Treasury Inspector General for Tax Administration
Office of Audit

**THE COLLECTION FUNCTION DEVELOPS QUALITY FRAUD REFERRALS BUT CAN IMPROVE THE IDENTIFICATION AND DEVELOPMENT OF ADDITIONAL FRAUD CASES**

**Issued on July 27, 2012**

# Highlights

Highlights of Report Number: 2012-30-083 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

## IMPACT ON TAXPAYERS

Tax fraud is a deliberate and purposeful violation of Internal Revenue laws by those who do not file and properly report their income and expenses. When criminal fraud or civil fraud penalties are not adequately pursued, the IRS's efforts to reduce the Tax Gap and the noncompliance that contributes to it can be undermined. Taxpayers who do not voluntarily pay their share of taxes create unfair burden on taxpayers who timely and fully pay their taxes and can diminish the public's respect tor the tax system.

## WHY TIGTA DID THE AUDIT

The Fraud Office reported that declined fraud referrals from Fiscal Year 2007 to mid-Fiscal Year 2009 exhibited common weaknesses. In addition, a Fiscal Year 2009 Fraud Customer Survey of the Collection function revealed many respondents do not look for fraud in every case, and many revenue officers (RO) responded that they would not contact a Fraud Technical Advisor for assistance in the future. This audit was initiated to assess the effectiveness of the Collection Fraud Referral Program, and whether the Collection Field function is adequately considering, identifying, and developing fraud cases for referral to Criminal Investigation (CI).

## WHAT TIGTA FOUND

The Collection Fraud Referral Program has been successful in developing quality criminal fraud referrals. However, there are opportunities to improve the identification and development of Collection function fraud referrals.

ROs may be deterred from looking for fraud because fraud cases are more complex, require extensive additional work, and often do not result in accepted referrals. In addition, technical assistance was not always available to ROs, and management efforts to support fraud development varied.

Civil fraud penalties should be considered on criminal cases declined by CI. TIGTA reviewed all of the 53 Fiscal Year 2010 Collection function fraud referrals declined by CI. There was no documentation showing that civil fraud penalties were considered in 44 (83 percent) of the cases.

The RO, group manager, and Fraud Technical Advisor should review each case for common rejection reasons prior to initiating a lengthy fraud development case. However, 22 (42 percent) of 53 declined referrals were rejected for common rejection reasons. There was no evidence that these common issues were identified. TIGTA also determined that the overage clock was not always properly stopped or restarted in Collection function fraud cases.

## WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Collection Policy, issue guidance to emphasize potential adjustments of RO inventory levels when cases are in fraud development; revise guidance to require the post-declination meeting include a discussion about the potential for a civil fraud referral; and emphasize that possible barriers to a criminal fraud referral need to be discussed and documented during the case development.

In their response to the report, IRS officials agreed with the recommendations and plan to emphasize inventory control strategies for the development of potential fraud cases and update procedures to include information to be discussed during post-declination and case development meetings.

## 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/201230083fr.pdf.