



District of Columbia

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**What's the District of Columbia Doing
To Stop Identity Theft Refund Fraud?**



Stephen M. Cordi
Deputy Chief Financial Officer

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The Nature of the Problem - 1

- Until 3 years ago, we didn't know we had an identity theft fraudulent refund problem
- Our efforts at combating refund fraud were largely directed at stopping applicants with fictitious social security numbers or applicants with real social security numbers who were not actually District taxpayers
- Our principal tools were the use of a data warehouse to confirm applicant identity, edit checks to look for anomalies and a manual post-processing review of refunds prior to payment



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The Nature of the Problem - 2

- Our data warehouse was effective in stopping claims with fictitious social security numbers and with real social security numbers of persons who did not have real connections in the District
- In 2011, we noticed a series of schemes involving the social security numbers of real District residents
- They were all electronic, all single taxpayers, all paid to debit cards, all taxpayers who had filed DC returns in the past but were not going to file 2010 returns



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The Nature of the Problem - 3

- The ones we caught in 2011 were because of other filters, such as excessive withholding claimed, audit issues, identical income and deductions reported, and, ultimately, the identification of some debit card issuers
- For 2012, our principal plan was to attempt to match employee w-2 information with employer w-2 information
- Legislation was enacted advancing the employer due date to January 31 from February 28 and lowering the electronic reporting requirement from 50 w-2's to 25 w-2's
- The plan unraveled when we discovered that we had limited w-2 information from the federal government and almost a third of our filers were federal employees.



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The 2012 Filing Solution

- Activated the Questionable Return Review Queue
- Implemented our Refund Anomaly Analysis System
 - Data base of refund information extending back a decade
 - Scores refunds on risk factors
 - Identifies individual refunds for manual review
 - Lets us identify unusual patterns
- Automated the handling of data warehouse exceptions
 - Eliminated employee decision-making



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The Proposed 2013 Filing Solution

- Implement program described by CT at the FTA Annual meeting in DC – divert refund claims with foreign IP addresses to a review queue and generate a letter asking for verification
- Add the SSA Death Master File to our suspicious filer review queue and generate a verification letter
- Lower the threshold on our data warehouse review queue
- Compare current wages to wages reported in prior year and set anomalies aside for manual review



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Conclusion

- The 2013 plan is not a perfect solution – just better
- There are probably a number of other things we could do to minimize the problem – we're always looking for them
- The federal identity theft protection indicator file is expected to be available in the spring of 2013 and will be added to our automated fraud review program
- The ultimate solution is an effective w-2 match
 - That becomes more feasible as individual electronic filing increases and employer reports are filed earlier and electronically.