



## Treasury Inspector General for Tax Administration Office of Audit

### IMPLEMENTING BETTER MANAGEMENT CONTROLS WOULD IMPROVE THE EXEMPT ORGANIZATIONS FUNCTION'S ABILITY TO PROPERLY OVERSEE AND TIMELY PROCESS REFERRALS

Issued on June 1, 2012

## Highlights

Highlights of Report Number: 2012-10-058 to the Internal Revenue Service Acting Commissioner for the Tax Exempt and Government Entities Division.

### IMPACT ON TAXPAYERS

Referrals alert the Exempt Organizations function to potentially serious violations of Federal tax law. While the Exempt Organizations function has greatly improved its timeliness for acknowledging receipts to submitters, the Exempt Organizations function did not always control referrals or process referrals timely. If referrals are not properly accounted for or worked timely, the Exempt Organizations function may not identify tax-exempt organizations that are potentially in violation of Federal tax law or have referrals ready when new examination cases are needed.

### WHY TIGTA DID THE AUDIT

This review was requested by the Exempt Organizations function and addresses the Tax Compliance Initiatives major management challenge. The overall objective of this review was to determine whether the Exempt Organizations function is accurately accounting for referrals of alleged violations of Federal tax law, acknowledging receipt to submitters, and tracking and monitoring the time periods for working referrals.

### WHAT TIGTA FOUND

The Referral Unit has dramatically improved the timeliness of acknowledgement letters being sent to submitters of referrals; however, the Exempt Organizations function faces significant challenges in managing referrals. Specifically, the Exempt Organizations function could not readily locate referrals it received, ensure all referrals it received were being controlled, or ensure referrals were being processed timely. For example, TIGTA determined that the Referral Unit 1) could not readily locate 31 of the 120 referrals TIGTA requested and 2) did not control 350 referrals involving partnership returns upon receipt in the Referral Unit. In addition, TIGTA identified some inaccuracies

and omissions of key information on the Exempt Organizations Referral Database, which is used to track and control referrals received by the Referral Unit.

Also, Referral Unit management stated that current measures could not be met and needed to be reconsidered. For example, the Internal Revenue Manual states that Referral Unit employees should make a determination as to whether a referral should be examined within 60 calendar days of receipt. However, almost 25 percent of these referrals took more than 120 calendar days to process.

Exempt Organizations function management was aware of deficiencies in the referral process and has been focusing on making improvements. TIGTA believes that implementing better management controls would help improve the Exempt Organizations function's ability to properly oversee referrals.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Exempt Organizations, Tax Exempt and Government Entities Division, ensure all referrals are properly controlled, guidance is developed and updated, performance goals are developed, and timeliness measures are updated. TIGTA also recommended the IRS evaluate the priority for additional funding for a more robust case management system.

In their response to the report, IRS officials agreed with the recommendations and plan to take appropriate 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/2012reports/201210058fr.pdf>.