Identifying Fraudulent Electronic Returns & Blocking Refunds

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What we look for

- Fraudulent income tax refund claims
  - Invalid wages, withholding, and other refundable credit claims
  - EIC equivalent

- Collaborate on investigations with IRS CID as well as our counterparts in other states through our Suspicious Filer User Group

How is a Fraudulent Tax Return Filed?

- Electronically
  - H&R Block, Liberty Tax Service, etc.
    - Local offices
- Over the Internet
  - Boxed software (HRB TaxCut, TurboTax, etc.)
  - Web sites
    - www.turbotax.com
    - www.HRBlock.com
    - www.TaxSlayer.com
    - www.LibertyTax.com
- Paper
  - Forms filled out by hand and mailed in

Why does the electronic age make things difficult?

How much of this is real?

NONE!

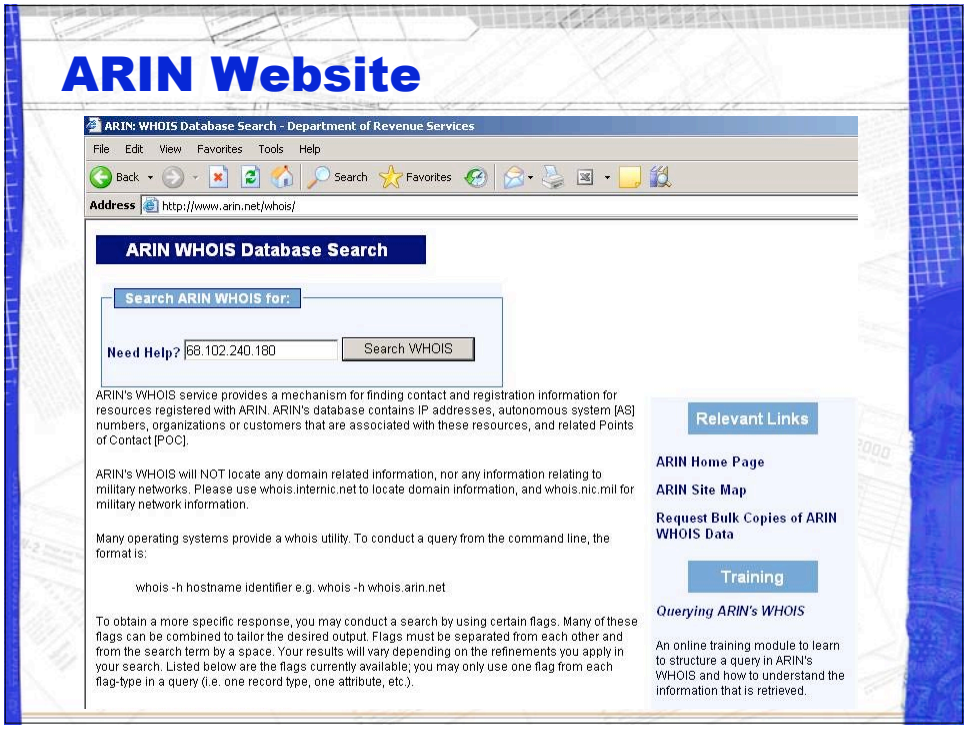
How much is real?

- Only the IP Address that the return is transmitted from is real, all else is created
- So you must be able to capture or subpoena the IPA (Internet Protocol Address)
- IPA can be static or dynamic
  - Static – fixed, as in you own it (schools, government, big business)
  - Dynamic – assigned from IPA pool (AOL, NetZero, Yahoo, etc.)
  - 68.102.240.180 (sample)
  - 217.21.114.115 (foreign sample)

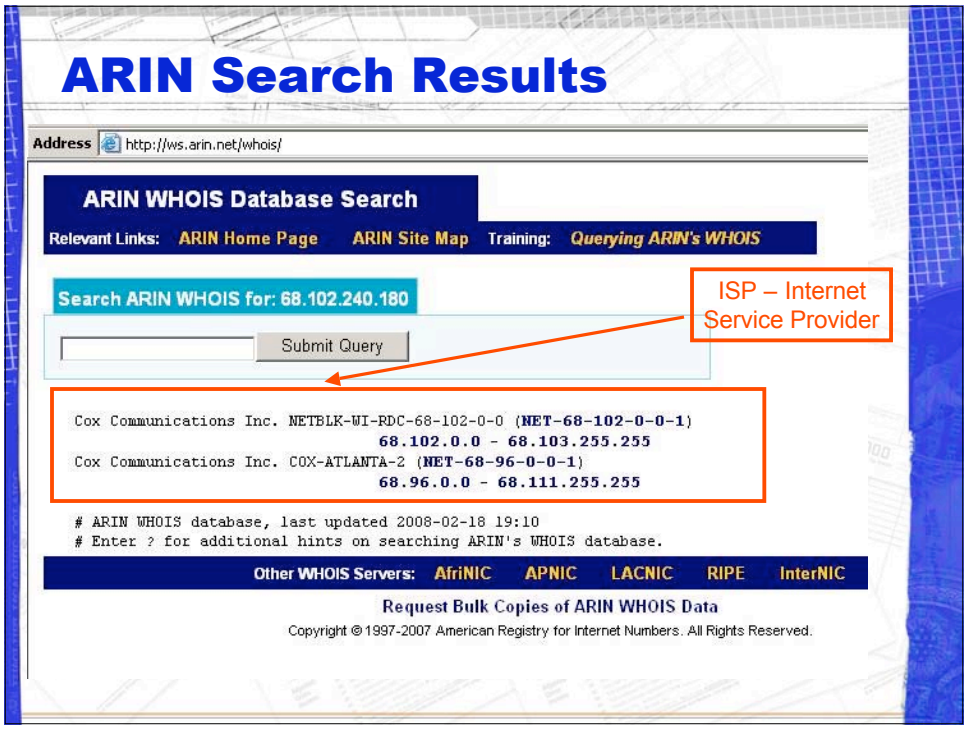
Who-is Websites

- **ARIN – American Registry for Internet Numbers**
  - http://www.arin.net/whois/
- **AfriNIC – African Network Information Centre**
  - http://www.afrinic.net/cgi-bin/whois
- **APNIC – Asia Pacific Network Information Centre**
  - http://www.apnic.net/search/index.html
- **LACNIC – Latin American and Caribbean Internet Addresses Registry**
  - http://lacnic.net/cgi-bin/lacnic/whois
- **RIPE – Réseaux IP Européens**
  - http://www.ripe.net/perl/whois/
- **InterNIC – Internet Domain Name Registration Services, U.S. Dept of Commerce**
  - http://www.internic.net/whois.html

ARIN Website



ARIN Search Results



Now what?

Address http://ws.arin.net/whois/?queryinput=!%20NET-68-102-0-0-1

ARIN WHOIS Database Search

Relevant Links: ARIN Home Page ARIN Site Map Training: *Querying ARIN's WHOIS*

Search ARIN WHOIS for: ! NET-68-102-0-0-1

Submit Query

```
OrgName:    Cox Communications Inc.
OrgID:      CXA
Address:    1400 Lake Hearn Drive
City:       Atlanta
StateProv:  GA
PostalCode: 30313
Country:    US

NetRange:   68.102.0.0 - 68.103.255.255
CIDR:       68.102.0.0/15
NetName:    NETBLK-WI-RDC-68-102-0-0
NetHandle:  NET-68-102-0-0-1
Parent:     NET-68-96-0-0-1
NetType:    Reassigned
Comment:    For legal requests/assistance please use the following contact information:
Comment:
Comment:    Cox Subpoena Phone: 404-269-0100
Comment:
Comment:    Cox Subpoena Info: http://www.cox.com/policy/leainformation/default.asp
RegDate:    2002-05-15
Updated:    2007-08-16

OrgAbuseHandle: IC146-ARIN
OrgAbuseName:   Cox Communications, Inc
OrgAbusePhone:  +1-404-269-7626
OrgAbuseEmail:  abuse@cox.net
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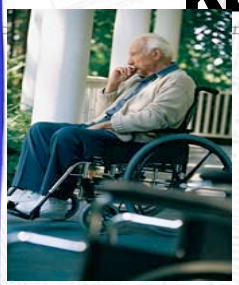
Issue a subpoena to ISP for customer info

KENYAN TAX FRAUD



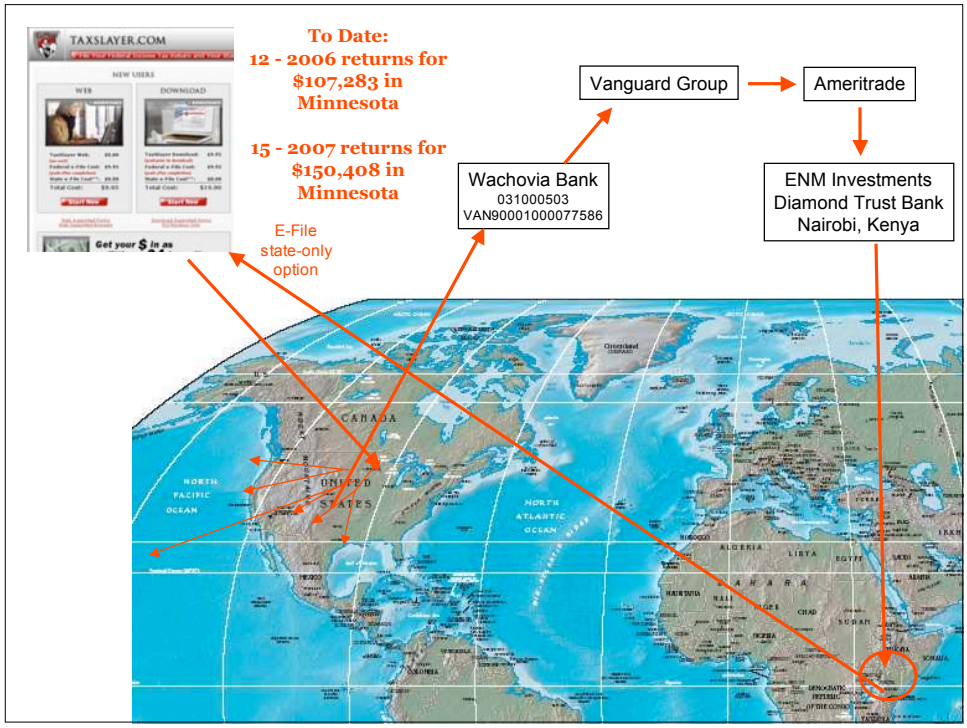
ID Theft

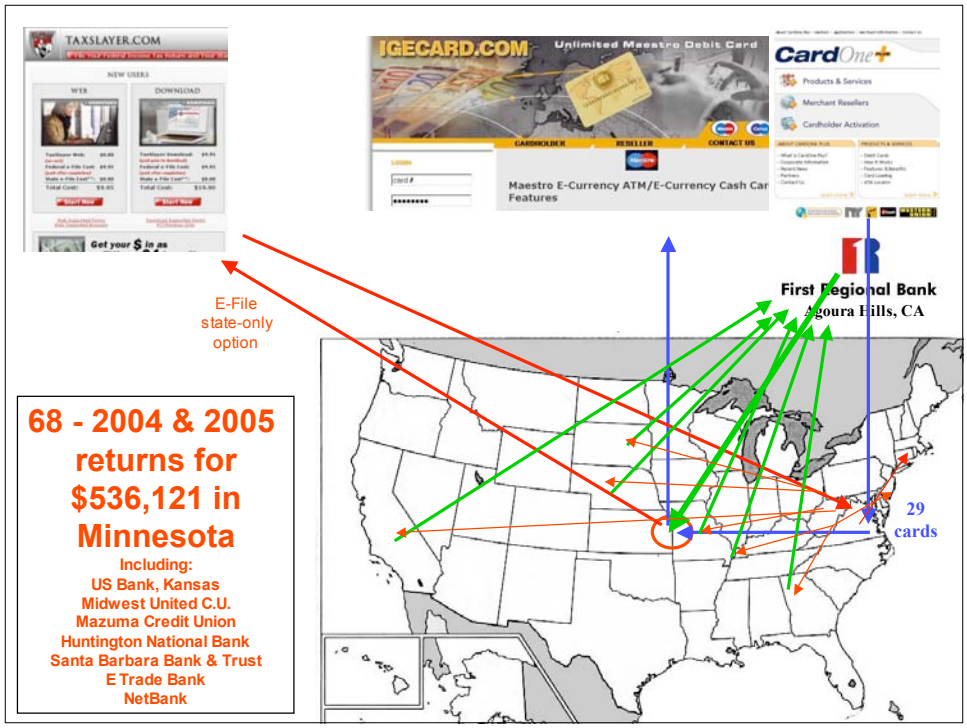
Kenya

Tax Returns

Refunds Deposited

Cash Withdrawn


TAXSLAYER.COM
To Date:
12 - 2006 returns for $107,283 in Minnesota
15 - 2007 returns for $150,408 in Minnesota
E-File state-only option
Vanguard Group
Ameritrade
Wachovia Bank
031000503
VAN90001000077586
ENM Investments
Diamond Trust Bank
Nairobi, Kenya
CANADA
UNITED STATES
NORTH PACIFIC OCEAN
NORTH ATLANTIC OCEAN


TAXSLAYER.COM
IGECARD.COM
Unlimited Maestro Debit Card
CardOne
Maestro E-Currency ATM/E-Currency Cash Car
Features
E-File state-only option
First Regional Bank
Agoura Hills, CA
29 cards
68 - 2004 & 2005 returns for $536,121 in Minnesota
Including:
US Bank, Kansas
Midwest United C.U.
Mazuma Credit Union
Huntington National Bank
Santa Barbara Bank & Trust
E Trade Bank
NetBank

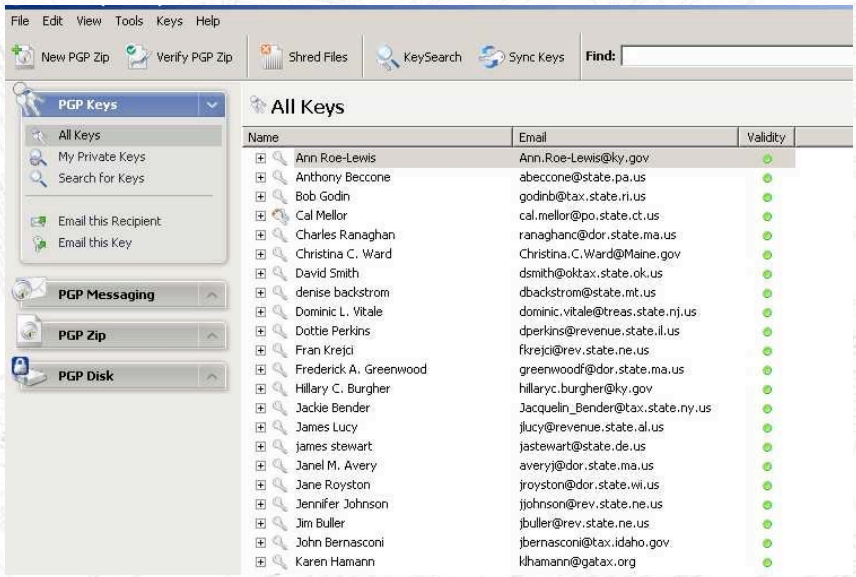
The "Kansas/Kenya" Gang

= **$793,812**
95 returns
in Minnesota

Essential Steps for Blocking E-File

- Block SSNs
- Block Addresses
- Block Bank Accounts
- Change state disclosure laws (if needed)
  - A victim state should be able to disclose fraud info to <u>any</u> government agency or government employee
- Share alerts with other states
- Coordinate investigations
  - IRS, FBI, Secret Service, Postal Inspectors, State Police, State Tax Agents, local police, INTERPOL

Share information with other states



Other ideas for blocking E-Fraud

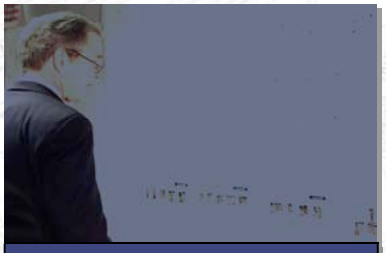
- Exchange program manuals
- Share validation resources
- Solicit new member states
- Monthly Conference calls
- Review trends & techniques at an annual meeting (closed session)

Past Analysis Methods

- Paper charts: overly time consuming and difficult to edit, disclosure issues
- Excel spreadsheets: difficult to show multiple links between suspects, employers, bank accounts, etc.
- Multiple print-outs: ineffective in storing related data in easy to locate groups

New Method

- i2 Analyst's Notebook
- i2 Analyst's Notebook is used by over 2,000 organizations worldwide including:
  - IRS - CID
  - FBI
  - Homeland Security
  - state and local law enforcement



President Bush reviewing i2 charts produced at the Financial Crimes Enforcement Network (FINCEN)

Analysis Criteria

Common data we seek links between:

- Address
- Employer
- Relation
- Bank Account
- Filing Method
- Income Amount
- IP Address
- Preparer

Analyst's Notebook

Visualize

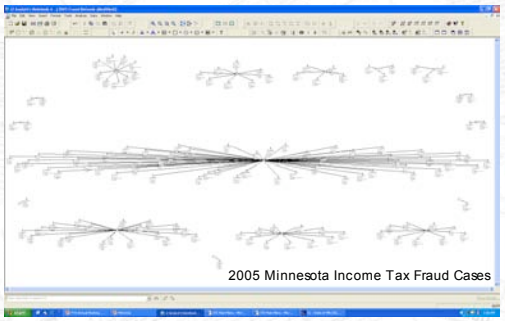
- Create visual timelines
- Expose hidden relationships

Analyze

- Identify Clusters
- Visual Search or Query
- Locate Paths Between entities
- Find and merge similar entities
- List Items
- Select multiple Chart Layouts
- Change Representation

Communicate

- Brief Superiors Quickly
- Freely distribute charts



*"**i2** software has been used in every major FBI investigation since 1994"*

Darryl Barton, FBI Retired

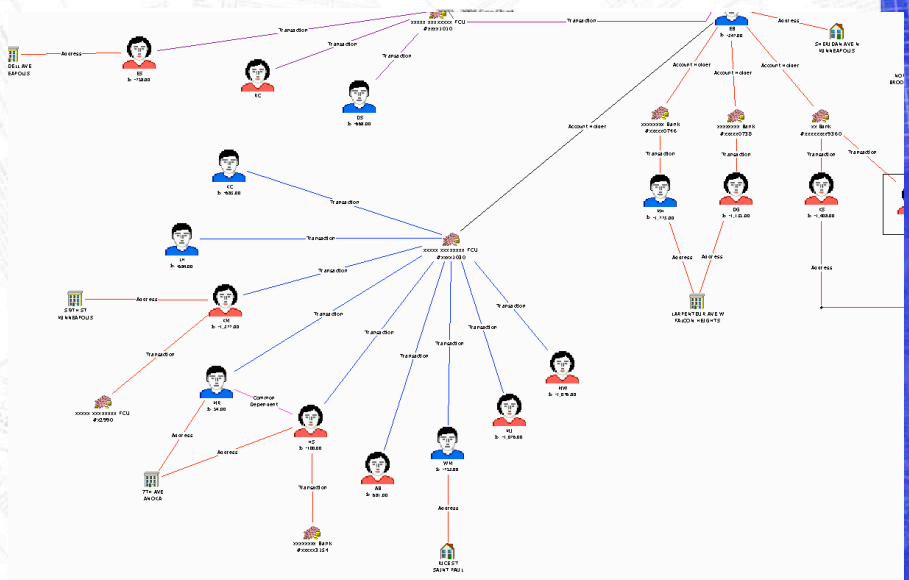
Abilities of i2 Analyst Notebook

- Import data already stored in Excel and manipulate the data to show all links between suspects
- Multiple layouts to present data in the most effective way
- Grade and evaluate data based on the reliability of the source
- Embed pictures, letters, and other records directly accessible from the chart

Benefits of i2 Analyst Notebook

- Protects DOR disclosure practices
- Collect very detailed information and present in a concise manner understandable to multiple persons
- Ability to simplify our referral of cases to our Criminal Division
- Prevent repetition of investigative actions by making information accessible to all DOR employees involved in the investigation

Sample Case Chart



Disadvantages

- Each computer must have a separate license.
  - A Chart Reader can be installed on any number of computers free but the Chart Reader does not allow editing capabilities
  - DOR has remedied this issue for us by installing the software & license on a shared laptop, making the program portable and accessible by all fraud investigators
  - Network dongles

Why bother with all this?

Questions?

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