



Treasury Inspector General for Tax Administration Office of Audit

THE PROCESS FOR INDIVIDUALS TO REPORT SUSPECTED TAX LAW VIOLATIONS IS NOT EFFICIENT OR EFFECTIVE

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Highlights

Highlights of Report Number: 2012-40-106 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The IRS website for reporting fraud was visited 501,218 times in Fiscal Year 2011, and during that year 116,307 individuals submitted a Form 3949-A, *Information Referral*, to the IRS. The IRS is not efficiently or effectively processing these referrals. Reporting guidelines provided to taxpayers and employees are confusing and inconsistent and cause individuals to use Forms 3949-A for other than its intended purpose. This creates a burden on both the individuals and tax administration. Additionally, a lack of oversight and effective procedures has resulted in workable Forms 3949-A, including identity theft claims, being destroyed without any acknowledgement of receipt to the taxpayer.

WHY TIGTA DID THE AUDIT

This audit was initiated based on a TIGTA Office of Investigations referral which reported that thousands of identity theft cases reported on Forms 3949-A were not being processed.

WHAT TIGTA FOUND

Reporting guidelines provided to taxpayers and employees are confusing and inconsistent. Instructions on Form 3949-A do not explain what types of fraud and tax law violations to report using this form. As a result, individuals often use Form 3949-A for purposes other than reporting suspected tax fraud or tax law violations. Additionally, because Form 3949-A lacks specificity, taxpayers do not always provide the IRS with sufficient information for the IRS to take action. Finally, the IRS routes identity theft referrals received on a Form 3949-A as regular correspondence, which delays actions from being taken on identity theft cases.

As a result, many referrals do not meet any criteria under which the IRS could or would be able to take action(s). A lack of quality review resulted in referrals being destroyed. Additionally, the forms are often used for

other purposes (e.g., claims by victims of identity theft). About 3,000 Forms 3949-A used to report identity theft were destroyed due to a lack of procedures on how to process these claims. Victims were not notified.

Ineffective routing procedures and oversight have allowed Forms 3949-A to be misrouted to the wrong functions. Others are mistakenly considered unworkable and retained for 90 days and then destroyed.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) revise IRS.gov to ensure taxpayers know the intended purpose of Form 3949-A; 2) improve internal and external guidance for reporting identity theft, including a revision of Form 3949-A and instructions; 3) ensure that an IRS-wide coordinated process is implemented, including expediting identity theft claims; 4) implement controls that include developing formal Internal Revenue Manual procedures, ensuring all employees have updated procedures for routing documents; 5) conduct a feasibility study for developing an online Form 3949-A that ensures sufficient information is collected; and 6) evaluate the clerical unit routing process to determine if it would be more efficient if technical employees assumed those responsibilities.

The IRS agreed with all recommendations and plans to revise IRS.gov, clarify the intent of Form 3949-A, review current procedures for necessary changes, and evaluate steps to ensure a more effective quality review process and tracking system. Finally, it plans to ascertain the feasibility of an online Form 3949-A and assess the level of technical expertise required for the needs of the process after considering the effects of the other 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/201240106fr.pdf>

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