



Treasury Inspector General for Tax Administration

Issued on July 2, 2010

Review of the Internal Revenue Service Criminal Investigation Division's Nonprofit Fraud Referral Process

WHAT TIGTA FOUND

During Fiscal Years 2007 through 2009, Criminal Investigation had an inventory of 168 tax-exempt investigations. Twenty-seven percent of the referrals received by Criminal Investigation came from other Internal Revenue Service functions while about 20 percent came from the United States Attorney's Office. The third largest number came from other Federal agencies including the Federal Bureau of Investigation. In general, the percentage of investigations related to tax-exempt entities seems reasonable compared to the number of tax-exempt returns filed.

Approximately 72 percent of tax-exempt investigations (121 of 168) are subject criminal investigations, which are investigations related to a specific individual or entity alleged to be in violation of laws enforced by the Internal Revenue Service and having criminal prosecution potential. About one-third of the subject criminal investigations completed by Criminal Investigation resulted in a conviction.

We were unable to fully determine if fraud referrals were accepted or declined within 30 calendar days as stipulated in Criminal Investigation procedures. In March 2005, TIGTA reported that Criminal Investigation took an average of 93 calendar days to decide to accept or decline fraud referrals during Fiscal Year 2003. In response to that report, Chief, Criminal Investigation, replied that several actions to address that finding were to be implemented by September 2004. The actions included implementing a fraud referral tracking system and re-emphasizing established operating procedures. Included was a requirement to better track referrals and to evaluate referrals within 30 workdays of receipt.

We attempted to determine if Criminal Investigation timely evaluated the referrals included in our review. Criminal Investigation staff was able to provide information on only 14 cases, and only 5 of the 14 were evaluated timely.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full Internal Revenue Service response, go to:

<http://www.treas.gov/tigta/iereports/2010reports/2010IER006fr.pdf>

Inspections and Evaluations

Highlights

Highlights of Report Number: 2010-IE-R006 to the Internal Revenue Service Chief, Criminal Investigation.

WHY TIGTA DID THIS STUDY

This project was initiated to document the Criminal Investigation's efforts to investigate criminal fraud related to tax-exempt organizations and assess the procedures used to conduct and manage such investigations.

The Internal Revenue Service estimates there are approximately 1.8 million tax-exempt organizations in the United States that control more than \$3.4 trillion in assets. Internal Revenue Service management has been aware of potential fraud in the tax-exempt sector for several years and has increased their enforcement efforts, which include investigations conducted by Criminal Investigation.

WHAT TIGTA RECOMMENDED

TIGTA recommended that Criminal Investigation modify the Criminal Investigation Management Information System to capture data required to readily assess the timeliness of fraud referral evaluations. Criminal Investigation did not agree with our recommendation. Instead, Criminal Investigation proposed assessing the timeliness of fraud referral evaluations based on information currently available in its management information system, and issuing guidance to ensure special agents timely record information related to fraud referral evaluations.

We believe these measures will provide a general indication of whether evaluations are processed timely. In cases where the evaluation period exceeds Criminal Investigation guidelines, additional research will be required to determine whether there were delays in posting information to the management information system or actual delays in the evaluation process.