



*Improvements Are Needed to Correct
Continued Deficiencies in the Processing of
Taxpayer Referrals of Suspected Tax Fraud*

May 23, 2019

Reference Number: 2019-40-040

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HIGHLIGHTS

IMPROVEMENTS ARE NEEDED TO CORRECT CONTINUED DEFICIENCIES IN THE PROCESSING OF TAXPAYER REFERRALS OF SUSPECTED TAX FRAUD

Highlights

**Final Report issued on
May 23, 2019**

Highlights of Reference Number: 2019-40-040 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

Individuals and businesses use Form 3949-A, *Information Referral*, to report alleged violations of tax law to the IRS. In Fiscal Years 2016 through 2018, the IRS assessed taxes totaling \$246,996,731 based on these referrals from the public. The referrals provide the IRS with leads to identify individuals and businesses that are committing tax fraud.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate the accuracy of the IRS's intake processing of Forms 3949-A.

WHAT TIGTA FOUND

Although IRS management acknowledges the importance of the Information Referral program and agreed to take corrective actions in response to prior TIGTA and Government Accountability Office reviews, TIGTA found that IRS delays in implementing an online referral application resulted in wasted resources, and employees continue to erroneously process Forms 3949-A. TIGTA first recommended that the IRS study the feasibility of implementing an online referral application more than six years ago because it would reduce both taxpayer burden and referral processing costs. However, the IRS has yet to develop and offer taxpayers this capability.

TIGTA identified that improvements are needed to ensure that taxpayers can easily obtain information on how to report suspected tax fraud activity. For example, on the IRS's public website, key search words that the IRS intended

to generate the "How Do You Report Suspected Tax Fraud Activity?" web page do not bring up this web page in the search results.

The IRS does not accurately account for and track information referrals. Our review of four weekly Form 3949-A Inventory Reports prepared by employees identified significant discrepancies between the number of referrals recorded in the inventory and the number routed to IRS functions for review. In addition, our review of a sample of 31 Forms 3949-A sent for destruction from October 2017 to February 2018 identified 23 (74.2 percent) valid forms that employees should have routed to an IRS function for review.

Procedures do not ensure that information referrals written in languages other than English are sent to the appropriate IRS office for screening. Our review of e-mails documenting the forwarding of 388 Forms 3949-A to the Linguistic Policy, Tools, and Services Section for translation from May through August 2018 identified that many of these referrals were either not sent to the Linguistic Services or that office did not receive them.

Finally, employees continue to erroneously route a significant number of Forms 3949-A to the wrong IRS function for review.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS 1) develop guidelines to ensure that employees accurately account for and track Forms 3949-A, 2) issue guidance to employees to ensure that valid information referrals are not sent to retention, 3) develop procedures to ensure that all referrals prepared in a language other than English are timely sent to Linguistic Services, 4) develop procedures to track misrouted referrals, and 5) establish procedures to ensure that IRS functions coordinate to update the *Information Referral Routing Guide*.

IRS management agreed with all the recommendations and plans to take the appropriate corrective actions to develop and update procedures.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 23, 2019

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Improvements Are Needed to Correct Continued Deficiencies in the Processing of Taxpayer Referrals of Suspected Tax Fraud (Audit # 201840012)

This report presents the results of our review to evaluate the accuracy of the Internal Revenue Service's intake processing of tax fraud referrals. This review is included in our Fiscal Year 2019 Annual Audit Plan and addresses the major management challenge of Improving Tax Compliance.

Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).



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the Processing of Taxpayer Referrals of Suspected Tax Fraud*

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Abbreviations

FY	Fiscal Year
GAO	Government Accountability Office
ICT	Image Control Team
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration
W&I	Wage and Investment



Improvements Are Needed to Correct Continued Deficiencies in the Processing of Taxpayer Referrals of Suspected Tax Fraud

Background

To report suspected instances of Federal tax fraud, the Internal Revenue Service (IRS) advises individuals and businesses to complete Form 3949-A, *Information Referral*,¹ and mail it to the IRS's Fresno, California, Tax Processing Center. Instances of noncompliance with tax laws can include claims of false exemptions or deductions, kickbacks, false/altered documents, failure to pay tax, unreported income, organized crime, and failure to withhold tax. The individual preparing and submitting the form is asked to include details about the person or business being reported, the suspected tax fraud, how the fraud became known, when the fraud took place, the amount of money that may be involved, and any other information that may be relevant and helpful to the IRS. Submission of the form is voluntary and confidential. The IRS reports that it received 61,890 Forms 3949-A in Fiscal Year (FY)² 2018. Figure 1 provides the number of referrals the IRS reports that it received in FYs 2015 through 2018.

Figure 1: Forms 3949-A Received in FYs 2015 Through 2018

FY	Total Receipts
2015	89,213
2016	72,593
2017	67,046
2018	61,890
Total	290,742

Source: Form 3949-A Inventory Reports, as of September 29, 2018.

Individuals are directed to mail Form 3949-A to the IRS's Submission Processing function, where employees in the Image Control Team (ICT) track, screen, and route the form to an IRS functional area for further review. The ICT does not audit or investigate the alleged tax violations on the form.

¹ See Appendix IV for a copy of Form 3949-A.

² Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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Processing of information referrals

The IRS's Submission Processing function within the Wage and Investment (W&I) Division processes Forms 3949-A, *i.e.*, screening, tracking, and routing. The IRS process, after it receives a referral, includes the following steps:

- The ICT primary lead³ obtains referrals from the mailroom, counts the referrals, and sorts them in batches of 25 by IRS receipt date. The primary lead then places the batches of referrals on inventory “trucks” to be signed out by an ICT clerk for screening.
- ICT clerks sign out and date a batch of referrals from the inventory trucks for screening.
- The ICT clerks perform a preliminary review of the alleged tax violations to identify keywords and phrases written on the referral to determine whether the form can be worked by clerical staff or must be forwarded to a tax examining technician. Tax examining technicians screen referrals with more complex issues such as the Earned Income Tax Credit,⁴ capital gains, Criminal Investigation refund crimes, and return preparer misconduct.
- The ICT clerks and tax examining technicians screen the forms to determine the tax law violation and the IRS functional area to which the referral should be routed for additional review. This determination is made by identifying the boxes that the individual checked describing the alleged tax violation(s) - Section B3 (*Alleged Violations of Income Tax Law*) of Form 3949-A. Figure 2 provides the boxes on Form 3949-A that individuals can check to describe the alleged tax law violations.

Figure 2: Form 3949-A Alleged Tax Law Violations

Section B – Describe the Alleged Violation of Income Tax Law			
3. Alleged violation of income tax law. (Check all that apply.)			
<input type="checkbox"/> False Exemption	<input type="checkbox"/> Unsubstantiated Income	<input type="checkbox"/> Unreported Income	<input type="checkbox"/> Failure to Withhold Tax
<input type="checkbox"/> False Deductions	<input type="checkbox"/> Earned Income Credit	<input type="checkbox"/> Narcotics Income	<input type="checkbox"/> Failure to File Return
<input type="checkbox"/> Multiple Filings	<input type="checkbox"/> Public/Political Corruption	<input type="checkbox"/> Kickback	<input type="checkbox"/> Failure to Pay Tax
<input type="checkbox"/> Organized Crime	<input type="checkbox"/> False/Altered Documents	<input type="checkbox"/> Wagering/Gambling	<input type="checkbox"/> Other (describe in 5)

Source: Form 3949-A.

- The ICT clerks and tax examining technicians also look for keywords in Section B5 (*Comments*) of Form 3949-A that indicate possible tax law noncompliance, *e.g.*, false exemption, unreported income, organized crime, and failure to pay taxes or file a return. To the extent possible, tax examining technicians will try to verify the allegation listed on the referral by researching tax records in IRS systems. The ICT clerks place the referrals that meet the criteria for routing to an IRS function into the function's designated box.

³ The primary lead is the lead mail and file clerk responsible for receiving, counting, sorting, batching, and storing the information referrals until clerical staff can screen them.

⁴ A refundable Federal tax credit for low-income working individuals and families.



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The primary lead counts the referrals in the boxes each week, attaches Form 3210, *Document Transmittal*, and mails the referrals to the functions for further review.

- Referrals that do not meet the criteria for routing to an IRS functional area for further review, or do not contain sufficient information to make a determination as to further actions to be taken, are sent to retention, where they are retained⁵ for 90 days from the IRS receipt date before being destroyed. Before destroying the forms, an ICT quality improvement team analyst completes a weekly review of samples of Forms 3949-A in retention to verify whether the forms were correctly sent to retention.

Figure 3 provides IRS functional areas that received Forms 3949-A in FY 2018.

Figure 3: FY 2018 Volume of Routed Information Referrals by Functional Area

Classification Site	Total Forms 3949-A Received	Percentage of Total Receipts
Small Business/Self-Employed Division (SB/SE)	37,868	61.9%
Retention for Future Destruction	9,621	15.7%
W&I Division	5,873	9.6%
Other IRS Functional Areas	4,897	8.0%
Criminal Investigation	2,665	4.4%
Large Business and International Division	240	0.4%
Total	61,164	100.0%

Source: FY 2018 Information Referral Inventory Report.

This review was performed in the W&I Division in Fresno, California, and Andover, Massachusetts, and the SB/SE Division in Brookhaven, New York, during the period March through October 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁵ The IRS sends the referrals to retention if the taxpayer suspected of the tax fraud cannot be identified, if both Sections B3 and B5 are blank or illegible, or if the tax law violation cannot be determined.



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Results of Review

Information referrals provide productive leads to the IRS for identifying individuals and businesses that are committing tax fraud. For example, in FYs 2016 through 2018, the IRS assessed more than \$246 million in additional tax based on information referrals. When compared to examinations completed by the SB/SE and W&I Divisions in this period, the information referrals yielded a higher average tax assessment. Figure 4 provides a comparison of the examinations and tax assessments for Forms 3949-A with results from other sources of examinations.

Figure 4: Form 3949-A Examinations vs Other Sources for Examinations for FYs 2016 Through 2018

	SB/SE Division		W&I Division	
	Form 3949-A	Other Sources of Examinations	Form 3949-A	Other Sources of Examination
Total Examinations	6,636	1,214,048	6,750	1,406,448
Total Assessments	\$200,571,550	\$22,329,977,944	\$46,425,181	\$6,521,042,199
Average Assessment Per Examination	\$30,225	\$18,393	\$6,878	\$4,637

Source: Accounts Information Management System – Centralized Information System Reports for W&I and SB/SE Informant Examination Closures and Other Examination Closures.

Recognizing the significance this program has on tax administration and reducing the Tax Gap,⁶ both the Treasury Inspector General for Tax Administration (TIGTA) and the Government Accountability Office (GAO) have assessed the efficiency and effectiveness of the IRS's management of this program.⁷ For example, reviews include:

- In September 2012,⁸ we reported that the guidelines taxpayers use to report taxpayer fraud referrals are confusing and inconsistent, and that ineffective routing procedures and oversight allow some referrals to be misrouted to the wrong functions, while others are mistakenly considered unworkable and destroyed. IRS management agreed to take action

⁶ The Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.

⁷ See Appendix V for prior TIGTA and GAO report recommendations and IRS corrective actions completed to date.

⁸ TIGTA, Ref. No. 2012-40-106, *The Process for Individuals to Report Suspected Tax Law Violations Is Not Efficient or Effective* (Sept. 2012).



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to address our recommendations. In their response, management noted that they agreed that more formal screening guidelines, more structured reviews, and a refined feedback process would further improve this program.

- In February 2013,⁹ we reported that both SB/SE and W&I Division screeners improperly screened Forms 3949-A. Neither division had a routine review process to evaluate screened referrals not selected for examination. Additionally, the SB/SE Division did not have specific guidelines to ensure consistency among screeners when evaluating referrals. Management agreed to take action to address our five recommendations.
- In February 2016,¹⁰ the GAO reported that the IRS does not have an organizational structure for information referrals with clear leadership for defining objectives and outcomes for measuring cost-effectiveness and results. In addition, the IRS has incomplete documentation of procedures for the information referral process and has not documented procedures for supervisory review of referrals sent for destruction. Without procedures to address these control deficiencies, the IRS is compromised in its ability to know how effectively it is leveraging tax noncompliance information reported by the public. In response, management stated that they set up a cross-functional working group tasked with taking into account the findings reported to develop a streamlined, coordinated, and efficient process with appropriate internal controls for managing this important tax program.

Although IRS management acknowledges the importance of this program and agreed to take actions in response to the previously discussed reviews, we continue to identify a lack of sufficient management oversight as well as the lack of processes and procedures to accurately account for and track referrals. For example, information referrals are accounted for and tracked manually, resulting in data entry errors, and some information referrals continue to be erroneously routed to IRS functions or sent for destruction. Management has not taken actions to reduce the inherent risks associated with the manual processing of referrals. In addition, we found that despite the significant return on investment, the IRS has not prioritized the implementation of an online referral application. An IRS vendor estimated the cost of the application would be \$1 million. Such an online application would improve the submission, tracking, and review of referrals.

⁹ TIGTA, Ref. No. 2013-40-022, *Taxpayer Referrals of Suspected Tax Fraud Result in Tax Assessments, but Processing of the Referrals Could Be Improved* (Feb. 2013).

¹⁰ GAO, Report Ref. No. GAO-16-155, *IRS Referral Programs: Opportunities Exist to Strengthen Controls and Increase Coordination Across Overlapping Programs* (Feb. 2016).



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The IRS has not prioritized the development of an online referral application

More than six years ago, we first recommended that the IRS study the feasibility of implementing an online referral application¹¹ to reduce both taxpayer burden and referral processing costs. In September 2012, we reported:

Several Federal and State agencies employ an online version of their referral forms. An online referral process could facilitate accurate tracking of referrals received and their disposition. This type of process could also greatly reduce the costs compared to a paper-based referral process. In FY 2011, the clerical unit that processes Forms 3949-A cost approximately \$759,000. Finally, taxpayer burden would be reduced.

The IRS agreed with our recommendation and stated that it would determine the feasibility of developing an online Form 3949-A. W&I Division management began exploring the development of the application in June 2016 when they found that other IRS groups, such as the Whistleblower Office and Return Preparer Office, were exploring opportunities to automate taxpayer referral form submissions. The IRS estimated that building such an application in-house would cost about \$9.3 million. Because of this high cost, the IRS began exploring the use of a third-party contractor to develop the application using commercial off-the-shelf software. The contractor provided its proposal to the IRS in March 2017, with an estimated cost of \$1 million.

In this review, we again identified that 22 of the 50 State tax agencies offer an online version of their referral forms, while the IRS continues to manually process Forms 3949-A. This manual processing cost the IRS more than \$2 million from October 1, 2013, through September 30, 2018. However, the IRS's Chief Information Officer did not fund W&I Division management's \$1 million request to develop an online referral application for FY 2018. The Chief Information Officer assigned a low priority to the application and cited IRS budget constraints and limited information technology resources. W&I Division management again submitted a funding request to develop the online referral application for FY 2019.

The proposal outlined the development of an application that would guide users through a series of screens and questions for reporting suspected tax fraud activity and includes options for the user to describe the fraud and the individual or business that may have committed the fraud. The application would simplify the intake of information referrals, filter referrals to identify ones that are likely to yield a tax assessment, and interface with existing IRS case management software.¹² Once the application user provided the requested information, the application would route the Form 3949-A to the appropriate IRS functional area depending on the type of tax violation and taxpayer being reported, *i.e.*, individual or business. Finally, the application would provide

¹¹ TIGTA, Ref. No. 2012-40-106, *The Process for Individuals to Report Suspected Tax Law Violations Is Not Efficient or Effective* (Sept. 2012).

¹² Case management includes the processes for case creation, execution, maintenance, and closure.



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reporting capabilities on the aging of Forms 3949-A received, type of taxpayer being referred, status of the referral, and alleged unreported income. The IRS should implement this online application to address the significant deficiencies in its manual submission and processing of information referrals that we continue to identify and report. The application would also reduce the more than \$400,000 annual cost the IRS spends, on average, to manually process referrals.

Improvements Are Needed to Ensure That Taxpayers Can Easily Obtain Information on How to Report Suspected Tax Fraud Activity

Our review identified that some of the key search words the IRS intended to generate the “*How Do You Report Suspected Tax Fraud Activity?*” web page on IRS.gov do not bring up this web page. To assist taxpayers in identifying information on how to submit an information referral, the IRS identified 10 keywords¹³ that, when input by a taxpayer, would bring up the “*How Do You Report Suspected Tax Fraud Activity?*” web page. However, in July 2018, we searched IRS.gov using the 10 keywords and found:

- Two words (3949a and 3949-a) correctly returned the link “*How Do You Report Suspected Tax Fraud Activity?*” on the first page of the search results.
- Five other keywords that taxpayers would more likely use to query the website (fraud, fraudulent, referral, misconduct, and abuse) returned the same link, but the link appeared on pages 3 through 17 of the search results, requiring the user to scroll through the returned results to find it.
- The remaining three keywords (complaint, complaints, and evasion) do not return the link in the search results.

In our September 2012 report, we detailed that neither Form 3949-A nor IRS.gov provided taxpayers with a clear explanation of fraud activity that can be reported on Form 3949-A. We recommended that the IRS revise the IRS.gov website to ensure that taxpayers know the purpose of Form 3949-A. To address our recommendation, the IRS’s Information Referral Team¹⁴ collaborated with Online Services¹⁵ to update the keyword search for information referrals on IRS.gov to ensure that taxpayers could easily obtain information on reporting tax violations and fraud. However, when the team requested this update to the website in March 2017, the IRS was in the midst of a significant project to improve IRS.gov with recommendations from other

¹³ The 10 keywords are: 3949a, 3949-a, abuse, complaint, complaints, evasion, fraud, fraudulent, misconduct, and referral. The IRS identified these keywords in March 2017.

¹⁴ The IRS formed the Information Referral Team to address the GAO’s February 2016 audit findings. The team was led by officials in the W&I and SB/SE Divisions. The team summarized its results to provide options that will improve efficiencies in the referral programs and simplify the process for taxpayers.

¹⁵ Online Services is a functional area reporting directly to the Deputy Commissioner for Services and Enforcement and leads business transformation efforts focused on digital Government, improvements to the tax experience, and consistent enterprise-wide web service options.



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stakeholders. Online Services stated that the recommendations from the Information Referral Team were not accounted for and, therefore, IRS.gov was not updated with the keywords. When we notified the IRS that eight keywords do not generate the link “*How Do You Report Suspected Tax Fraud Activity?*” on the first page of the search results, Online Services officials stated that they will expedite an update to IRS.gov to address this deficiency.

Recommendation

Recommendation 1: The Commissioner, W&I Division, should ensure that IRS.gov is updated with the keywords that taxpayers use when seeking help on how to report tax law violations and fraud. All 10 keywords should generate the link, “*How Do You Report Suspected Tax Fraud Activity?*”

Management’s Response: The IRS agreed with this recommendation and has updated the IRS.gov search engine so that the link to the “*How Do You Report Suspected Tax Fraud Activity?*” page is returned when the 10 keywords are searched.

Information Referrals Are Still Not Accurately Accounted for and Tracked

We identified that Forms 3949-A sent to retention or routed to IRS functional areas from January through April 2018 were not accurately accounted for or tracked. Comparison of four weekly Form 3949-A Inventory Reports¹⁶ to corresponding Forms 3210, *Document Transmittal*, which are used to route information referrals to IRS functional areas, identified the following discrepancies:

- For the week ending January 6, 2018, Form 3210 recorded that the ICT sent 460 information referrals to the SB/SE Division office in Brookhaven, New York, but the Inventory Report identified that 544 referrals were sent.
- For the week ending February 24, 2018, the Inventory Report recorded that 85 information referrals were sent to retention. However, the quality improvement team analyst¹⁷ counted 194 referrals that were sent to retention during this period. In addition, Form 3210 recorded that 279 information referrals were sent to the Return Integrity and Compliance Services organization during this week, but these referrals were not recorded on the Inventory Report.

¹⁶ We evaluated one Inventory Report for one week in January, February, March, and April 2018.

¹⁷ The quality analyst is responsible for recounting all retained referrals received from the primary lead.



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- For the week ending March 17, 2018, Forms 3210 indicated that 363 referrals were sent to the W&I Division office in Andover, Massachusetts, but only 214 referrals were recorded on the Inventory Report.
- For the week ending April 7, 2018, Forms 3210 showed that five information referrals were sent to the SB/SE Division office in Brookhaven, New York, but 632 referrals were recorded on the Inventory Report.

The Inventory Reports are used by management to track referral receipts and develop staffing levels for screening the forms on a weekly basis. The inaccuracies we identified resulted from the lack of processes and procedures to ensure accurate recording and tracking. When we asked for the procedures for preparing the Inventory Reports, we were informed that the IRS has not developed written procedures.

There is a lack of separation of duties for the receipt and tracking of information referrals

We identified that one individual performs all duties to account for and track the referral inventory. This includes preparing daily and weekly Inventory Reports. On May 9, 2018, we notified IRS management of our concerns and recommended that the IRS develop written procedures to account for Forms 3949-A that are received, forwarded to functional areas, and sent to retention. In response, management agreed to explore opportunities to improve information referral processes to ensure that there is an accurate accounting of the forms. However, as of December 14, 2018, management has not updated internal guidelines to include accurately recording and tracking information referrals.

In February 2016, the GAO reported similar concerns with the ICT's inventory controls. The GAO recommended that the IRS establish, document, and implement supervisory review and segregation of duties for inventory management reporting procedures. The IRS generally agreed with the GAO's recommendation and created a cross-functional working group to develop a streamlined, coordinated, and efficient process with appropriate internal controls. When we asked why the IRS did not complete corrective actions to address the GAO's recommendations, management stated that they are still working to address this recommendation.

Recommendation

Recommendation 2: The Commissioner, W&I Division, should ensure that written internal guidelines are developed to accurately account for and track Forms 3949-A from receipt to forwarding to a functional area or to retention. Guidelines should also ensure adequate separation of duties for key Forms 3949-A inventory management processes.

Management's Response: The IRS agreed with this recommendation. IRS management is currently developing procedural guidance and plans to implement the



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guidance in June 2019. The final draft of the guidance will be published in the 2020 revision of the IRS's written internal guidelines.

Valid Information Referrals Continue to Be Erroneously Sent for Destruction

Our review of a judgmental sample¹⁸ of 31 of the reported 2,892 Forms 3949-A sent to retention from October 2017 to February 2018 identified that 23 (74.2 percent) were in fact valid referrals that met the IRS's criteria for routing to an IRS functional area for additional review. These 23 referrals were erroneously sent to retention as a result of verbal management processing instructions that conflicted with internal guidelines for processing referrals. For example, internal guidelines require ICT clerks to highlight the tax violations in Form 3949-A, Section B3 – *Alleged Violation of Income Tax Law*. The procedures also instruct the clerks to highlight any key words or phrases that the individual wrote in Section B5 – *Comments* because these words and phrases may further assist the screener in determining to which functional area the referral should be routed.

However, management instructed ICT clerks to highlight the tax law violation boxes in Section B3 ***but ignore this section if the individual wrote comments in Section B5***. As a result, clerks considered only the comments section when routing referrals to functional areas. In addition, management instructed the clerks to send Forms 3949-A to retention if the comments section did not include key words such as “false exemption,” “unreported income,” or “failure to file return.” For these referrals, the clerks were told to send the form to retention even if the individual checked a tax law violation box in Section B3.

In September 2012, we reported a similar issue. The IRS was destroying Forms 3949-A that should have been routed to a functional area for review. We recommended that the IRS develop an effective and efficient quality review process and tracking system. IRS management agreed to review procedures and evaluate steps to complete this recommendation. However, sufficient corrective actions were not taken to address the issue. On April 30, 2018, we once again notified Submission Processing function management of our concern that valid, workable referrals continue to be sent to retention as a result of inconsistent processes and procedures. Management acknowledged that referrals were erroneously sent to retention as a result of contradictory processes and procedures. Management added that there was a clerical quality and training issue and stated that they would provide feedback to reiterate the need for clerks to follow internal guidelines.

To follow up on management's corrective actions, we interviewed ICT clerks in July 2018 and found they were still following the same verbal instructions that conflict with internal guidelines. We again brought this matter to management's attention, but they could not explain why the ICT

¹⁸ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



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unit is still not following internal guidelines. When referrals are erroneously sent to retention, the IRS loses its ability to make tax assessments and enforce the tax laws.

Recommendation

Recommendation 3: The Commissioner, W&I Division, should ensure that written guidance is issued to the ICT unit emphasizing the requirement for ICT clerks to review both Sections B3 and B5 on Forms 3949-A and follow Internal Revenue Manual (IRM) procedures to prevent valid information referrals from being sent to retention.

Management's Response: The IRS agreed with this recommendation. IRS management stated that they issued an all-employee communication alert on February 4, 2019, instructing employees to follow IRM procedures without deviation. The guidance instructs employees on the correct procedures for evaluating Section B, lines 3 and 5, of Form 3949-A.

Processes and Procedures Do Not Ensure That Information Referrals Written in Languages Other Than English Are Sent for Screening

Our review of 26 e-mails documenting the forwarding of Forms 3949-A that were completed in languages other than English to the IRS's Linguistic Policy, Tools, and Services Section (hereafter referred to as Linguistic Services) for translation from May 18, 2018, through August 27, 2018, identified inaccuracies in the IRS's tracking log. A total of 388 referrals were detailed in the 26 e-mails sent for translation. Management identified the need to separately track referrals sent to Linguistic Services and created a log titled "*Informant Referral (3949-A) Translation Requests.*" This log is intended to account for forms requiring translation that are submitted to the IRS starting on May 18, 2018. Prior to May 18, 2018, the IRS did not maintain a log to account for information referrals sent to Linguistic Services for translation.

Our review identified discrepancies between the number of referrals detailed in the log and the number received by Linguistic Services. For example, the Informant Referral log shows that only 283 referrals were sent to Linguistic Services for translation, yet the 26 e-mails we reviewed identified 388 referrals sent, which is a difference of 105 referrals. A further discrepancy exists in that the tracking log maintained by Linguistic Services indicates 304 referrals were received, a difference of 84 referrals.

After we brought to management's attention the inconsistent tracking of referrals completed in languages other than English, the IRS issued an update to its internal guidelines on July 19, 2018, instructing the ICT to follow the guidelines for translating non-vital documents when it receives a Form 3949-A in a language other than English. These guidelines indicate that the ICT must complete and attach Form 14078, *Request for Translation and/or Quality Review Services*, along with the Form 3949-A to an e-mail for the translation request to be considered by Linguistic Services. Although management updated its guidelines, these updates do not address



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how often the ICT should send information referrals to Linguistic Services for translation. The IRS reports that 695 referrals were sent to Linguistic Services in FY 2018 for translation.

Recommendation

Recommendation 4: The Commissioner, W&I Division, should ensure that procedures are developed to timely send all referrals prepared in a language other than English to Linguistic Services for translation and screening.

Management's Response: The IRS agreed with this recommendation and updated its procedures on March 19, 2019, to require routing to Linguistic Services be done on at least a weekly basis.

Lack of Routing Guidance Continues to Result in Misrouted Information Referrals

Our review identified that the ICT continues to erroneously route a significant number of Forms 3949-A to the wrong IRS functional areas. For example, the ICT's misroute tracking sheets for FY 2018, as of July 27, 2018, indicate that the ICT misrouted 101 forms to the SB/SE Division office in Brookhaven, New York, and 44 to the SB/SE Division Examination office in Andover, Massachusetts. In addition, the Brookhaven SB/SE Division office's document transmittals indicate that this office returned 438 forms to the ICT during the same period, and the SB/SE Division Examination office's document transmittals indicate that this office returned 230 forms because the referrals did not meet the SB/SE Division's criteria for review. Thus, the ICT may have misrouted an additional 523 forms¹⁹ to these two functional areas.

To assist ICT clerks in routing referrals to responsible functional areas, the IRS developed the IRS's *Information Referral Routing Guide*. We identified that the guide does not provide sufficient procedures to ensure that Forms 3949-A are routed to the correct IRS functional areas. For example, procedures do not require functional areas, when returning misrouted referrals to the ICT, to include an explanation on why the referrals are being returned. The reasons why functional areas return the forms to the ICT would assist management in improving ICT screening and reduce the number of future misroutes. In addition, procedures are incomplete because they do not:

- Address how to process referrals that have issues related to multiple functional areas. For example, our evaluation of a judgement sample²⁰ of 40 Forms 3949-A received in the ICT unit in May 2018 identified eight that met the *Information Referral Routing Guide* criteria to be routed to multiple functional areas. Internal guidelines do not instruct ICT

¹⁹ $438 + 230 - 101 - 44 = 523$.

²⁰ We selected these information referrals randomly from the routing boxes in the ICT unit for the four major routing locations: W&I Division, Criminal Investigation, SB/SE Division, and Individual International Compliance.



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clerks on how to handle these types of referrals. On August 23, 2018, we notified management of our concern and recommended that they update their internal guidelines to address the routing of referrals that have issues to be addressed by multiple functional areas. Management agreed with our recommendation. The insufficient routing procedures we raised were also raised as a concern to management by ICT employees in October 2016, but management took no action to update the referral processing guidelines.

- Provide a current, complete, and accurate *Information Referral Routing Guide* to assist ICT clerks in accurately routing Forms 3949-A. For example, the Large Business and International Division was not listed in the guide, so ICT clerks could not route referrals that involve businesses having total assets of \$10 million or more. Our review of the routing guide found that nine of 33 routing locations listed in the *Information Referral Routing Guide* did not contain a street address, State, or zip code. In addition, 21 locations did not have a point of contact listed, and two points of contact who are listed are no longer responsible for receiving information referrals. As a result of the incorrect and outdated routing guide, between May 1, 2018, and August 16, 2018, the ICT unit incorrectly routed 243 information referrals to the Integrity Verification Office in Ogden, Utah. The referrals should have been shipped to the Integrity Verification Office in Lowell, Massachusetts. The IRS paid shipping costs to re-route these referrals to Lowell and, during the re-routing, one box of referrals was lost. The IRS is still unable to locate these referrals.

Repeated concerns have been raised about the misrouting of referrals, but little improvement has been made

The misrouting of information referrals and the need for the IRS to address this concern were raised in both our September 2012 and February 2013 reports. Specifically:

- In September 2012, we reported that referrals were often routed to incorrect locations. The IRS agreed, as we reported earlier, to evaluate the feasibility of developing an online Form 3949-A. In addition, the IRS noted that it would assess the level of expertise required for the routing process to reduce the number of information referrals routed to incorrect locations. However, Submission Processing function management only recently took action on this. In late Calendar Year 2018, management directed tax examining technicians to assist in the screening and routing process.
- In February 2013, we reported that the SB/SE and W&I Divisions received misrouted, incomplete, or unrelated information referrals. We recommended that the IRS implement procedures to include information about each misrouted information referral sent to another function or returned to the ICT. Although the IRS agreed with the recommendation, actions were not taken to address this finding.



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In addition, the GAO, in February 2016, reported that the lack of documented guidance on identifying and recording misroutes posed a risk that the IRS might be missing opportunities to identify the number and types of misroute errors and analyze ways to reduce misrouting. In response, the IRS formed a team to address the specific concerns raised in the GAO report, including a recommendation for “strengthening” the IRM and continuous communication to establish a mechanism to provide feedback on misrouted information referrals. The team was led by officials in the W&I and SB/SE Divisions. The Information Referral Team summarized the results of its review to provide options that will improve efficiencies in the referral programs and simplify the process for the taxpayer. Although the IRS has been repeatedly alerted to the misrouting of referrals, adequate processes and procedures have not been implemented and, as a result, this continues to be of significant concern.

The continued misrouting and lack of tracking of the misrouted referrals result from the lack of processes and procedures. We notified IRS management of our concerns and recommended they request that the functional areas return all misrouted referrals to the ICT and establish written procedures to track and process misrouted referrals. The procedures should include documenting the reason a referral was misrouted and analyzing trends to improve the routing process. Management agreed with our recommendation and stated that they will partner with the functional areas to develop a feedback tracking sheet and instructions. This corrective action is scheduled to be completed by mid-March 2019.

Recommendations

The Commissioner, W&I Division, should:

Recommendation 5: Develop procedures to track misrouted information referrals and request that the IRS functional areas return all misrouted information referrals to the ICT. The procedures should include documenting the reason an information referral was misrouted and analyzing trends to improve current screening and routing procedures.

Management’s Response: The IRS agreed with this recommendation and plans to coordinate with internal stakeholders to clarify the handling procedures for misrouted referrals and determine the feedback processes for misrouted referrals.

Recommendation 6: Update the IRM with a comprehensive prioritization list for routing all information referrals that meet the review criteria of multiple IRS functional areas.

Management’s Response: The IRS agreed with this recommendation and plans to coordinate with affected stakeholders to develop priority routing criteria, which will be incorporated into the IRM.

Recommendation 7: Establish written procedures to ensure that management coordinates with IRS functional areas to update the *Information Referral Routing Guide* with complete addresses and current points of contact.



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Management's Response: The IRS agreed with this recommendation and plans to establish a process for timely maintenance of the *Information Referral Routing Guide* list of addresses and points of contact.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the accuracy of the IRS's intake processing of tax fraud referrals. To accomplish our objective, we:

- I. Evaluated the IRS's controls for processing Form 3949-A, *Information Referral*.
 - A. Evaluated ICT procedures for recording and tracking Form 3949-A inventory.
 1. Reviewed procedures to determine how the IRS tracks Form 3949-A inventory and reconciles discrepancies between Form 3949-A Inventory Reports and Forms 3210, *Document Transmittal*.
 2. Discussed with Submission Processing function management the feasibility of implementing a numbering system to track information referrals.
 3. Selected a judgmental sample¹ of four weeks² of the ICT unit's Form 3949-A Inventory Reports from January through April 2018 to reconcile the referrals on those reports to the referrals routed to operating divisions via Forms 3210.
 4. Evaluated the ICT unit's procedures for reviewing Forms 3210 for which a discrepancy in the number of referrals routed to an operating division is identified.
 - a. Reviewed a judgmental sample of 14 Forms 3210 sent from Fresno to operating divisions for which an operating division identified a discrepancy.
 - b. Determined how the ICT unit updates its Form 3949-A Inventory Report when a Form 3210 discrepancy is identified.
 5. Reviewed the ICT unit's recording and tracking procedures for Forms 3949-A to determine if there were sufficient segregation of duties and managerial review.
 - B. Evaluated the IRS's procedures for screening Form 3949-A.
 1. Determined if policies and procedures for timely and accurately screening Forms 3949-A are adequate.

¹ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

² We evaluated one Inventory Report for one week in January, February, March, and April 2018.



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2. Determined if the IRS is timely screening Forms 3949-A by identifying the date the ICT is currently reviewing the forms and comparing this date to the IRS received date.
 3. Reviewed a judgmental sample of 31 information referrals in Fresno retention from October 2017 to February 2018 to determine if they met selection criteria for routing.
 4. Determined whether information referrals submitted in languages other than English are translated into English.
 - a. Determined how requests for translation are sent to Linguistic Services.
 - b. Identified the number of Forms 14078, *Request for Translation and/or Quality Review Services*, with Forms 3949-A and identified the documentation received from Linguistic Services.
 5. Evaluated employee screening concerns that ICT unit employees elevated, and determined if management timely and adequately addressed the employees' concerns.
 6. Reviewed a judgmental sample of 40 referrals screened and placed in the following buckets for routing to determine if referrals were properly screened based on the *Information Referral Routing Guide* (10 from each): W&I Division, SB/SE Division, Large Business and International Division, and Criminal Investigation.
- C. Evaluated the IRS's procedures for routing Information Referrals.
1. Determined whether all operating division routing locations in the IRM *Information Referral Routing Guide* have a current, accurate, and complete address and point of contact.
 2. Reviewed Fresno's procedures for handling a misroute that is returned from an operating division, determined what corrective actions are taken by the ICT, and determined how this information is used to improve processes.
 3. Evaluated the feasibility of developing a prioritization list for the tax law violations in Section B3 to assist the clerical staff on how to route forms that meet multiple operating divisions' routing criteria.
 4. Identified the number of referrals misrouted from Fresno to the W&I Division, SB/SE Division, Large Business and International Division, and Criminal Investigation for FY 2018 and discussed with management the reasons for the misroutes.



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- II. Evaluated the IRS's corrective actions on prior GAO/TIGTA audit findings for the referral process.
 - A. Evaluated and followed up on prior recommendations reported by the GAO and determined the IRS's implementation of corrective actions.
 - 1. Determined and evaluated the criteria for measuring and tracking costs associated with the Information Referral program.
 - 2. Determined the feasibility of implementing an online system for Forms 3949-A submissions, *i.e.*, reviewed the funding requests for FY 18 and FY 19, prioritization queue, and approval responsibilities.
 - B. Evaluated prior recommendations reported by TIGTA and the IRS's corrective actions.
 - 1. Determined if the IRS periodically communicates detailed information on misroutes from Fresno to the Submission Processing function.
 - 2. Determined if the IRS has revised IRS.gov content to more clearly explain the purpose and instructions for Form 3949-A.
 - 3. Determined if the Submission Processing function would be more efficient if more technical employees assume the responsibilities of processing Forms 3949-A.
 - 4. Determined if the IRS has assessed the value and costs of the Information Referral program and reassessed its prioritization within the organization.
 - C. Evaluated prior recommendations reported by the cross-functional working group in response to the 2016 GAO audit report.
 - 1. Researched the 10 keywords updated by the IRS to determine ease and accessibility to information pertaining to Form 3949-A.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the processes and procedures to ensure that the IRS was recording, tracking, screening, and routing information referrals and maintaining segregation of duties and managerial reviews. We tested these controls by reviewing the IRM, interviewing employees and management, and evaluating applicable documentation and reports.



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Appendix II

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Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Commissioner, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Director, Submission Processing, Wage and Investment Division
Chief, Program Evaluation and Improvement
Director, Office of Audit Coordination



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Appendix IV

Form 3949-A, Information Referral

Form 3949-A (April 2016)	Department of the Treasury - Internal Revenue Service Information Referral <small>(See instructions on reverse)</small>	OMB Number 1545-1980
<small>Use this form to report suspected tax law violations by a person or a business.</small>		
CAUTION: READ THE INSTRUCTIONS BEFORE COMPLETING THIS FORM. There may be other more appropriate forms specific to your complaint. <small>(For example, if you suspect your identity was stolen, use Form 14033.)</small>		
Section A – Information About the Person or Business You Are Reporting		
<small>Complete 1, if you are reporting an individual. Complete 2, if you are reporting a business only. Complete 1 and 2 if you are reporting a business and its owner. (Leave blank any lines you do not know.)</small>		
1a. Name of individual	b. Social Security Number/TIN	c. Date of birth
d. Street address	e. City	f. State <input type="text"/> g. ZIP code <input type="text"/>
h. Occupation	i. Email address <input type="text"/>	
j. Marital status (check one, if known) <input type="checkbox"/> Married <input type="checkbox"/> Single <input type="checkbox"/> Head of Household <input type="checkbox"/> Divorced <input type="checkbox"/> Separated		k. Name of spouse <input type="text"/>
2a. Name of business	b. Employer Tax ID number (EIN)	c. Telephone number <input type="text"/>
d. Street address	e. City	f. State <input type="text"/> g. ZIP code <input type="text"/>
h. Email address	i. Website <input type="text"/>	
Section B – Describe the Alleged Violation of Income Tax Law		
3. Alleged violation of income tax law. (Check all that apply.)		
<input type="checkbox"/> False Exemption	<input type="checkbox"/> Unsubstantiated Income	<input type="checkbox"/> Unreported Income
<input type="checkbox"/> False Deductions	<input type="checkbox"/> Earned Income Credit	<input type="checkbox"/> Narcotics Income
<input type="checkbox"/> Multiple Filings	<input type="checkbox"/> Public/Political Corruption	<input type="checkbox"/> Kickback
<input type="checkbox"/> Organized Crime	<input type="checkbox"/> False/Altered Documents	<input type="checkbox"/> Wagering/Gambling
<input type="checkbox"/> Failure to Withhold Tax		
<input type="checkbox"/> Failure to File Return		
<input type="checkbox"/> Failure to Pay Tax		
<input type="checkbox"/> Other (describe in 5)		
4. Unreported income and tax years		
<small>Fill in Tax Years and dollar amounts, if known (e.g., TY 2010–\$10,000)</small>		
TY <input type="text"/> \$ <input type="text"/>	TY <input type="text"/> \$ <input type="text"/>	TY <input type="text"/> \$ <input type="text"/>
5. Comments (Briefly describe the facts of the alleged violation-Who/What/Where/When/How you learned about and obtained the information in this report. Attach another sheet, if needed.)		
6. Additional information. Answer these questions, if possible. Otherwise, leave blank.		
a. Are book/records available? (If available, do not send now. We will contact you, if they are needed for an investigation.)		
		<input type="checkbox"/> Yes <input type="checkbox"/> No
b. Do you consider the taxpayer dangerous?		
		<input type="checkbox"/> Yes <input type="checkbox"/> No
c. Banks, Financial Institutions used by the taxpayer		
Name <input type="text"/>	Name <input type="text"/>	
Street address <input type="text"/>	Street address <input type="text"/>	
City <input type="text"/>	State <input type="text"/>	ZIP code <input type="text"/>
City <input type="text"/>	State <input type="text"/>	ZIP code <input type="text"/>
Section C – Information About Yourself		
<small>(We never share this information with the person or business you are reporting.)</small>		
<small>This information is not required to process your report, but would be helpful if we need to contact you for any additional information.</small>		
7a. Your name <input type="text"/>	b. Telephone number <input type="text"/>	c. Best time to call <input type="text"/>
d. Street address <input type="text"/>	e. City <input type="text"/>	f. State <input type="text"/> g. ZIP code <input type="text"/>
Please print and send your completed form to: Internal Revenue Service Stop 31313 Fresno, CA 93888		



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Appendix V

Prior Recommendations and Corrective Actions

TIGTA Reference No. 2012-40-106 ¹	
Recommendation	Corrective Action
The Commissioner, W&I Division, should revise IRS.gov to ensure that taxpayers know the intended purpose of Form 3949-A, <i>Information Referral</i> . It should state that the Form 3949-A is not to be used to report identity theft or complaints against tax return preparers and provide instruction and/or links for how to report those issues.	IRS management agreed with this recommendation. The IRS will revise IRS.gov content to more clearly explain the purpose of Form 3949-A and clarify instructions on reporting issues for which specialized forms have been developed.
The Commissioner, W&I Division, should improve internal and external guidance for reporting identity theft and revise Form 3949-A, along with its instructions, to state that Form 3949-A should not be used for reporting identity theft. In addition, ensure that the language and information is consistent with internal and external guidelines and that the intended purpose is fraud and/or tax law violations.	IRS management agreed with this recommendation and is revising Form 3949-A to indicate that it should not be used for reporting identity theft and other issues. The IRS developed a desk guide for clerical staff and began training on July 16, 2012, for its use.
The Commissioner, W&I Division, should ensure that an IRS-wide coordinated process is implemented to provide guidance for timely and effective processing Forms 3949-A. This should include ensuring that Forms 3949-A reporting claims of identity theft are expedited to the appropriate Identity Theft unit for processing and forwarded as regular correspondence in the Accounts Management function.	IRS management agreed with this recommendation and will review current procedures for necessary changes, including the expedited routing of forms reporting claims of identity theft.
The Commissioner, W&I Division, should implement controls that include developing formal IRM procedures, ensuring that all employees have updated procedures for routing documents, developing an effective and efficient quality review process, and developing a tracking system that captures Form 3949-A, including identifying the forms that require rerouting.	IRS management agreed with this recommendation and recently developed a clerical staff desk guide. The IRS will also review current procedures and evaluate steps to ensure a more effective quality review process and tracking system.

¹ *The Process for Individuals to Report Suspected Tax Law Violations Is Not Efficient or Effective* (Sept. 2012).



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TIGTA Reference No. 2012-40-106 ¹	
Recommendation	Corrective Action
The Commissioner, W&I Division, should conduct a feasibility study for developing an online Form 3949-A which ensures that sufficient information is collected to allow forms to be routed directly to the appropriate function for classification.	The IRS will ascertain the feasibility of developing an online Form 3949-A; however, it believes a prudent course of action would be to implement other recommended actions so their effects on the accuracy and volume of forms submitted can be considered.
The Commissioner, W&I Division, should evaluate the Accounts Management function clerical unit routing process to determine whether it would be more efficient if more technical employees assumed the responsibilities of processing Forms 3949-A.	As part of the IRS's evaluation on the feasibility of developing an online Form 3949-A, it will consider the effects other corrective actions have had on the handling and routing of the form and will assess the level of technical expertise required for the needs of the process.

TIGTA Reference No. 2013-40-022 ²	
Recommendation	Corrective Action
The Commissioner, W&I Division, should ensure that the W&I Division periodically communicates more detailed information on misroutes and its needs to the Accounts Management function. This will ensure that referrals are more likely to be referrals the division can pursue and work.	The IRS agreed with this recommendation. The W&I Division's Compliance function partnered with the Accounts Management function and the SB/SE Division Campus Examination function and developed a revised routing system to alleviate misroutes. The SB/SE Division met and will continue to meet with the Accounts Management function on a biannual basis to communicate misroute information and provide feedback as it relates to referrals.
The Commissioners, SB/SE and W&I Divisions, should ensure that the program is routinely and periodically reviewed to ensure the quality of screeners' work, evaluate and identify additional training needs, identify procedures that need improvements, and improve its screening process.	The IRS agreed with this recommendation. The SB/SE Division Campus Compliance Service will continue periodic program reviews, and the W&I Division Reporting Compliance function will establish a product review and provide feedback to the Accounts Management function as appropriate.
The Commissioner, SB/SE Division, should enhance existing screening guidelines and provide more specificity to assist screeners in identifying and retaining quality referrals for case building and to provide more consistency to the screening process.	The IRS agreed with this recommendation. The SB/SE Division Campus Compliance Services will work with the SB/SE Division Examination function to better define case-building criteria.

² *Taxpayer Referrals of Suspected Tax Fraud Result in Tax Assessments, but Processing of the Referrals Could Be Improved* (Feb. 2013).



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TIGTA Reference No. 2013-40-022 ²	
Recommendation	Corrective Action
The Commissioners, SB/SE and W&I Divisions, should implement or enhance procedures to include information about each misrouted referral returned to the Accounts Management function or sent to any other office on Form 3210, <i>Document Transmittal</i> . In addition, once the IRS implements the corrective actions resulting from the previous TIGTA report, W&I and SB/SE Division management should reassess the feasibility of tracking all referrals sent to the Federal Records Center. This would allow managers to ensure that the divisions received and processed specific referrals and help them determine how screeners handled them.	The IRS agreed with this recommendation. However, the IRS responded that, while it agreed individual feedback on each rejected referral would help prevent future inappropriate referrals, doing so on such a large volume of cases prior to implementation of corrective actions agreed to in the prior TIGTA audit report would be premature. The IRS stated that once it implements corrective actions from the prior TIGTA audit report, it will reconsider this recommendation.
The Commissioner, W&I Division, should assess the value of the Form 3949-A program once the IRS implements the corrective actions resulting from the prior TIGTA report.	The IRS will assess the value of the Form 3949-A program once the Accounts Management function implements the corrective actions resulting from the prior TIGTA audit report.



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GAO Report No. GAO-16-155 ³	
Recommendation	Corrective Action
<p>We recommend the Commissioner of the IRS:</p> <ul style="list-style-type: none"> Establish and implement an organizational structure identifying responsibility for defining objectives with an appropriate line of reporting for measuring costs and results for information referrals. Ensure that the IRM has controls for processing information referrals by implementing procedures for maintaining and communicating the referral screening and routing guidelines to ICT and IRS units receiving referrals as well as procedures for ICT screening and routing operations. Establish, document, and implement supervisory review and segregation of duties for inventory management reporting procedures. Establish, document, and implement ongoing monitoring of information referrals retained for destruction, including a mechanism for tracking the reasons referrals were retained prior to destruction. Establish and implement procedures for each IRS operating unit receiving information referrals to provide feedback on the number and types of referrals misrouted and on their disposition, and a mechanism to analyze patterns of misroute errors. Establish a coordination mechanism to facilitate communication and information sharing across IRS referral programs on crosscutting tax issues and ways to improve efficiency in the mechanisms for public reporting of possible tax violations. Direct the referral programs to coordinate on a plan and timeline for developing a consolidated, online referral submission to better position the IRS to leverage specialized expertise while exploring options to further consolidate the initial screening operations. 	<p>"In an e-mail received February 9, 2016, IRS indicated through the Office of Audit Coordination that it generally agreed with our recommendations. In its letter, IRS stated that our report identified several opportunities for improving the information referral process, and in response, IRS set up a new cross-functional working group to develop a streamlined, coordinated and efficient process with appropriate internal controls. IRS also plans to explore the feasibility of a single referral form and consider offering a secure online option for the public to submit referrals to IRS. IRS stated that it is identifying the specific actions, responsible officials, and implementation timelines to address our recommendations."</p>

³ *IRS REFERRAL PROGRAMS: Opportunities Exist to Strengthen Controls and Increase Coordination across Overlapping Programs* (Feb. 2016).



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Appendix VI

Information Referral Routing Locations

Box	Issue Identification Phrase	Routing Location
1	Criminal Investigation – Terrorism	Bethpage, New York
2	Criminal Activity	Washington, D.C. Andover, Massachusetts Holtsville, New York
3	Physical Items	Fresno, California
4	Debit Cards	Fresno, California
5	Frivolous/Tax Avoidance	Ogden, Utah
6	IRS Employee Misconduct, Threats, Impersonation	TIGTA, Washington, D.C.
7	Form 211, Whistleblower Office	Ogden, Utah
8	Reward Request Form 211 (complainant not identified)	Ogden, Utah
9	Reward Request Without Form 211	Ogden, Utah
10	Missing/Lost/Stolen Refund	Fresno, California
11	Tax Exempt and Government Entities (TE/GE) Division – Exempt Organizations	Dallas, Texas
12	TE/GE Division – Employee Plans	El Monte, California
13	TE/GE Division – Tax Exempt Bonds	Dallas, Texas
14	TE/GE Division – Indian Tribal Government	Dallas, Texas
15	Federal/State/Local Government	Dallas, Texas
16	Identity Theft (IDT)	Fresno, California
17	Self-Reporting IDT w/Police Report and No Form 3949-A	Fresno, California



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Box	Issue Identification Phrase	Routing Location
18	Business Master File IDT	Cincinnati, Ohio
19	Estate Gift and Tax Unit	Covington, Kentucky
20	Return Preparer Misconduct (RPM)	Atlanta, Georgia
21	RPM With or Without Form 14157-A, <i>Tax Return Preparer Fraud or Misconduct Affidavit</i> , and SSN [Social Security Number] Owner Is Seeking Victim Assistance	Fresno, California
22	Form 3949, <i>Information Report Referral</i>	Review Lines 9–14 on Form 3949 for routing location
23	Live Returns and/or Forms 1040, <i>U.S. Individual Income Tax Return</i> ; Form 1040X, <i>Amended U.S. Individual Income Tax Return</i>	Fresno, California
24	Form 4442, Inquiry Referral	Treat as misroute and return to sender
25	Collection Issues Lien, Levy Only	Nashville, Tennessee
26	Innocent Spouse With Form 8857, <i>Request for Innocent Spouse Relief</i>	Cincinnati, Ohio
27	Phishing	Fredericksburg, Virginia
28	Child Support (no other issue)	Retention, Fresno, California
29	Capital Gain, Kickbacks, Sale of Property, <i>etc.</i> (see <i>income requirements for routing</i>)	Holtsville, New York Washington, D.C.
30a	Large Business and International Division (overseas/foreign)	Philadelphia, Pennsylvania
30b	Large Business and International Division (business or corporation)	Ogden, Utah
31	Dependent/Exemption With Earned Income Tax Credit	Andover, Massachusetts
32	Filing Status (Forged Signature), Dependent/Exemption With No Earned Income Tax Credit	Andover, Massachusetts

Source: IRM Information Referral Routing Guide as of November 9, 2018.



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the Processing of Taxpayer Referrals of Suspected Tax Fraud*

Appendix VII

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

MAY 06 2019

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin 
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Improvements Are Needed to Correct
Continued Deficiencies in the Processing of Taxpayer Referrals
of Suspected Tax Fraud (Audit # 201840012)

Thank you for the opportunity to review and comment on the subject draft report. The Information Referral Program provides the public with a mechanism through which suspected non-compliance with tax laws or violations may be reported to the IRS. Form 3949-A, Information Referral, is used to report alleged violations of tax law by individuals and businesses. The form is designed to capture as much pertinent information as possible to identify who is being reported, the activity being reported, how the activity became known, when the alleged violation(s) took place, the amount of money involved and any other information that might be helpful in assessing the referral and determining appropriate actions.

We continue to agree with your previous recommendation on automating the Form 3949-A intake process. It is a paper-based process that is both manually intensive and open to human error, as much of the information to be evaluated is subjective in nature. An automated online intake system has been identified as a business need and requests were submitted for its development and/or acquisition. The request for fiscal year 2018 funding to acquire the system was superseded by other IRS projects that were deemed to be more critical. It is misleading to state, as is done in the report, that the IRS has not prioritized the development of the online referral application without providing the context of projects that were funded in fiscal year 2018. These projects include systems analyzing abusive tax schemes, eAuthentication monitoring and analytics, secure taxpayer digital communications capability, continuous criminal background monitoring of e-file service providers, and other projects that will modernize our systems and secure them against emerging external threats. We provided a complete list of the approved projects for fiscal year 2018 to the audit team on February 26, 2019. Our funding request for fiscal year 2019 is under consideration.



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the Processing of Taxpayer Referrals of Suspected Tax Fraud*

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Attached are our comments and planned corrective actions to your recommendations. We agree with the recommendations contained in the report and have already completed three. The remaining four are on schedule for implementation by January 2020. If you have any questions, please contact me or a member of your staff may contact James P. Clifford, Director, Customer Account Services, Wage and Investment Division at 470-639-3504.

Attachment



Improvements Are Needed to Correct Continued Deficiencies in the Processing of Taxpayer Referrals of Suspected Tax Fraud

Attachment

Recommendations

RECOMMENDATION 1

The Commissioner, W&I Division, should ensure that IRS.gov is updated with the keywords that taxpayers use when seeking help on how to report tax law violations and fraud. All ten keywords should generate the link, "How Do You Report Suspected Tax Fraud Activity?"

CORRECTIVE ACTION

We agree with this recommendation and have updated the IRS.gov search engine so that the link to the "How Do You Report Suspected Tax Fraud Activity?" page is returned when the ten keywords are searched.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Commissioner, W&I Division, should ensure that written internal guidelines are developed to accurately account for and track Forms 3949-A from receipt to forwarding to a functional area or being sent to retention. Guidelines should also ensure adequate separation of duties for key Forms 3949-A inventory management processes.

CORRECTIVE ACTION

We agree with this recommendation. Procedural guidance is being developed and expected to be completed and implemented in June 2019. The final draft of the guidance will be published in the 2020 revision of the Internal Revenue Manual (IRM).

IMPLEMENTATION DATE

January 15, 2020

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division



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CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 3

The Commissioner, W&I Division, should ensure that written guidance is issued to the ICT unit emphasizing the requirement for ICT clerks to review both Sections B3 and B5 on Forms 3949-A and follow IRM procedures to prevent valid information referrals from being sent to retention.

CORRECTIVE ACTION

We agree with this recommendation. On February 4, 2019, an all-employee communication was issued via the Servicewide Electronic Research Program, Alert 19A0060, instructing employees to follow the guidance provided by IRM 3.10.72.19, 3949-A Information Referral Program, without deviation. The guidance at IRM 3.10.72.19 (5) and (7) instructs employees on the correct procedures for evaluating Section B, lines 3 and 5.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 4

The Commissioner, W&I Division, should ensure that procedures are developed to timely send all referrals prepared in a language other than English to Linguistic Services for translation and screening.

CORRECTIVE ACTION

We agree with this recommendation. On March 19, 2019, IRM 3.10.72.19 (10) was updated to require routing to Linguistic Services be done on at least a weekly basis.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division



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CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendations

The Commissioner, W&I Division, should:

RECOMMENDATION 5

Develop procedures to track misrouted information referrals and request that the IRS functional areas return all misrouted information referrals to the ICT. The procedures should include documenting the reason an information referral was misrouted and analyzing trends to improve current screening and routing procedures.

CORRECTIVE ACTION

We agree with this recommendation and will coordinate with internal stakeholders to clarify the handling procedures for misrouted referrals and determine the feedback processes for misrouted referrals.

IMPLEMENTATION DATE

January 15, 2020

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 6

Update the IRM with a comprehensive prioritization list for routing all information referrals that meet the review criteria of multiple IRS functional areas.

CORRECTIVE ACTION

We agree with this recommendation and will coordinate with affected stakeholders to develop priority routing criteria, which will be incorporated into the IRM.

IMPLEMENTATION DATE

October 15, 2019

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division



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CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 7

Establish written procedures to ensure that management coordinates with the IRS functional areas to update the *Information Referral Routing Guide* with complete addresses and current points of contact.

CORRECTIVE ACTION

We agree with this recommendation and will establish a process for timely maintenance of the *Information Referral Routing Guide* list of addresses and points of contact.

IMPLEMENTATION DATE

October 15, 2019

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.