



Treasury Inspector General for Tax Administration Office of Audit

A CORPORATE APPROACH IS NEEDED TO PROVIDE FOR A MORE EFFECTIVE TAX-EXEMPT FRAUD PROGRAM

Issued on July 6, 2009

Highlights

Highlights of Report Number: 2009-10-096 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

In response to our prior reports, each of the Tax Exempt and Government Entities (TE/GE) Division offices implemented changes to their fraud programs. This resulted in significantly more fraud development cases, of which most were from one office. However, a more corporate approach with centralized oversight is needed to provide for a more effective TE/GE Division fraud program. TIGTA believes an effective fraud program will provide greater assurance that the trust placed in the tax-exempt sector by taxpayers and the good work done by most tax-exempt organizations are not tarnished.

WHY TIGTA DID THE AUDIT

The tax-exempt sector is made up of approximately 3 million entities that control more than \$13 trillion in assets and pay more than \$270 billion annually in employment tax and employee income tax withholding. TE/GE Division management has been aware that potential fraud occurred in the tax-exempt sector since at least Fiscal Year 2000 and has identified some tax-exempt organizations that were involved with potential fraudulent activities such as hiding and moving funds to other groups and individuals.

This audit was initiated as part of the TIGTA Office of Audit Fiscal Year 2008 Annual Audit Plan related to the major management challenge of Tax Compliance Initiatives. The overall objectives of this review were to determine whether emphasis placed on detecting fraud by TE/GE Division management resulted in a more effective program to identify criminal and civil fraud issues in the tax-exempt sector and to follow up on recommendations from prior TIGTA audits of the TE/GE Division's fraud program. In addition, TIGTA determined the number of civil fraud assessments and criminal fraud referrals made by the TE/GE Division.

Email Address: inquiries@tigta.treas.gov
Web Site: <http://www.tigta.gov>

WHAT TIGTA FOUND

In response to our prior reports, each of the five TE/GE Division offices implemented changes to their fraud programs. This approach has resulted in more fraud development cases, application of potential penalties, and further development of cases for criminal prosecution. When TIGTA first reviewed the TE/GE Division fraud program, it was determined that 11 cases had been referred for possible criminal prosecution during Fiscal Years 2000 through 2002. For Fiscal Years 2006 through 2008, the Small Business/Self-Employed Division Fraud Office approved 48 TE/GE Division cases for fraud development. Of the 48 cases, 32 potentially represent approximately \$37 million of additional revenue which may be forthcoming. The TE/GE Division also assessed \$10 million in civil penalties and other related assessments on 4 cases. Also, all offices have taken actions to emphasize fraud by providing fraud awareness training, providing resources to assist in detecting fraudulent activity, and obtaining feedback on fraud referrals.

However, a more corporate approach with centralized oversight is needed. The five TE/GE Division offices are at different maturity points in their capabilities to evaluate, address, and monitor the risk of fraud occurring within their respective customer base. Because management within the five TE/GE Division offices has determined individually how to implement a fraud program within their offices, some offices are left without processes and procedures to prevent and detect fraud, and at least one office is struggling to understand how fraud risk management fits into its daily operations.

Unless centralized executive direction and oversight is applied, the Division's fraud program may continue to have critical issues that, if not sufficiently addressed, will prevent the Division from successfully managing fraud risk.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, TE/GE Division, develop and implement a corporate fraud approach with centralized oversight for the TE/GE Division and ensure that all TE/GE Division offices follow Internal Revenue Service procedures and contact the Small Business/Self-Employed Division Fraud Office to determine whether cases with affirmative indications of fraud should be pursued as fraud development cases.

In their response to the report, Internal Revenue Service management agreed with the recommendations and provided planned actions to address them.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200910096fr.pdf>.

Phone Number: 202-622-6500