



Treasury Inspector General for Tax Administration Office of Audit

ACTIONS ARE NEEDED TO ACCURATELY REFLECT CRIMINAL INVESTIGATION'S FRAUD REFERRAL EVALUATION PERIOD AND IMPROVE THE CRIMINAL FRAUD REFERRAL PROCESS

Issued on May 24, 2013

Highlights

Highlights of Report Number: 2013-30-051 to the Internal Revenue Service Chief, Criminal Investigation.

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 is not timely pursued, it can undermine the IRS's deterrence efforts. In addition, breakdowns in fraud investigation procedures can result in contact with the taxpayers that may potentially jeopardize Criminal Investigation's (CI) ongoing investigations.

WHY TIGTA DID THE AUDIT

Tax fraud is one of the most egregious forms of noncompliance. The overall objective of this review was to evaluate CI's role in the IRS National Fraud Program's efforts to increase the number of viable fraud referrals. This audit is included in TIGTA's Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

Fraud referrals made to CI in Fiscal Year 2012 have increased. This has subsequently resulted in an increase in the number of subject criminal investigations and prosecution recommendations. In addition, CI special agents provided thorough written feedback to the referring operating divisions when they rejected the referrals.

However, the reliability of data CI used to determine the timeliness of evaluating fraud referrals is questionable. CI management did not have complete or accurate information available to make decisions because CI used incorrect and/or inappropriate data when analyzing its timeliness performance measures. In addition, management did not establish goals for CI's timeliness measures. Furthermore, CI employees did not always ensure that taxpayer accounts were properly coded.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS 1) stress the importance of capturing correct fraud referral processing data, 2) modify the management information system or develop an alternative method to accurately calculate the fraud referral evaluation period, 3) establish goals for the fraud referral timeliness performance measures, 4) strengthen procedures to ensure that taxpayer accounts are properly coded, and 5) issue a reminder to periodically review reports to ensure that taxpayer accounts are properly coded.

In its response to the report, IRS management agreed with four of the five recommendations and has taken or plans to take corrective actions. IRS management partially agreed with Recommendation 3. Although IRS management did not agree to set a percentage goal for the performance measure, their commitment to the policy of addressing each fraud referral within the specified time frame is acceptable and will help to ensure that fraud referrals are expeditiously reviewed.

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/201330051fr.pdf>.

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