivation behind requests for EINs. The IRS currently captures this data for the SSA but does not fully transcribe the Form SS-4 for internal use.

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could be provided to taxpayers or for internal research, would be difficult and costly to implement with little overall benefit.

Office of Audit Comment: Without the collection and analysis of information on the original Forms SS-4 during a limited diagnostic period, the IRS would be restricted from 1) determining why taxpayers are claiming they were assigned EINs they did not request, 2) identifying steps the IRS could take to eliminate taxpayers' confusion, and 3) identifying the potential use of taxpayers' information to obtain EINs without their knowledge or consent.

Since this audit was undertaken at the request of the IRS due to its concern over the growth of issued but unused EINs and the resulting impact on resources and increased taxpayer burden, we believe the IRS should weigh the costs of conducting our recommended short-term analysis and expanded case review against the costs and burden associated with issuing EINs unnecessarily, handling inquiries from concerned taxpayers, and alerting taxpayers that EINs they did not request were issued to them without their knowledge or consent.

Our recommendation of a diagnostic period of 1 year was merely an example, and, in discussions with management, we suggested a much shorter period because 75 percent of the taxpayers in our sample responded to the initial contact letters from the IRS within 60 days. Since the IRS already collects information from the Forms SS-4 for the SSA, even a 3-month data collection period and analysis of the Forms SS-4 would provide an opportunity for the IRS to identify any additional key information that should be obtained to assist taxpayers or research accounts if taxpayers subsequently claimed they did not request the EINs. Rather than just sending the current information collected to the SSA, the IRS also would have the potential to include additional key data and use the data collected for its own purposes. This diagnostic study would include fax, mail, and online applications (since these are currently processed the same as the Forms SS-4 mailed to the IRS).

2. Create a recording/tracking system to determine the number of taxpayers contacting the IRS and claiming that they did not request the EINs assigned to them and

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the number of EINs actually invalidated on the IDRS as a result of such claims.

Management's Response: Management disagreed with this recommendation, stating that it would not be possible to create a useful recording/tracking system that would encompass the multiple channels of possible contact without incurring substantial expense and that any data collected would be of limited value.

Office of Audit Comment: In response to Recommendation 4, the IRS agreed to revise procedures with respect to taxpayers' claims that they did not request the EINs assigned to them. The IRS agreed that additional contacts will be made with such taxpayers to ensure neither the taxpayers nor their authorized representatives requested the EINs. If it is deduced that a request was not made in the taxpayer's interest, tax technicians will be required to notate this in the taxpayer's account on the IDRS or ICP System. If the method used to notate the accounts can be measured, this would satisfy both Recommendations 2 and 4. However, management does not specifically state in their response to Recommendation 4 that such taxpayers' account notations will be measurable.

3. Analyze data collected to identify trends (e.g., volume, application method, campus, issue) and explore processing improvements to eliminate problematic issues.

Management's Response: Management disagreed with our recommendation, stating that, because it would be difficult and of questionable value to maintain a file and develop an ancillary tracking system, it would not be cost effective or feasible to collect and analyze data as recommended.

Office of Audit Comment: Without the collection and analysis of information on the original Forms SS-4 during a limited diagnostic period, the IRS would be restricted from 1) determining why taxpayers are claiming they were assigned EINs they did not request, 2) identifying steps the IRS could take to eliminate taxpayers' confusion, and 3) identifying the potential use of taxpayers' information to obtain EINs without their knowledge or consent. EINs issued unnecessarily affect resources, create burden on all

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taxpayers, and may signal compliance abuse or abusive-scheme activity. The ease of obtaining EINs online and the growing number of “unused” EINs require that management have a clear understanding of their customers and how to best address their issues and concerns. Trend analysis can be a valuable management tool when used to identify necessary changes and improvements to processes to better address customer needs. It also can serve as a “first alert” system for possible compliance and abusive-scheme activity.

We do not agree that the taxpayers in our sample were confused or that 15.2 percent of the taxpayers that responded to the IRS survey letter and claimed they did not apply for EINs were “nonresponses,” as stated by management. The SB/SE Division Research function cannot produce the taxpayers’ responses or any documentation regarding subsequent conversations with these taxpayers.

4. Develop and clarify procedures to ensure taxpayers’ claims that they did not request the EINs assigned to them are processed accurately and increase the number of EIN Unit correspondence cases reviewed in the PAS.

Management’s Response: Management agreed to revise the procedures to ensure taxpayers’ claims that they did not request EINs assigned to them are processed accurately. Management agreed that these taxpayers will be contacted by mail or telephone to ensure the requests were not made by the taxpayers or their representatives. If it is deduced that a request was not made in the taxpayer’s interest, a notation will be made to the taxpayer’s account on the IDRS or ICP System. Taxpayers who believe their identities may have been compromised will be advised of the various methods to contact the Federal Trade Commissioner (FTC).³³

However, management did not agree to increase the PAS sample size, stating that PAS reviews are based on statistically valid sampling techniques and anticipated workload. Management stated that the Embedded Quality

³³ The FTC is the Federal Government agency designated to collect and disseminate information for identity theft victims.

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Review System used by managers to review employees' completed work and provide feedback to promote continuous improvement will identify any needed improvements.

Office of Audit Comment: Since the current PAS sampling techniques and the Embedded Quality Review System apparently did not identify this problem before our review, it is not clear how these processes will operate differently in the future to identify taxpayers' claims that they did not request the EINs assigned to them. The PAS figure used in our report was provided to us by IRS management, and there were no cases in the PAS samples in Fiscal Year 2004 involving taxpayers' claims that they did not request the EINs assigned to them. Since these cases are very identifiable, it would be easy for management to increase the number of cases selected for review in the PAS, at least until this type of case meets an acceptable level of processing accuracy and it is clear that management's proposed revised procedures are implemented correctly.

5. Require EIN Unit tax technicians to enter into the ICP System all actions with respect to the handling of taxpayers' claims that they did not apply for the EINs assigned to them.

Management's Response: Management disagreed with this recommendation. However, in response to Recommendation 4, management agreed to revise procedures and require follow-up contacts with taxpayers to ensure the EINs were not requested by third-party representatives and to notate the IDRS or ICP System when it is deduced that the EINs were not requested by the taxpayers or their representatives. We believe these revised procedures will be sufficient to alert IRS employees as to the taxpayers' concerns of possible misuse of the assigned EINs. IRS management also stated that, as the ICP System is replaced by Desktop Integration, the requirement to input a note to the system will remain unchanged.

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6. Determine what function within the IRS should handle unresolved taxpayers' claims after the data collected during the diagnostic period have been analyzed.

Management's Response: Management has mandated that the Accounts Management function remain responsible for resolving inquiries from taxpayers indicating they did not request or need EINs.

Office of Audit Comment: We requested that management determine what function within the IRS should handle unresolved taxpayers' claims after the data collected during the diagnostic period have been analyzed. Without agreeing to conduct a diagnostic exercise, management has determined the Accounts Management function will remain responsible for resolving inquiries from taxpayers indicating they did not request or need EINs. In doing so, management fulfilled our recommendation to assign responsibility to a particular function to handle the resolution of such cases.

The Internal Revenue Service Should Provide Assistance to Taxpayers Claiming Their Personal Information Was Used to Obtain Employer Identification Numbers Without Their Knowledge or Authorization

The EIN Unit correspondence processing staffs lack procedures which would enable them to assist taxpayers claiming or implying that their personal information may have been used to obtain EINs without their knowledge or authorization. The IRS' main web site gives taxpayers specific instructions on what to do if they believe their identities have been stolen.³⁴ However, no such advice is given to taxpayers who contact the EIN Units to claim they did not request the EINs assigned to them and suspect someone may have used their personal information to obtain the EINs.

When taxpayers contact the designated EIN Units and claim they did not apply for the EINs assigned to them, tax technicians either invalidate or leave the EINs as originally assigned. If research indicates activity in the accounts of the EINs in question, cases are forwarded to a specific campus for resolution. There are no special procedures for tax technicians to follow, and there is no advice given to taxpayers who suspect their personal information was used to obtain EINs without their knowledge or authorization.

³⁴ The www.irs.gov web site directs taxpayers to contact the FTC.

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Taxpayers need to know what steps to take to ensure their own personal/financial protection, especially since FTC studies show that the earlier identity theft is reported by individuals to credit agencies, the lower the costs incurred by the victims. When there are no provisions to assist taxpayers regarding the possible unauthorized use of their personal information to obtain EINs, taxpayers may believe contacting the IRS resolved the problem and no further steps need be taken to ensure personal/financial protection.

However, as stated earlier, “use” of the EINs for tax filing and reporting purposes falls within the domain of the IRS, but what could occur outside that domain is speculative at best. The IRS should let its customers know the proper Federal Government agency to contact if they suspect their personal information was used without their knowledge or authorization and the IRS can offer no reasonable explanation to the taxpayers (e.g., transcription errors, misassociation of taxpayer account data, third-party reporting agents).

Recommendation

In light of the growing problem of identity theft and recent headlines reporting the use of stolen identities to establish bogus companies to engage in fraudulent activities:

7. The Director, CAS, W&I Division, should consider sending the FTC's pamphlet, *ID Theft, What's It All About*,³⁵ to taxpayers who claim or imply their identities have been used/stolen to obtain the EINs or provide these taxpayers the FTC's telephone number/web site.³⁶

Management's Response: Management agreed that taxpayers who believe their identities have been compromised to obtain EINs should be informed of the assistance available from the FTC. Instructions will be

³⁵ *ID Theft, What's It All About?* Consumer and Business Education, Bureau of Consumer Protection, FTC, published October 2003.

³⁶ The FTC's Identify Theft Hotline numbers are 1-877-438-4338 (or 1-877-IDTHEFT) and 202-326-2502 (for Telephonic Devices for the Deaf/Teletype). To file a complaint, visit www.consumer.gov/idtheft or write Identity Theft Clearinghouse, FTC, 600 Pennsylvania Avenue, NW, Washington, D.C., 20580.

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provided to taxpayers as part of the procedural revisions in response to Recommendation 4.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the Internal Revenue Service's (IRS) controls over the various methods and procedures used for the issuance of Employer Identification Numbers (EIN). As part of this review, we determined whether there were additional steps the IRS could take to increase the efficiency and effectiveness of the processing of requests for EINs.

This review was undertaken at the request of the IRS, and we worked with information provided in part by the IRS Small Business/Self-Employed (SB/SE) Division Research function staff. To accomplish our objective, we:

- I. Evaluated the current procedures and controls over the IRS' EIN application and issuance process.
 - A. Gathered and reviewed any prior reports, recommendations, and studies related to the IRS' processing of EIN applications.
 1. Reviewed prior Internal Audit, Treasury Inspector General for Tax Administration, and Government Accountability Office reports, as well as any IRS internal reports or studies of the EIN application and issuance process and the creation of business entities on the Business Master File (BMF).¹
 2. Held interviews with IRS management staff to obtain information and documentation regarding any concerns with the current EIN application and issuance process and to determine whether recommendations from prior audits were implemented.
 3. Obtained an understanding of the effect of the issuance of EINs on the filing and processing of returns, payments, and other taxpayer account data.
 4. Obtained any information, reports, or documents regarding future plans for the processing of EIN applications.
 - B. Reviewed all pertinent Internal Revenue Manuals and desk procedures related to the processing of EIN applications.
 1. Identified the key controls and procedures in place for each of the EIN application methods (online, telephone, fax, and mail).

¹ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

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2. Evaluated whether the current EIN issuance controls and procedures are adequate to ensure the future compliance of new business entities created on the BMF and to detect and deter fraud.
- II. Determined whether the current EIN issuance process controls and procedures were being followed during the processing of EIN applications and the establishment of new entities on the BMF.
 - A. Analyzed a judgmental sample of 311 cases processed by the IRS' Brookhaven, New York, Campus² EIN Application Processing Unit³ to determine whether the current EIN application and issuance procedures and controls were being followed. The judgmental sampling method and sample sizes were chosen based on time and resource constraints.

The sample was expanded, in terms of the number of cases reviewed and the number of campuses involved, when auditors noted a potential control weakness involving the processing of the Brookhaven Campus EIN Unit correspondence inventory. We expanded our sample size within that inventory category by requesting the Brookhaven; Cincinnati, Ohio; and Philadelphia, Pennsylvania, Campus EIN Units to photocopy any correspondence sent in by taxpayers or their representatives claiming they did not apply for the EINs assigned to them during a predetermined collection period.

The EIN Units processing correspondence inventory at the Brookhaven and Philadelphia Campuses worked 2,123 correspondence cases during the predetermined collection period and identified 26 cases (1.2 percent) that met the criteria outlined above. These 26 cases made up the cases referred to in this report.

Although the EIN Unit at the Cincinnati Campus performed the audit test twice, no cases meeting the criteria were identified. However, since that Campus processed only 8 percent of the 232,579 EIN correspondence cases worked in Fiscal Year 2004 and we could not verify the accuracy of the test conducted there, we did not include the results. This did not materially affect the audit test results.

- III. Evaluated whether the IRS could take additional steps to increase the effectiveness and efficiency of the EIN application and issuance process by reducing the burden on BMF customers and increasing the potential for cost savings, increased revenue, and tax compliance.

² The data processing arms of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

³ Referred to in this report as EIN Units.

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Appendix II

Major Contributors to This Report

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Appendix III

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 Acting Senior Operations Advisor, Wage and Investment Division SE:W:S

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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
AUG 10 2005

August 9, 2005

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard J. Morgante *Richard J. Morgante*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – More Effective Procedures Are Needed to Process Taxpayers' Claims That They Did Not Request Employer Identification Numbers Assigned to Them (Audit # 200430012)

I agree that we can improve the procedures used when a taxpayer contacts us stating that they did not request an Employer Identification Number (EIN). As your report notes there are many reasons that EINs are requested. We recognize that because of their wide-spread use as an identifying number for banking, regulatory licensing, state and local government requirements and other non-federal, non-tax use, that many issued EINs will not be used to file a federal tax return.

Annually, we process approximately 3.7 million requests from taxpayers and their representatives to obtain an EIN. These representatives include: attorneys, trustees, tax practitioners, business consultants, financial planners, registered agents, and others acting in the interest of the taxpayer. Unfortunately, not all of our customers effectively communicate with their clients nor do clients effectively communicate with their representatives. Our procedure of issuing a confirmation letter upon the issuance of an EIN to the taxpayer, to verify that an EIN was requested, often brings this lack of communication to light prompting an inquiry.

We are developing new procedures and will follow-up by letter or phone call when a taxpayer states that they did not request an EIN. Our communication will be targeted to ensure that the taxpayer is certain that a third party representative is not acting on their behalf for a legitimate need. While we do not want to issue EINs not requested by the taxpayer, neither do we wish to delay or deny the legitimate requests of third parties acting on the behalf of a taxpayer. If, after contact with the taxpayer, it is deduced that the request was not made in their interest by a third party representative, we will input a Note to the Integrated Case Processing System (ICP) or a history item on Command Code ENMOD indicating the taxpayers' statement. This will alert IRS employees of the taxpayers concern of possible misuse of the assigned EIN. If the taxpayer believes that

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their identity may have been compromised, we will provide information on how to contact the Federal Trade Commission (FTC)¹ to receive assistance. We believe this new procedure will compensate for the lack of effective communication and relieve taxpayer confusion and unnecessary concern.

The IRS recognizes that identity theft is a growing problem. In November 2004, we adopted the IRS Enterprise Identity Theft Strategy which has three major components of Outreach, Victim Assistance, and Prevention.

- Outreach - a comprehensive communication strategy has been developed targeting groups of individuals and practitioners. A website on IRS.gov was launched in March with active links to the Social Security Administration (SSA), FTC, and the Taxpayer Advocate Service (TAS). Widely-used printed documents, such as the U.S. Individual Income Tax Return (Form 1040) instruction booklet and Your Federal Income Tax (Publication 17), will be updated to contain pertinent information on identity theft. Updates are in the process for internal communication, frequently asked questions, and the Internal Revenue Manual.
- Victim Assistance – key to assisting victims will be consistent procedures across IRS functions to ensure resolution of account issues resulting from identity theft. We have developed standards for documentation to be used to validate the identity of the taxpayer, the taxpayer's address, and the fact of the theft.
- Prevention – targeted initiatives focused on deterring a specific type of crime resulting from a theft which impacts tax administration. These crimes are described as Refund Crimes, Employment and Income Diversion.

The IRS has demonstrated a strong commitment to meet the challenges of identity theft.

The situations described in your limited sample of correspondence are predominately examples of taxpayers not recognizing their need for an EIN and poor communication between the taxpayer and their representative. In addition, some of the examples are the result of inaccurate processing by the IRS caused by incomplete research prior to issuing an EIN. We will augment and clarify our instructions to ensure thorough research is conducted prior to the issuance of an EIN.

We also reviewed the "non-response rate" of 15.2 percent that you cited from the Small Business/Self-Employed (SB/SE) Research Study². The questionnaire used in the survey was very succinct and was specifically designed to determine the reasons for

¹ The FTC is the Federal agency designated to collect and disseminate information for identity theft victims.

² *Who's Requesting EINs? An Analysis of the Growth Rate of Unused Employer Identification Numbers*, SB/SE Division Research function Report for Project 05.02.002.03, dated August 2004.

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non-use of an issued EIN. The first question simply asked, "Did you request an Employer Identification Number (EIN) within the calendar year 2000, 2001, or 2002? (Please select one box) – yes or no, (if no, please skip questions 2 through 4 and return the survey)."

The question was intended to eliminate those who should not participate in the survey. At the conclusion of the survey, the research staff received indications from some taxpayers that the first question was taken literally, and they did not complete the survey even though they were aware that a request may have been made on their behalf by a third party representative. The full extent of this occurrence within the response group was not determined. The data, therefore, does not clearly indicate a high rate of non-requested EINs as implied in the report. It is difficult to justify the expenses associated with several of your recommendations when the root cause of most taxpayer statements is confusion.

I do have a continued interest in determining the overall characteristics of requests for EINs and the patterns of both federal tax use and non-tax use. I have asked Wage and Investment (W&I) Research to continue and build on the research effort conducted by SB/SE Research. As part of this effort, W&I Research will further review the reasons for non-use and also examine taxpayer claims that they did not request an EIN. We will consider changes to our processing procedures based upon their study.

I fully agree with Recommendation #7, partially agree with Recommendation #4, and disagree with Recommendations #1, #2, #3, and #5. We have completed actions appropriate to Recommendation #6.

Attached are our comments to your recommendations. If you have any questions, please call me at (404) 338-7060, or members of your staff may contact David L. Medeck, Director, Customer Account Services, at (404) 338-8910.

Attachment

More Effective Procedures Are Needed to Process Taxpayers' Claims That They Did Not Request Employer Identification Numbers Assigned to Them

Attachment

The Director, Customer Account Services (CAS), W&I Division, should:

RECOMMENDATION 1

Establish a diagnostic period (e.g., one year) during which time original Applications for Employer Identification Number (Form SS-4) will not be destroyed, but maintained at processing sites so copies can be provided to taxpayers or for internal research.

CORRECTIVE ACTION

This recommendation would be difficult and costly to implement with little overall benefit. Therefore, we will not implement this recommendation. Establishing a file as described would be difficult to administer and of limited value. Due to the volume involved, it is not practical to establish and maintain paper copies of Form SS-4. The three sites that process these requests would each have to manually maintain close to a million records in a searchable format. Any question or follow-up would have to be referred for research at all three sites since inquiries could be received nationwide through toll-free telephone contacts or correspondence. In addition, the files would only represent the applicants that submitted a paper request. The telephone and Internet EIN (I-EIN) applications would not be represented. The increases in telephone requests and rapid growth of I-EIN will further diminish the value of the suggested file.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

Create a recording/tracking system to determine the number of taxpayers contacting the IRS and claiming that they did not request the EINs assigned to them and the number of EINs actually invalidated on IDRS as a result of such claims.

CORRECTIVE ACTION

It is not possible to create a useful recording/tracking system that would encompass the multiple channels of possible contact without incurring substantial expense. Any data collected on numbers of taxpayers contacting IRS claiming they did not request an EIN, and the number of EINs invalidated would be of limited value since a wide variety of reasons could be associated with such contacts. We, therefore, do not agree with this recommendation.

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IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3

Analyze data collected to identify trends (e.g., volume, application method, processing site, issue, etc.) and explore processing improvements to eliminate problematic issues.

CORRECTIVE ACTION

Due to the difficulty and questionable value of maintaining a file and developing an ancillary tracking system, it is not cost effective or feasible to collect and analyze data as suggested by this recommendation. We do not agree with this recommendation due to the cost, feasibility, and questionable benefit to be derived from such an undertaking.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 4

(A) Develop and clarify procedures to ensure that such claims are processed accurately, and (B) Increase the number of EIN correspondence cases reviewed in the Program Analysis System (PAS).

CORRECTIVE ACTION

We partially agree with this recommendation.

(A) We agree that we should improve our procedures. We will revise our procedures to provide specific instructions on the actions needed when a taxpayer states that they did not request and do not need an EIN. We will follow-up by letter or phone call to ensure that the request was not made by the taxpayer or a representative acting on their behalf. If it is deduced that the request was not in the taxpayers' interest, a note will be entered on ICP or a history item input to the IDRS Command Code ENMOD. This will alert IRS employees of the taxpayers concern of misuse of the assigned EIN.

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Taxpayers who believe their identity may have been compromised will be advised of the various methods to contact the FTC.

(B) We do not agree that the PAS sample size should be increased. The number of reviews cited in your report appears understated. Our records indicate that in Fiscal Year (FY) 04 a total of 54 correspondence cases were reviewed in FY 04. PAS reviews are based on statistically valid sampling techniques based on anticipated workload. The Embedded Quality Review System is used by managers to review employees' completed work and provide feedback to promote continuous improvement. Any needed improvements will be identified through this process.

IMPLEMENTATION DATE

(A) November 15, 2005

(B) N/A

RESPONSIBLE OFFICIAL

(A) Director, W&I, Accounts Management

(B) N/A

CORRECTIVE ACTION MONITORING PLAN

(A) We will monitor this corrective action as part of our internal management control system.

(B) N/A

RECOMMENDATION 5

Require the EIN Units' tax technicians to enter all actions with respect to the handling of taxpayers' claims that they did not apply for the EINs assigned to them into the ICP System.

CORRECTIVE ACTION

We do not agree that it is necessary to input all actions regarding taxpayer claims that they did not apply for an EIN. However, new procedures require that when a taxpayer states that they did not request an EIN, we will follow-up with the taxpayer to ensure that the EIN was not requested on their behalf by a third party representative. When it is deduced that the request was not made on their behalf, we will place a note on the ICP system. If the employee does not have access to ICP, a history item will be placed on IDRS on the ENMOD Command Code. As ICP is replaced by Desktop Integration, the requirement to input a note to the system will remain unchanged.

IMPLEMENTATION DATE

November 15, 2005

RESPONSIBLE OFFICIAL

Director, W&I, Accounts Management

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CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 6

Determine what function within the IRS should handle unresolved taxpayers' claims after the data collected during the diagnostic period has been analyzed.

CORRECTIVE ACTION

Although we will not conduct a diagnostic exercise, the Accounts Management operation will remain responsible for resolving inquiries from taxpayers indicating that they did not request or need an EIN.

IMPLEMENTATION DATE

Completed – July 14, 2005

RESPONSIBLE OFFICIAL

Director, W&I, Accounts Management

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 7

In light of the growing problem of identity theft and recent headlines reporting the use of stolen identities to establish bogus companies to engage in fraudulent activities, the Director, CAS, Wage and Investment Division, should consider sending the FTC's pamphlet, *ID Theft, What's It All About*, to taxpayers who claim or imply their identities have been used/stolen to obtain the EINs, or provide these taxpayers the FTC's telephone number/website.

CORRECTIVE ACTION

We agree that taxpayers who believe their identity has been compromised should be informed of the assistance available from FTC. We will include instructions on the proper method to inform taxpayers as part of our revision to our procedures as noted in our response to Recommendation #4.

IMPLEMENTATION DATE

November 15, 2005

RESPONSIBLE OFFICIAL

Director, W&I, Accounts Management

More Effective Procedures Are Needed to Process Taxpayers' Claims That They Did Not Request Employer Identification Numbers Assigned to Them

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CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.