



Treasury Inspector General for Tax Administration Office of Audit

TAXPAYER REFERRALS OF SUSPECTED TAX FRAUD RESULT IN TAX ASSESSMENTS, BUT PROCESSING OF THE REFERRALS COULD BE IMPROVED

Issued on February 20, 2013

Highlights

Highlights of Report Number: 2013-40-022 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division and the Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

When individuals want to report possible instances of Federal tax fraud by a taxpayer, the IRS instructs them to complete and mail Form 3949-A, *Information Referral*, or to provide this information via a letter. During Fiscal Years 2010 through 2012, the Small Business/Self-Employed (SB/SE) and Wage Investment (W&I) Divisions received and screened 274,976 Forms 3949-A. During that same time period, examinations initiated from Form 3949-A referrals resulted in more than \$66.5 million in tax assessments. However, TIGTA previously reported that the IRS misrouted referrals it sent to other functions. While corrective actions will reduce the number of referrals received by the SB/SE and W&I Divisions, both divisions can more efficiently and effectively process Forms 3949-A.

WHY TIGTA DID THE AUDIT

This audit was initiated in coordination with a previous TIGTA audit based on a TIGTA Office of Investigations referral that reported thousands of identity theft cases reported on Form 3949-A were not being processed.

WHAT TIGTA FOUND

TIGTA determined that both the SB/SE and W&I Division screeners improperly screened Forms 3949-A. While improvements to the processes and better communication with the Accounts Management function will reduce the number of referrals the divisions receive, other issues affect the screeners' ability to research and identify referrals worthy of examination. Neither division has a routine review process to evaluate screened referrals not selected for examination. Routine checks of screened work would identify potential areas for improvement. In addition, the SB/SE Division does not have specific guidelines for screeners. More detailed

guidelines would allow SB/SE Division screeners to be more consistent when evaluating referrals.

The SB/SE and W&I Divisions spent approximately \$211,041 to screen the 102,465 Forms 3949-A received for Fiscal Year 2012 and assessed more than \$29 million. The divisions should reevaluate the Form 3949-A program's effectiveness once corrective actions are complete and determine how much of their limited resources they should devote to the program. Increased efficiency may make it more cost efficient for the divisions to place a higher priority on these referrals.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) ensure that it periodically communicates its referral needs to the Accounts Management function; 2) conduct routine reviews of screened referrals; 3) develop detailed SB/SE Division standard screening guidelines; 4) implement procedures to include information about each misrouted referral sent to another function or returned to the Accounts Management function; and 5) assess the value of the Form 3949-A program once the IRS implements the corrective actions resulting from the previous TIGTA report.

IRS management agreed with all of our recommendations and, as appropriate, plans to implement corrective actions.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2013reports/201340022fr.pdf>