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Investigations that the IRS was not working some taxpayer cases in which refunds were held. The Office of Investigations identified that the IRS did not timely address ...

Dec. 22, 2015

A computer programming error and the ineffective monitoring of potentially fraudulent tax returns resulted in the erroneous release of more than \$46 million in refunds by the Internal Revenue Service (IRS) during Calendar Year 2014 before the information had been verified as correct.

That is among the findings of an audit report publicly released today by the Treasury Inspector General for Tax Administration (TIGTA).

TIGTA initiated this audit because an IRS employee reported to the TIGTA Office of Investigations that the IRS was not working some taxpayer cases in which refunds were held. The Office of Investigations identified that the IRS did not timely address these tax accounts to ensure that the refunds are not erroneously released. TIGTA assessed IRS processes to ensure that tax refunds are not erroneously released.

The IRS's Return Integrity and Compliance Services organization is responsible for identifying, evaluating, and preventing the issuance of improper refunds. This mission includes protecting revenue by identifying potentially fraudulent tax returns and verifying the accuracy of reported income and withholding information. The IRS reported that the Integrity and Verification Operations function prevented more than \$15 billion in refunds for over 2 million tax returns for confirmed identity theft or fraud during Calendar Year 2014.

TIGTA identified that, because of a programming error, over \$27 million of refunds were erroneously issued for 13,043 Tax Year 2013 tax returns. The programming error

is overriding the IRS's two-week processing delay on some refund tax returns that

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“While the IRS has made important strides in its programs that prevent the issuance of fraudulent refunds, our auditors found that it is not always ensuring that tax examiners timely complete their verification work before releasing refunds,” said J. Russell George, Treasury Inspector General for Tax Administration.

TIGTA recommended that the IRS:

- correct the programming that is erroneously overriding the two-week return processing delay needed to ensure that refunds are not issued before screening and verifying the tax returns;
- develop a periodic reconciliation process to ensure that refunds associated with identified potentially fraudulent tax returns are not erroneously released;
- develop a process to ensure that tax examiners verify a potentially erroneous refund claimed by a taxpayer within the refund hold period or place an unexpiring refund hold on the taxpayer's account until verification can be completed as required; and
- identify why refund holds placed on some accounts were not delaying processing of the tax returns and address the causes.

The IRS agreed with all recommendations and stated that it was taking corrective action.

Income Tax • IRS

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