



February 2016

IRS REFERRAL PROGRAMS

Opportunities Exist to
Strengthen Controls
and Increase
Coordination across
Overlapping
Programs

GAO Highlights

Highlights of [GAO-16-155](#), a report to congressional requesters

Why GAO Did This Study

Reports by the public of suspected underreporting of taxes or other tax violations can help IRS detect millions of dollars in taxes that would otherwise go uncollected. Productive referrals can help address the net \$385 billion tax gap—the difference between the amount of taxes paid voluntarily on time and the amount owed. IRS received about 87,000 information referrals in fiscal year 2015.

GAO was asked to assess the overall effectiveness of the information referral process. This report (1) describes IRS's process for screening and routing information referrals; (2) assesses the controls for the information referral screening and routing process; and (3) evaluates the coordination between the information referral process, the Whistleblower Office, and other IRS referral programs. GAO reviewed IRS guidance, processes, and controls for the information referral process, assessed whether IRS's processes followed *Standards for Internal Control in the Federal Government*, and interviewed IRS officials.

What GAO Recommends

GAO recommends, among other things, that IRS establish an organizational structure that identifies responsibility for defining objectives and for measuring results for information referrals; document procedures for the information referral process; and establish a coordination mechanism across IRS referral programs. IRS agreed with GAO's recommendations.

View [GAO-16-155](#). For more information, contact Jessica Lucas-Judy at (202) 512-9110 or lucasjudj@gao.gov.

February 2016

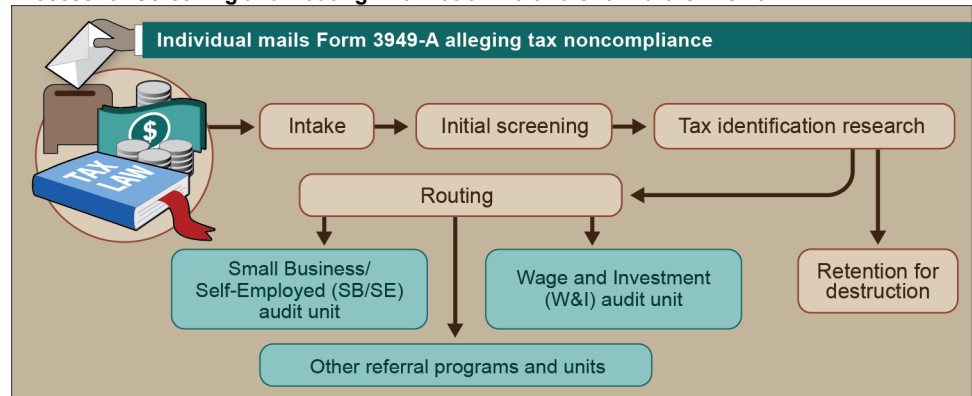
IRS REFERRAL PROGRAMS

Opportunities Exist to Strengthen Controls and Increase Coordination across Overlapping Programs

What GAO Found

Information referrals from the public alleging tax noncompliance must be submitted on paper forms by mail to the Internal Revenue Service (IRS). These referrals are manually screened by clerical staff and routed by mail to units across IRS for further action, as shown in the figure.

Process for Screening and Routing Information Referrals for Further Review



Source: GAO analysis of IRS information. | GAO-16-155

Ineffective internal controls undercut IRS management of the information referral process. IRS does not have an organizational structure for information referrals with clear leadership for defining objectives and outcomes for measuring cost-effectiveness and results. Without clear leadership, IRS does not know how effectively it is leveraging information referrals to address the tax gap. IRS has incomplete documentation of procedures for the information referral process, increasing the risk of delays and added costs in routing the information for further action. Although one-quarter of the information referrals in fiscal year 2015 were sent for destruction after screening, IRS has not documented procedures for supervisory review of those referrals prior to destruction. Without procedures to address these control deficiencies, IRS is compromised in its ability to know how effectively it is leveraging tax noncompliance information reported by the public.

Fragmentation and overlap across IRS's general information referral process and eight specialized referral programs, such as for reporting identity theft and misconduct by return preparers, can confuse the public trying to report tax noncompliance to IRS. Yet coordination between referral programs is limited, and IRS does not have a mechanism for sharing information on crosscutting issues and collaborating to improve the efficiency of operations across the mix of referral programs. As a result, IRS may be missing opportunities to leverage resources and reduce the burden on the public trying to report possible noncompliance.

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Abbreviations

CI	Criminal Investigation Division
EITC	Earned Income Tax Credit
ICT	Image Control Team
IDRS	Integrated Data Retrieval System
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed Division
TE/GE	Tax Exempt and Government Entities Division
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
W&I	Wage and Investment Division

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February 23, 2016

The Honorable Orrin Hatch
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Charles E. Grassley
Chairman
Committee on the Judiciary
United States Senate

The Honorable Peter Roskam
Chairman
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

One of the ways the Internal Revenue Service (IRS) promotes voluntary compliance is by collecting revenue from noncompliant taxpayers—giving honest taxpayers confidence that others are paying their fair share. To do so, IRS leverages external resources to identify tax revenue that would otherwise go uncollected: these external resources include referrals from the public that provide information about suspected tax noncompliance by individuals and businesses, as well as by government and tax-exempt entities. Proceeds from productive referrals can help reduce the tax gap—the estimated difference between the taxes paid voluntarily on time and what taxpayers actually owe.¹ IRS estimated that for tax year 2006, the \$450 billion gross tax gap included \$376 billion in underreporting on tax returns, \$46 billion due in delinquent tax debt, and \$28 billion due in unfiled tax returns. IRS estimates that it will eventually recover about 14 percent (\$65 billion) of the gross tax gap through late payments and enforcement actions, including collection.

¹See GAO's key issues page for additional information on the tax gap:
http://www.gao.gov/key_issues/tax_gap/issue_summary.

Individuals can report alleged tax noncompliance by individuals and businesses to IRS using IRS's *Information Referral* (Form 3949-A), which covers underreporting of income, false claims of tax benefits, failure to file a return, and failure to withhold and pay taxes. Individuals submitting an information referral can report alleged tax noncompliance anonymously. Those seeking a financial award instead are to file their claims using Form 211 with the IRS Whistleblower Office. IRS also has other specialized referral programs handling identity theft, misconduct by tax return preparers, or wrongdoing by tax-exempt organizations.

During fiscal year 2015, IRS had over 1 million visits to its tax fraud reporting web page which identifies several IRS referral forms available to report alleged tax noncompliance. IRS received over 87,000 information referrals. IRS faces the challenge of screening the volume of these information referrals—which cover a range of tax issues—and of identifying those with the greatest potential to help IRS collect tax revenue that would otherwise go uncollected. Resource limitations and interest in minimizing taxpayer burden result in IRS auditing a small fraction of the total number of tax returns filed for a given tax year.² Targeting audits to noncompliant returns reduces the burden on compliant taxpayers.

The Treasury Inspector General for Tax Administration (TIGTA) has previously reported on limitations with IRS handling of information referrals. In September 2012, TIGTA found the instructions for Form 3949-A were confusing and submission of incomplete referrals was not useful for IRS follow-up. About 3,000 identity theft reports incorrectly submitted on the information referral form were destroyed by IRS due to a lack of procedures on how to process these claims.³ In February 2013, TIGTA found that IRS units did not have routine processes to screen referrals for audit follow-up.⁴ In response, IRS took steps to revise the

²An IRS audit (also called examination) is where correspondence is sent to taxpayers asking them to provide information about an item on their tax return, or taxpayers' books and records are reviewed to determine whether information such as income, expenses, and credits are being reported accurately.

³Treasury Inspector General for Tax Administration (TIGTA), *The Process for Individuals to Report Suspected Tax Law Violations Is Not Efficient or Effective*, Ref. No. 2012-40-106 (Washington, D.C.: Sept. 10, 2012).

⁴TIGTA, *Taxpayer Referrals of Suspected Tax Fraud Result in Tax Assessments, but Processing of the Referrals Could Be Improved*, Ref. No. 2013-40-022 (Washington, D.C.: Feb. 20, 2013).

information referral form and its instructions and set up an agency-wide coordination team to develop information referral screening guidelines.

You asked us to assess the overall effectiveness of IRS's information referral process. This report (1) describes IRS's process for screening and routing information referrals and for prioritizing information referrals within the IRS audit workload; (2) assesses the controls for the information referral screening and routing process; and (3) evaluates the coordination between the information referral process, the Whistleblower Office, and other IRS referral programs.

For the first objective, we reviewed IRS documents describing the information referral screening and routing process, including the Internal Revenue Manual (IRM)⁵ and Form 3949-A Screening and Routing Guidelines (the guidelines). We interviewed IRS officials responsible for maintaining the guidelines and those overseeing the screening and routing process and in March 2015 we observed the information referral screening process in Fresno, California. We analyzed data on the volume of information referrals received and routed to operating divisions for fiscal years 2012 through 2015. Based on our testing of the data and review of documentation and interviews, we identified several discrepancies in the information referral inventory reporting (described later in this report) but determined that the data were reliable for the purposes of this report. We reviewed IRS policy and procedure documents that describe the processes for screening, classifying, prioritizing, and selecting Form 3949-A for audit. We also interviewed IRS audit officials responsible for these processes in the Wage and Investment (W&I) and Small Business/Self-Employed (SB/SE) divisions because they receive about two-thirds of the referrals sent for review, and in the Criminal Investigation (CI) division, which receives referrals involving possible large dollar value or broader schemes. In addition, we analyzed data from the Audit Information Management System on referral audits closed in fiscal years 2012 through 2015 and the recommended tax assessments. Based on our testing of the data and review of documentation and interviews, we determined that these data were reliable for the purposes of this report.

⁵The IRM can be accessed at <https://www.irs.gov/irm/>.

For the second objective, we reviewed the existing internal controls for the information referral screening process and assessed whether the procedures adhered to relevant *Standards for Internal Control in the Federal Government*.⁶ To assess how IRS implements its procedures and controls, we used the guidelines and other procedure documents as criteria. We also reviewed inventory data including data on misrouted referrals returned by other IRS units for fiscal years 2012 through 2015, and we interviewed IRS officials on misrouted referrals. Based on our review of the data and interviews, we determined that the misroute data were not reliable for the purposes of this report because the total number of misroutes is unknown as not all misrouted referrals are properly identified and recorded. In addition, we reviewed a nongeneralizable sample of 38 referrals—selected using a systematic sample from among the 5,935 referrals retained for destruction from January through March 2015—to check whether IRS followed its procedures.⁷ We also reviewed 12 referrals related to child identity theft out of 155 referrals that were retained for destruction in March 2015—to follow-up on information obtained during the site visit regarding Image Control Team (ICT) clerical staff screening of referrals alleging child identity theft. Finally, we interviewed IRS officials about the processes and controls for the guidelines and screening process and to discuss any potential deficiencies we identified.

For the third objective, we reviewed referral programs with specialized forms for reporting identity theft, fraud by tax return preparers, abusive tax promotions, and misconduct by tax-exempt organizations. We analyzed and compared IRS forms used in the referral programs to identify common information items as well as information specific to each program. We also drew on information and analysis from our October

⁶GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). A newer version of the standards (see GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014)) took effect in fiscal year 2016. Because we conducted our review mainly in fiscal year 2015, we did not use the new standards to evaluate the current information referral process, but as context in preparing for an effective internal control system in the future.

⁷Information referrals that do not allege a federal tax issue are retained for 90 days and then destroyed. We originally sampled 40 information referrals, but reduced our sample size to 38 due to incomplete information.

2015 report on the IRS Whistleblower Office.⁸ We reviewed the IRM and other IRS guidance and interviewed IRS officials for each referral program to determine how the other referral programs receive and screen their referrals. We assessed coordination among IRS's programs using the relevant *Standards for Internal Control in the Federal Government* and our prior work on interagency collaboration that identifies key practices and considerations for implementing collaborative mechanisms.⁹ We also drew on our April 2015 guide on fragmentation, overlap, and duplication.¹⁰

We conducted this performance audit from December 2014 to February 2016 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. For more detailed information on our scope and methodology, see appendix I.

Background

Overview of IRS Referrals for Tax Noncompliance

In order to collect tax revenue that would otherwise go uncollected and resolve threats to the integrity and fairness of the tax system, IRS encourages the public to report possible federal tax noncompliance and fraud. IRS has a web page to help the public find resources for reporting both general and specific types of federal tax noncompliance.¹¹ IRS's information referral process is for reporting general types of tax

⁸GAO, *IRS Whistleblower Program: Billions Collected, but Timeliness and Communication Concerns May Discourage Whistleblowers*, [GAO-16-20](#) (Washington, D.C.: Oct. 29, 2015).

⁹GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, [GAO-12-1022](#) (Washington, D.C.: Sept. 27, 2012), and *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

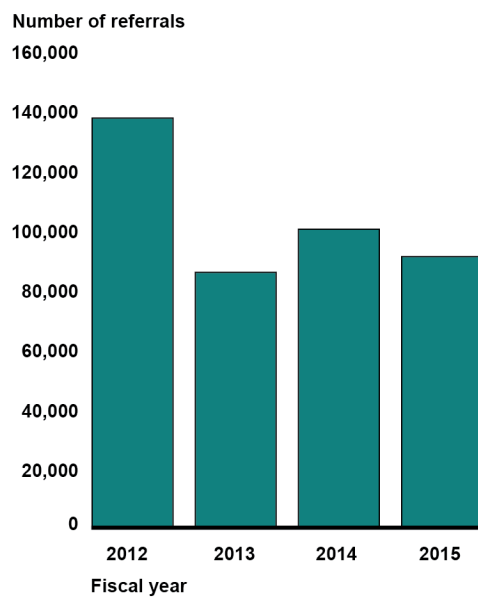
¹⁰GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, [GAO-15-49SP](#) (Washington, D.C.: Apr. 14, 2015).

¹¹<https://www.irs.gov/Individuals/How-Do-You-Report-Suspected-Tax-Fraud-Activity%3F>.

noncompliance, including failure to file a tax return, report income, or pay taxes owed. IRS has other specialized processes for reporting specific types of tax noncompliance, such as identity theft and misconduct by a tax return preparer.

In fiscal year 2015, IRS received over 87,000 information referrals, as shown in figure 1. During fiscal years 2013 and 2014, IRS revised the information referral instructions for the public to help clarify the other specific forms to use to report directly to IRS's specialized referral programs, which IRS officials said has contributed to the reduced volume in information referrals.

Figure 1: Total Form 3949-A Information Referrals Received By IRS, Fiscal Years 2012-2015



Source: GAO analysis of IRS documents. | GAO-16-155

Paper Information Referrals Mailed to IRS

The public reports general tax noncompliance—by individuals, businesses, or both—by submitting Form 3949-A. The form provides checkboxes for identifying 16 types of noncompliance (including activities such as organized crime, narcotics income, and false/altered documents) and requests the dollar amounts and years of unreported income, among other things (see figure 2). The form instructions, which are reproduced in appendix II, explain the different checkboxes for reporting tax noncompliance.

Figure 2: Excerpt from IRS Form 3949-A Information Referral

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 <i>(describe in 5)</i>

4. Unreported income and tax years
 Fill in Tax Years and dollar amounts, if known *(e.g., TY 2010- \$10,000)*
 TY _____ \$ _____ TY _____ \$ _____ TY _____ \$ _____ TY _____ \$ _____ TY _____ \$ _____ TY _____ \$ _____

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.)* Yes No

b. Do you consider the taxpayer dangerous? Yes No

c. Banks, Financial Institutions used by the taxpayer

Source: IRS. | GAO-16-155

In completing the information referral form, a person is asked to provide as much information as possible identifying the name, address, and tax identification number of the taxpayer reported. Providing partial information does not mean IRS will reject the information outright, but insufficient identifying information may preclude IRS from making use of a referral. The person submitting an information referral is also asked to provide personal identifying information but may submit anonymously. Persons submitting an information referral are not entitled to any reward if the information is used and results in additional tax being collected.¹² Once the form is completed, the person mails it to the IRS submission

¹²IRS also has a whistleblower program. Individuals making a submission there do so with the expectation of a possible reward based on the amount of tax that IRS collects from the taxpayer on the basis of the information provided. For a discussion of this program, see [GAO-16-20](#).

processing center in Fresno, California, where the form enters the information referral process.¹³

IRS Roles and Responsibilities for Processing Information Referrals

As summarized in table 1, multiple units across IRS play important roles in processing information referrals submitted by the public:

- *The Image Control Team (ICT)*, within the submission processing center in Fresno, California, receives and initially screens paper information referrals received by mail for routing to other IRS units for further action. Like other ICT clerical units, the Fresno ICT is also responsible for processing, distributing, and managing other time-sensitive taxpayer correspondence.¹⁴
- *Submission Processing* management assigns Fresno ICT staff for information referral screening as resources are available.¹⁵
- *Accounts Management* maintains the guidelines and facilitates coordination between Submission Processing, Fresno ICT, and the various IRS units, such as SB/SE and W&I, which receive information referrals for follow-up.
- *Tiger Team*—established in October 2012 by IRS with membership composed of representatives from Accounts Management, Submission Processing, and IRS audit and investigation operating divisions—is responsible for developing the guidelines for screening and routing information referrals for further action. The Tiger Team meets bimonthly to discuss the guidelines, provide feedback on

¹³Form 3949-A is available online as a fillable PDF form but must be submitted on paper by mail to the submission processing center in Fresno, California. Alternatively, the same information can be included in a letter rather than on the Form 3949-A.

¹⁴Effective as of October 2013, the ICT in Fresno was realigned from Accounts Management to Submission Processing as part of a larger IRS reorganization. IRS has a service level agreement between Accounts Management and Submission Processing that defines each unit's scope of services, resources, communication, and other tasks. Submission Processing and Accounts Management are units within the Customer Account Service within the Wage & Investment operating division.

¹⁵The timeliness criteria for handling the time-sensitive taxpayer correspondence is within 10 days of ICT receipt or 20 calendar days of the IRS received date. These time frames were changed due to IRS budget cuts; prior to February 2015, the time frames were 5 and 14 days, respectively.

information referrals misrouted to other IRS units, and receive updates on the number of information referrals received and screened and routed by Fresno ICT. In addition, the Tiger Team receives questions from Fresno ICT regarding how the information referrals should be handled when new situations arise.

Table 1: Overview of Responsibilities for Information Referral Processing Across IRS

IRS unit	Responsibilities
Fresno Image Control Team (ICT)	<p>Screens and routes information referrals submitted by the public using the Form 3949-A Screening and Routing Guidelines (the guidelines).</p> <p>Reports weekly to Accounts Management on inventory of information referrals received and screening and routing activity.</p> <p>Participates in monthly coordination meetings between Submission Processing and Accounts Management.</p> <p>Participates in bimonthly meetings for the Tiger team.</p>
Submission Processing	<p>Assigns staffing for information referral screening and routing.</p> <p>Supervises the Image Control Team clerical unit.</p> <p>Participates in monthly coordination meetings between Submission Processing and Accounts Management.</p> <p>Participates in bimonthly meetings for the Tiger team.</p>
Accounts Management	<p>Maintains and updates the guidelines.</p> <p>Provides oversight for information referral inventory reports.</p> <p>Leads the monthly coordination meetings between Submission Processing and Accounts Management.</p> <p>Leads the bimonthly meetings for the Tiger team.</p>
Tiger Team	<p>Develops the specific guidelines for screening and routing information referrals to IRS units for further action.</p> <p>Meets bimonthly to discuss emerging issues and consider changes to the guidelines.</p> <p>Tiger team membership includes representatives from Accounts Management, Submission Processing, and IRS audit and investigation operating divisions.</p>

Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-16-155

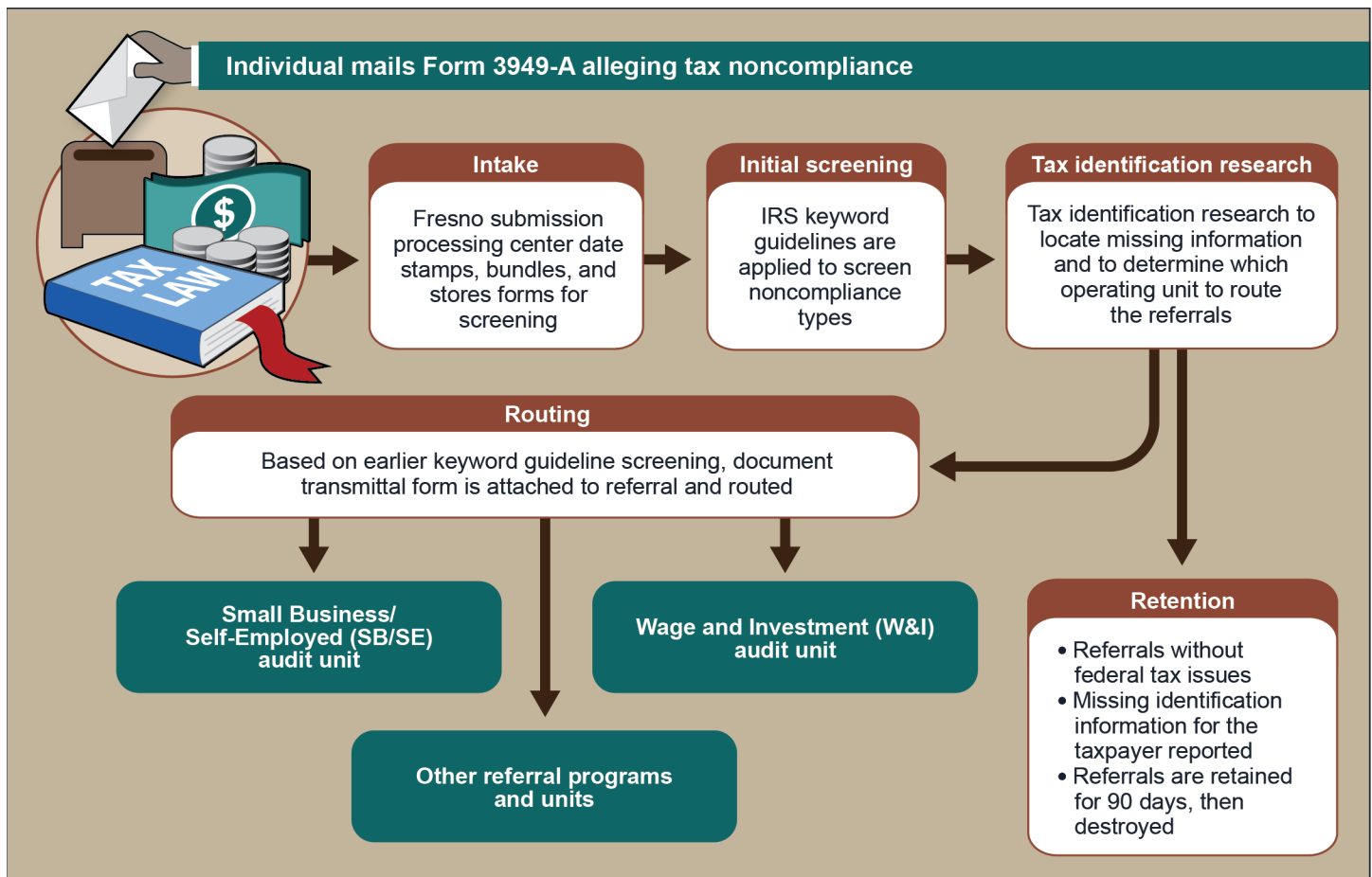
Following initial processing, IRS operating divisions screen information referrals for audit and investigation potential. The W&I division handles referrals about individual income taxpayers. The SB/SE division handles referrals about small businesses and business income for individual taxpayers. The Large Business and International division handles referrals about large corporations and partnerships as well as international income tax issues. The Tax Exempt and Government Entities (TE/GE) division receives referrals about tax-exempt organizations, employee retirement plans, and government entities. The

Criminal Investigation (CI) division receives referrals about schemes and transactions involving larger dollars or numbers of taxpayers.

Information Referral Screening Is a Manual Process, and Operating Division Priorities Determine Audit Selection

The information referral screening and routing process involves multiple steps, as shown in figure 3. The process begins when a person mails a paper information referral reporting alleged tax noncompliance to IRS in Fresno, California. The process ends with the information referral being retained for destruction or routed by mail to an operating division or other IRS unit for additional review to determine if the alleged wrongdoer may owe taxes or face other enforcement actions.

Figure 3: Process for Screening and Routing Information Referrals for Further Review



Source: GAO analysis of IRS information. | GAO-16-155

Intake. Information referrals alleging tax noncompliance are initially received in the Submission Processing, Receipt and Control unit (mailroom) of the IRS Fresno campus: mailroom staff date stamp the forms and route them to ICT. Upon receipt in ICT, the information referrals are date stamped a second time and batched in bundles of 25 or less. The inventory of information referrals is stored on a wall of bookcases until Fresno ICT clerical staff are available to screen them.

Initial screening. Once assigned to review information referrals, Fresno ICT clerical staff screen the information referral text describing the alleged violation (shown in figure 2). To do this, staff look for key words that signal possible tax law noncompliance as specified in the guidelines. For

example, if an information referral alleges unreported income, staff look for the “unreported income” checkbox or key words, such as paid by cash, off the books, or under the table. A referral may allege multiple types of tax noncompliance, and determining the appropriate IRS unit to receive the referral for further action can be subjective.

Taxpayer identification research. After initial screening for the tax issues, Fresno ICT clerical staff must determine if the information referral includes a tax identification number (TIN) that identifies the alleged wrongdoer. If a TIN is not included, staff use the IRS integrated data retrieval system (IDRS) to locate the Social Security number for an individual or the employer identification number for a business.¹⁶ For alleged issues with Form 1040 individual tax returns, such as itemized deductions or refundable credits, Fresno ICT clerical staff use IDRS to determine whether the taxpayer is overseen by W&I or SB/SE. After doing the appropriate screening and research, the Fresno ICT employee who performed the work is required to enter his or her identification number on the top left hand corner of the paper information referral.

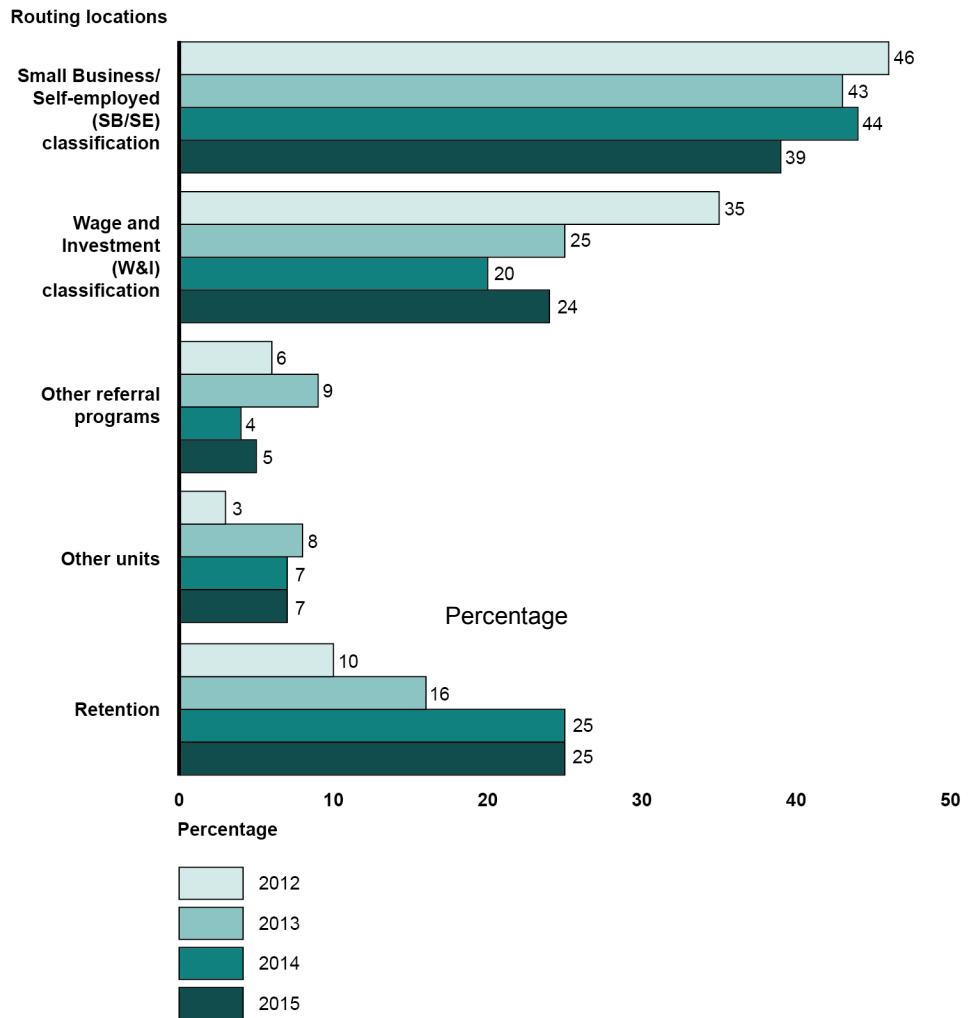
Routing. Upon completion of TIN research, Fresno ICT clerical staff use the guidelines to route information referrals to IRS divisions or other units or to retain them for destruction. After determining the appropriate routing, clerical staff manually sort the paper referrals into 31 boxes—each labeled with key words drawn from the guidelines and the name of the corresponding IRS unit. For example, the box for routing business tax issues to SB/SE audit lists key words for unreported business income, such as “company or corporation,” “rental property,” and “self-employed.” For alleged issues with Form 1040 individual tax returns, such as itemized deductions or refundable credits, Fresno ICT clerical staff sort the information referrals into separate boxes for W&I and SB/SE routing based on the IDRS tax identification research. On an intermittent basis (or when a box is full), Fresno ICT lead staff count the number of information referrals in a box, attach a *Form 3210 Document Transmittal*, and route the referrals by mail to the designated operating division or other IRS unit for further review. Fresno ICT routes information referrals to 26 different locations across about 15 other IRS operating divisions and units. SB/SE and W&I audit divisions are the most common recipients of information

¹⁶IDRS is a tool used by IRS employees to research case-related information on taxpayer accounts and tax returns. Fresno ICT clerical staff conduct limited IDRS research for information referral screening and routing.

referrals from the Fresno ICT, as shown in figure 4.¹⁷ From fiscal years 2012 through 2015, SB/SE received over 170,000 information referrals and W&I received over 100,000—about two-thirds of all information referrals routed for further review.

¹⁷Referrals are classified by operating divisions to determine whether a return should be selected for audit and what issues should be audited. Using referrals sent to classification, SB/SE and W&I perform correspondence audits—in which a letter is sent to taxpayers asking them to provide information about an item on their tax return. SB/SE also performs field audits—which include face-to-face audits with taxpayers to review their books and records.

Figure 4: IRS Referral Routing Locations from Fresno Image Control Team by Percentage, Fiscal Years 2012-2015



Source: GAO analysis of IRS documents. | GAO-16-155

Note: Percentage totals by year may not add to 100 due to rounding. Other referral programs include programs that handle specialized issues such as identity theft, misconduct by tax return preparers, or wrongdoing by tax-exempt organizations. These programs are discussed later in this report. Other units include referrals routed to IRS units such as Criminal Investigation, Collection, or Estate and Gift Tax.

Retention. Referrals that cannot be routed as instructed by the guidelines are retained for destruction for 90 days. These may include information referrals that do not allege a federal tax issue or do not have key words specified in the guidelines. For example, the referral may allege that the

taxpayer owes paid child support, has unpaid state taxes, or is improperly receiving benefits from another federal program. Those retained may also include referrals without the name, address, or TIN where the clerical staff cannot identify the alleged taxpayer. IRS officials told us that some referrals have only vague insinuations of wrongdoing and that a small number of individuals repeatedly submit multiple claims of this type. For example, a few individuals send in bulk referrals with similar allegations about businesses in certain industries or geographic areas. Since fiscal year 2012, the share of referrals sent for destruction has increased, with 25 percent of referrals retained for destruction in fiscal years 2014 and 2015. Once sent to retention, information referrals are boxed and sealed for storage for 90 days. These referrals are not subject to further screening or analysis prior to destruction.

Operating Division Priorities Influence Audit Selection Decisions

After information referrals are routed to the appropriate IRS audit unit, staff within that unit determine if there is a tax noncompliance issue and whether it is worth pursuing in light of available resources and priorities. The first step is classification, which is a process of determining whether a return should be selected for audit and what issues should be audited. The next steps are prioritization and actual return selection. For paper information referrals, these steps are generally a manual process.¹⁸

Classification

To classify information referrals, operating units and divisions (such as W&I and SB/SE) review the content of the information referral to determine whether the referral has audit potential—returns for which an audit is most likely to find errors and recommend changes to the reported tax. Factors to be considered at this stage include a clear and reliable issue, strong supporting documentation by the person submitting the information referral, attainment of certain IRS-defined criteria or tolerances (such as dollar thresholds), inclusion of a significant dollar amount in the allegation, and criminal or significant civil tax potential. If the referral does not have audit potential, it is held for the retention period and then destroyed.

¹⁸Some IRS divisions also use automated processes to select returns for audit. If a return has already been selected for audit through an automated process, it would not also undergo the information referral manual classification process. See GAO, *IRS Return Selection: Wage and Investment Division Should Define Audit Objectives and Refine Other Internal Controls*, [GAO-16-102](#) (Washington, D.C.: Dec. 17, 2015) and *IRS Return Selection: Certain Internal Controls for Audits in the Small Business and Self-Employed Division Should Be Strengthened*, [GAO-16-103](#) (Washington, D.C.: Dec. 16, 2015).

Prioritization

After classifying those information referrals with audit potential, IRS determines each referral's priority. The prioritization process varies among IRS operating divisions. W&I and SB/SE both perform correspondence audits—in which a letter is sent to taxpayers asking them to provide information about an item on their tax return. SB/SE also performs field audits—which include face-to-face audits with taxpayers to review their books and records.

To prioritize its audits, W&I uses a work plan to determine how many Earned Income Tax Credit (EITC) information referrals to audit each month for its correspondence audits.¹⁹ According to W&I officials, the planned number of referral audits by month is an estimate, and sometimes other non-referral cases may receive higher priority over referrals for audit. If W&I performs fewer referral-related audits than estimated in one month, it will plan to perform more in the following month.

SB/SE prioritizes returns for examination based on the merit of the tax issue, not on the source of the information.²⁰ SB/SE also uses a work plan for its correspondence audits, but does not have targets for numbers of information referral cases to audit. According to SB/SE officials, whether a referral is included in a correspondence audit is dependent on the current inventory level. In contrast, SB/SE field audit uses a project code list to prioritize audits by project issues, such as tax return preparers, offshore transactions, abusive transactions, fraud, and information referrals. According to SB/SE officials, other projects may be a higher priority than information referrals in general, and a referral that involves higher priority issues would be considered higher priority as well. For example, an information referral involving offshore transactions would receive a higher priority than a routine information referral.

According to CI officials, CI conducts a general review of all referrals (regardless of the source) in order to evaluate the facts and allegations and to determine if there is a potential criminal lead that warrants an

¹⁹EITC is a refundable credit used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment rather than welfare. The amount of the credit individuals receive depends on earned income, the number of qualifying children, and filing status.

²⁰See [GAO-16-20](#).

investigation. CI priorities are those referrals that involve high-risk tax noncompliance or financial crimes.

Selection

Taxpayers are selected for audit based on the amount of audit potential, how they fit into the audit plan, the resources available, and the size of the inventory. According to IRS officials, there are many reasons why information referrals may not be selected for audit. For example, if a referral contains erroneous information (such as a tax return that was incorrectly claimed to be unfiled) it may not be selected. In addition, a referral may not lead to a new audit case if IRS has already identified that return through another selection mechanism.

The Small Share of Information Referrals Audited Resulted in Millions in Additional Tax Assessments Recommended

In fiscal years 2012 through 2015, about 4.6 percent of information referrals routed to SB/SE and W&I led to audits. Specifically, about 5.4 percent of information referrals routed to SB/SE and about 3.4 percent routed to W&I led to audits over that period. As shown in tables 2 and 3, approximately 13,000 audits selected based on information referrals resulted in over \$209 million in additional tax assessments recommended.²¹

Table 2: Recommended Tax Assessments for Small Business/Self-Employed Field Audits Based on Information Referrals, Fiscal Years 2012-2015

Dollars in millions

Fiscal year	Number of returns audited ^a	Recommended tax assessments ^b
2012	2,062	\$26.7
2013	3,130	\$59.1
2014	2,343	\$56.2
2015 ^c	1,838	\$48.5
Total	9,373	\$190.4

Source: GAO tabulation of IRS's Audit Information Management System 2012-2015 | GAO-16-155

Note: Small Business/Self-Employed audits shown in this table do not include correspondence audits. Audits do not include those that have been surveyed (not audited). Totals may not add due to rounding.

²¹These results reflect closed audit cases and do not include audits that have been surveyed. IRS uses the term "survey" to refer to the process of screening out returns after additional reviews reveal a reason not to conduct the audit. IRM Part 4, Chapter 1, Section 3.6.

^aThe types of referrals audited include issues with small corporations, sole proprietor companies, or the self-employed; how money is paid—cash, off the books, or under the table; offshore income; and lease/rental property.

^bAssessments do not reflect the amounts that have been abated, appealed, or ultimately collected.

^cData for fiscal year 2015 were as of August 21, 2015, the latest date available at the time of our work.

Table 3: Recommended Tax Assessments for Wage and Investment Correspondence Audits Based on Information Referrals, Fiscal Years 2012-2015

Dollars in millions

Fiscal year	Earned Income Tax Credit audits		Discretionary Audits ^a	
	Number of returns audited	Recommended tax assessments ^b	Number of returns audited	Recommended tax assessments ^b
2012	527	\$2.3	58	\$2
2013	254	\$1.3	434	\$2.0
2014	909	\$5.4	161	\$7
2015 ^c	762	\$4.5	520	\$2.5
Total	2,452	\$13.5	1,173	\$5.4

Source: GAO tabulation of IRS's Audit Information Management System 2012-2015 | GAO-16-155

Note: The Wage and Investment Division reports assessments by project codes, one for the Earned Income Tax Credit and one for discretionary audits. Audits do not include those that have been surveyed (not audited).

^aThe types of referrals received include issues such as personal exemptions, dependents, and educational benefits.

^bAssessments do not reflect the amounts that have been abated, appealed, or ultimately collected.

^cData for fiscal year 2015 were as of August 21, 2015, the latest date available at the time of our work.

Ineffective Internal Controls Undercut IRS's Ability to Sufficiently Manage Information Referrals

Internal control standards can serve as tools to help IRS management ensure that the information referral process contributes to IRS's mission of treating all taxpayers equitably and with integrity. However, when we compared IRS's process to these standards, we found that some controls were deficient in their design and implementation. Specifically, we found limitations in oversight structure, documentation of procedures, and monitoring results. These control deficiencies increase the risk that handling of information referrals could fall short of the IRS mission, resulting in inconsistent and inequitable treatment of noncompliance leads submitted by the public.

IRS Organizational Structure for Information Referrals Is Fragmented without Clear Leadership for Defining Objectives and Measuring Results

What Are Internal Controls and Why Do They Matter?

One way federal agencies can improve accountability in achieving their missions is by implementing an effective internal control system. The standards for developing effective internal control systems can be found in GAO's "Green Book", formally known as Standards for Internal Control in the Federal Government, [GAO/AIMD-00-21.3.1](#) (November 1999), and revised as [GAO-14-704G](#) (September 2014).

Internal control is not one event, but rather is a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Internal controls provide reasonable, not absolute, assurance of meeting agency objectives. To be effective, internal control systems must have documented procedures for ensuring that objectives are being met. Two examples of internal control standards are that an agency should ensure that significant events are clearly documented and that key duties should be divided among different people.

Source: GAO. | GAO-16-155

According to federal internal control standards, an agency's organizational structure provides management's framework for planning, directing, and controlling operations to achieve agency objectives. A good internal control environment requires that the agency's organizational structure clearly defines key areas of authority and responsibility and establishes appropriate lines of reporting. IRS does not have an organizational structure for the information referral process with clear leadership responsible for defining objectives in measurable terms to ensure that the objectives of the information referral process aligns with IRS's mission of fair and equitable application of the tax laws and addressing the tax gap. For example, within the current structure, Accounts Management and the Fresno ICT have separate responsibilities focused on routing information referrals to other IRS units, but Accounts Management and the Fresno ICT are not responsible for determining the outcomes of the information referrals. Also, the Tiger Team is not tasked with tracking how many referrals undergo follow-up and results achieved, such as detecting noncompliant taxpayers and potential revenue that would otherwise go uncollected.

In an effort to determine measurable outcomes for the information referral process, in 2013 TIGTA recommended that W&I assess the value of the information referral process to reassess the emphasis placed on that process, and prioritize it as needed.²² IRS had agreed to assess the value of the process after implementing other changes TIGTA recommended in a prior report which included revising the form and its instructions and developing guidelines for screening and routing referrals.²³ As of December 2015, IRS had not taken action on this recommendation. In November 2015, W&I leadership explained that it would not be cost-effective for Accounts Management and Fresno ICT to track the information referrals and determine outcomes achieved by the various divisions and other units that receive the forms when ICT is only processing the forms. According to IRS officials, Fresno ICT clerical staff spent over 4,900 hours on information referral screening in fiscal year 2015, but those hours do not reflect Submission Processing and

²²TIGTA, *Taxpayer Referrals of Suspected Tax Fraud Result in Tax Assessments, but Processing of the Referrals Could Be Improved*, Ref. No. 2013-40-022 (Washington, D.C.: Feb. 20, 2013).

²³TIGTA, *The Process for Individuals to Report Suspected Tax Law Violations Is Not Efficient or Effective*, Ref. No. 2012-40-106 (Washington, D.C.: Sept. 10, 2012).

Accounts Management time for the coordination activities and maintaining the guidelines. Although IRS has not assessed the value of the information referral process, according to IRS's Audit Information Management System data, audits based on information referrals resulted in at least \$62 million in recommended tax assessments for fiscal year 2014 (the most recent complete year available).

W&I and SB/SE received nearly two-thirds of information referrals routed out of Fresno but W&I and SB/SE do not track their costs for screening and classifying paper information referrals for audit consideration. The IRS realignment of compliance operations has led to additional processing steps within the W&I and SB/SE units that process information referrals. In November 2014, IRS realigned compliance operations across its W&I and SB/SE operating divisions. As a result of this realignment, all EITC and pre-refund compliance programs are now carried out by W&I, and all other discretionary programs moved to SB/SE. At the end of fiscal year 2015, the guidelines still directed Fresno ICT to send information referrals involving individual taxpayers without business or self-employed income to W&I and all referrals for individual taxpayers with business income to SB/SE. According to IRS audit officials, W&I and SB/SE are taking an additional step to physically exchange information referrals routed from Fresno between their correspondence audit units in Andover, Massachusetts. As of December 2015, W&I was routing information referrals other than those for the EITC to SB/SE, and SB/SE was routing all EITC referrals to W&I.²⁴ According to IRS officials, W&I and SB/SE have agreed to conduct a test to track receipts of EITC and non-EITC information referrals and to discuss the results in early 2016 to determine the next steps for the routing of the information referrals.

The fragmented structure of oversight and management of the information referral screening process coupled with dispersed responsibility for follow-up activities throughout IRS also complicates determining how much IRS spends in total on screening paper information referrals and mailing the paper forms back and forth between IRS locations. Without clear leadership and responsibility for defining program objectives and measuring outcomes resulting from information

²⁴This additional routing is not reflected in the 3949-A inventory reporting prepared by Fresno ICT. For fiscal year 2016, the Fresno ICT data on 3949-A routing to W&I and SB/SE would not represent an accurate picture of the split of information referrals ultimately routed to those two divisions.

referrals about tax noncompliance by individuals and businesses, IRS does not know the costs of the information referral process or how effectively that process is contributing to the agency's mission and addressing the tax gap.

IRS Has Not Documented and Consistently Implemented Procedures Controlling the Information Referral Screening and Routing Process

Federal internal control standards call for all transactions and other significant events to be clearly documented and available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained. IRS requires primary sources of guidance and procedures with an IRS-wide or organizational impact to be included in the IRM.²⁵ This requirement is intended to ensure that IRS employees have the approved policy and guidance they need to carry out their responsibilities in administering the tax laws. However, we found gaps in documentation of procedures for ICT clerical screening and routing of information referrals as well as for updating and distribution of screening and routing guidelines.

IRS has incomplete documentation of procedures for screening and routing information referrals to other IRS units for further action. Since 2012, IRS has developed written screening and routing guidelines documenting which tax issues to mail to specific points of contact in other IRS units. Accounts Management distributes these guidelines via the Servicewide Electronic Research Program, which provides employees with access to current IRMs, interim procedural guidance, and reference materials. In November 2015 Submission Processing issued IRM procedures for ICT clerical operations effective January 1, 2016.²⁶ However, the revised IRM does not have procedures for the Fresno ICT clerical screening and routing of information referrals. Specifically, the Fresno ICT does not have documented procedures to ensure that labels used by the clerical staff in sorting screened referrals into the various boxes for routing are consistent with the guidelines developed by the Tiger Team. The Fresno ICT staff developed the box labels as an onsite job aid, and the Fresno ICT managers incorporated the box numbering job aid in training for the 2015 filing season temporary clerical staff.

²⁵IRM Part 1, Chapter 11, Section 2.2.

²⁶IRM Part 3, Chapter 13, Section 6.1.7.

However, discrepancies between the key words on the box labels and the guidelines have resulted in misrouting. For example, we observed that labels indicated to route referrals alleging unreported retirement and tax-exempt bond income to the TE/GE division. However, the guidelines direct routing individual income misreporting allegations to the W&I and SB/SE divisions. TE/GE officials confirmed that the ICT incorrectly routes referrals about individuals misreporting income to their unit. They also said that the number of misroutes had decreased as misroutes were discussed at Tiger Team meetings and Fresno ICT clerks received additional training on screening referrals.

The revised IRM lists the Form 3949-A screening and routing guidelines as a document but does not have procedures for the Fresno ICT regarding (1) applying the guidelines, (2) inventory management reporting, (3) monitoring referrals retained for destruction, and (4) feedback on the misrouted referrals. In contrast, IRM procedures for the correspondence scanning performed by ICT clerical staff detail steps on removing staples from paper to be scanned and the daily tasks for cleaning the scanners.²⁷ The lack of documented procedures clearly linking the guidelines to the physical logistics of clerical routing of paper forms increases the risk that the guidelines will not be implemented consistently.

We also found deficiencies in maintaining and communicating the guidelines to the clerical staff. According to an Accounts Management official, in the fall of 2014, the Accounts Management unit inadvertently distributed an outdated copy of the guidelines that did not incorporate clarifications added to aid the Fresno ICT staff with clerical screening of information referrals involving child identify theft (discussed further below). According to Accounts Management officials, they are working to ensure that updated guidelines are communicated in a timely basis to the clerical staff. At the June 2015 coordination meeting, the Fresno ICT managers said that they were not aware that the Accounts Management unit had distributed updated guidelines on the Servicewide Electronic Research Program. As a result, the Fresno ICT managers did not distribute copies of the latest guidance for the clerical staff to follow. According to IRS officials in September 2015, the Accounts Management unit began to electronically distribute updated guidelines each month and

²⁷IRM Part 3, Chapter 13, Section 6.1.7.

to alert the Fresno ICT managers by email so they can print paper guidelines for the clerical staff. However, we noted that the revised IRM for ICT operations does not have procedures for this communication practice. In December 2015, when we discussed this with IRS officials, they agreed that the IRM should document the guidelines and procedures for the Fresno ICT clerical staff for screening and routing information referrals.²⁸

In addition, inadequate controls over maintaining and communicating the routing guidelines coupled with incomplete procedures linking the routing guidelines to the routing boxes have contributed to clerical confusion and errors that resulted in IRS erroneously destroying information referrals from taxpayers reporting child identity theft. In March 2015, the ICT clerical staff we observed in Fresno said that they were uncertain how to route such referrals. The clerical staff we interviewed said that the label on the identity theft routing box originally specified child identity theft as key words for screening and routing, but those key words were omitted at some point in updating the box label. Although the routing guidelines for screening and routing identity theft referrals approved by the Tiger Team had not changed, some clerical staff stopped routing child identity theft referrals and instead retained those for destruction. We were not able to quantify how many information referrals reporting child identify theft may have been erroneously destroyed between the fall of 2014 and March 2015.²⁹

During our audit visit, we reviewed the most recent box of 155 information referrals retained for destruction and identified 12 information referrals reporting potential child identity theft or misuse of a child's tax identification number where the parent or custodian did not know who was using the child's identity.³⁰ During a meeting with Fresno ICT managers regarding the 12 information referrals, the ICT managers said

²⁸According to IRS officials, they were considering adding procedures for the information referral screening and routing process to the IRM for Submission Processing staff handling mail extraction and sorting which can be found in IRM Part 3, Chapter 10, Section 72.

²⁹As discussed above, Accounts Management in the fall of 2014 inadvertently distributed an outdated copy of the guidelines missing clarifications added to aid Fresno ICT clerical staff in screening information referrals involving child identify theft.

³⁰We did not include referrals involving custodial issues about eligibility to claim a dependent which are not considered identity theft.

that they determined that 4 of the 12 referrals were correctly retained for destruction because the individual submitting the referral did not specify another tax issue and did not know who used the child's identity. Seven of the 12 referrals should not have been retained for destruction and were subsequently routed by the Fresno ICT as stolen refund cases, and one of the 12 referrals alleging identity theft by a tax return preparer was routed to the Return Preparer referral program.³¹ During the June 2015 coordination meeting that we observed, Accounts Management officials orally directed the Fresno ICT managers to instruct the clerical staff to route referrals about child identity theft. The Fresno ICT managers instead requested that Accounts Management and Tiger Team clarify the guidelines for child identity theft reports to avoid further confusion. In August 2015, the clarification was added to the routing guidelines.

Inadequate controls over the guidelines without clearly documented clerical review procedures pose the risk that clerical staff may apply outdated or inaccurate routing guidelines. Misrouting the information referrals causes delays and added cost for IRS in getting referrals to the appropriate unit for follow-up. Information referrals inappropriately retained for destruction may compromise IRS's ability to combat tax noncompliance reported by the public and to assist identity theft victims.

IRS Lacks Supervisory Review and Segregation of Duties for Preparing Information Referral Inventory Reports

According to federal internal control standards, effective management of an organization's workforce—its human capital—is essential to achieving results. Qualified and continuous supervision should be provided to ensure that internal control objectives are met. Internal control standards also require key duties and responsibilities to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling related assets. No one individual should control all key aspects of a transaction or event.

According to Fresno ICT management, due to limited experienced staff for the information referral process, management relies on one lead clerk to keep track of the information referral inventory. That Fresno ICT lead

³¹We could not follow up on these specific referrals because IRS does not have a document tracking system for information referrals.

clerk is responsible for several key inventory reporting duties which include documenting the number of referrals received, counting and mailing those routed to other IRS units, and compiling the weekly inventory reports. The weekly inventory reports compiled by the Fresno ICT are used by Submission Processing, Accounts Management, and other IRS units participating in the Tiger Team to track the volume of information referrals received, referrals waiting in inventory, and volumes routed to other units. Inventory information is used by the Fresno ICT management in assigning clerical staff. The Fresno ICT has not trained additional lead clerks to compile the inventory reports. Given the fragmented organizational structure and shared use of the weekly report, it is unclear whether the Accounts Management unit or the Fresno ICT is responsible for documenting procedures on how to prepare the inventory reports.

In addition, IRS officials explained that due to time constraints and other priorities in the Fresno ICT, information referral inventory reports are not reviewed by a supervisor before relaying the weekly report to Accounts Management. During our visit, we tested several weekly reports to the transmittal forms that document the number of information referrals that are routed to other units. Developing the reports involves several calculations to document the number of information referrals received and routed to each of the other operating units. We identified errors in tallying the counts of referrals retained, recording the number of referrals sent to each IRS unit, and calculating the total number routed. The lack of supervisory review and segregation of duties in preparing information referral inventory reports can lead to errors in developing these reports which are used by other IRS operating units.

Information Referrals Retained for Destruction Are Not Subject to Ongoing Monitoring

According to federal internal control standards, ongoing monitoring should occur in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

We found that IRS does not have documented procedures for supervisory review for screening referrals retained for destruction, although one-quarter of information referrals received in fiscal years 2014 and 2015 were destroyed rather than routed for follow-up. The ICT quality review staff are to sample all ICT work streams, but we could not determine which, if any, retained referrals had been reviewed under that process. According to the Fresno ICT managers and lead clerical staff, the lead

clerk is to conduct a limited visual review of the referrals retained for destruction before sealing and dating each storage box, but we found no documentation of such reviews. Also, IRS does not track common reasons as to why referrals are not routed for follow-up.

Information referrals inappropriately retained for destruction may compromise IRS's ability to combat tax noncompliance reported by the public and to assist identity theft victims. According to the Fresno ICT manager, prior to our March 2015 site visit, the Fresno ICT conducted an ad hoc quality review of referrals retained for destruction and had trained all clerical staff on the routing guidelines. According to the Fresno ICT manager, the clerical staff who do not screen information referrals regularly—such as temporary seasonal staff during the tax filing season—are less familiar with the guidelines and are more likely to incorrectly retain referrals for destruction. In response to the ad hoc review by Fresno ICT, the ICT removed and routed for follow-up several hundred referrals that otherwise would have been destroyed.

During our March 2015 visit to the IRS ICT office in Fresno, California, we reviewed a nongeneralizable sample of 38 information referrals (screened during early January 2015 through mid-March 2015) retained for destruction.³² Even though IRS had conducted an ad hoc quality review of referrals retained for destruction prior to our visit, we questioned IRS officials about 10 of the 38 retained referrals we reviewed. These 10 referrals lacked documentation of clerical screening and tax identification number research or did not appear to follow the routing guidelines. IRS managers subsequently determined 4 of the 10 should not have been retained for destruction. Three referrals were routed to other IRS units after clerical staff completed TIN research and re-screened. One Spanish language referral had not been screened and was sorted for screening by a clerical staff person knowledgeable of Spanish.

The ad hoc review conducted by the Fresno ICT in March 2015 saved hundreds of referrals from destruction, but without periodic monitoring of the reasons for referrals being retained, IRS is missing an opportunity to identify patterns in retention errors. Analysis of referrals retained before destruction could help identify clerical staff errors that may be addressed

³²We originally sampled 40 information referrals, but reduced our sample size to 38 due to incomplete information.

by better documenting procedures. For example, the screening and routing guidelines do not have a procedure for referrals in languages other than English. The Fresno ICT has set up two boxes labeled for Spanish and other languages, respectively. However, clerical staff may not know to sort other language referrals in those boxes, and lead clerks may not regularly check those boxes because they are not part of the weekly routing mail and inventory report. Without procedures for reviewing information referrals retained for destruction, some referrals may be inappropriately retained which may compromise IRS's ability to combat tax noncompliance reported by the public.

Misroutes Returned Are Used as a Measure of Routing Quality, but the Extent of Misrouting Is Unknown

Federal internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

Officials from the Accounts Management unit and the Fresno ICT told us that they rely on misrouted information referrals that are returned by other IRS units as feedback about the quality of the screening and routing process. The weekly inventory management and routing report documents the number of misroutes returned by various IRS units. The Fresno ICT uses the misrouted referrals to provide feedback to clerical staff about specific errors and then re-routes the paper referrals by mail to the appropriate unit for follow-up. IRS units that return misroutes to the Fresno ICT use an IRS transmittal form to document the return of misroutes to the ICT. The transmittal form also reports the number of referrals incorrectly sent to the IRS unit. This feedback process adds costs of mailing misroutes back and delays in re-routing referrals for follow-up. For fiscal year 2016 as of December 2015, W&I returned 625 misrouted information referrals by mail to Fresno. According to Accounts Management and Fresno ICT officials, misrouted referrals involving business income issues are to be re-routed by mail to SB/SE.

Although Accounts Management and the Fresno ICT rely on misrouted information referrals as feedback about the quality of the routing process, the IRM does not contain procedures on handling information referral misroutes. The total number of misroutes by the Fresno ICT is unknown

as not all misroutes are properly identified and recorded.³³ Information referral inventory reporting showed nearly 1,400 referrals (approximately 2 percent) were initially misrouted in fiscal year 2015. The Accounts Management unit and Fresno ICT officials said these data reflect when operating units return misrouted referrals back to the ICT. However, some units have not returned information referrals misrouted by the Fresno ICT and instead forwarded misroutes directly to other units rather than mailing misroutes back to the ICT for re-routing. According to SB/SE officials, the SB/SE division previously forwarded misrouted information referrals to other units but now returns misroutes to the Fresno ICT. TE/GE officials told us that they forward misrouted information referrals to other units rather than mailing misroutes back to the ICT for re-routing. The lack of documented guidance on handling information referral misroutes poses the risk that IRS may be missing opportunities to identify the number and types of misroute errors and analyze ways to reduce misrouting.

Opportunities Exist to Improve Coordination across Fragmented and Overlapping Referral Programs and to Share Efficiency Improvement Practices

³³We also detected an error in the reported 2013 misroute total; IRS revised the calculation in its fiscal year 2015 spreadsheet for tracking information referral inventory.

Fragmented Referral Programs Complicate Tax Noncompliance Reporting and Result in Overlapping Efforts

We found that fragmentation and overlap characterize the IRS system used for public reporting of tax noncompliance and potential fraud. Fragmentation can sometimes result in duplication of efforts, and inefficient use of resources. Multiple and uncoordinated forms and instructions can confuse the public trying to submit information to IRS. Such conditions can also create rework for IRS in routing information for specialized review. Gaps and delays in routing and redirecting information among referral programs could hamper IRS's pursuit of some tax noncompliance and potentially leave taxpayers vulnerable to issues such as identity theft or abusive transactions. As we have previously reported, fragmentation and overlap can have potentially positive effects, such as when programs work together to provide services or when the overlap is planned so that the public is receiving services in a coordinated manner.³⁴

In addition to the general information referral process, we identified eight other specialized referral programs, as shown in table 4. Several of the referral programs have their own forms and their own mechanisms for intake and screening.

Table 4: IRS Programs Used for Public Reporting of Alleged Tax Noncompliance and Misconduct

Referral program type of tax issue	Form	How to submit	3949-A instructions on using specialized referral ^a	Number of 3949-A referrals routed from Image Control Team, FY 2015 ^a
1. Information Referral Process Reports general type of tax violation by individual or business taxpayer	3949-A or letter	Mail	Not applicable	Not applicable
2. Whistleblower Office Reports an alleged tax law violation and (if report results in additional tax revenues collected by IRS) acts as application for a monetary reward	211 ^b	Mail	No	335
3. Identity Theft Reports an actual or potential incident of identity theft and requests that IRS mark the taxpayer's account to identity questionable activity	14039	Mail, fax	Yes	1,900

³⁴GAO-15-49SP.

Referral program type of tax issue	Form	How to submit	3949-A instructions on using specialized referral ^a	Number of 3949-A referrals routed from Image Control Team, FY 2015 ^a
4. Return Preparer Office Reports a tax return preparer who filed or altered a tax return without taxpayer consent and files affidavit	14157 and 14157-A ^b	Mail, fax	Yes	1,061
5. Small Business/Self-Employed Abusive Transactions Reports suspected abusive tax avoidance schemes or tax return preparers who promote such schemes	14242	Mail, fax	Yes	0 ^d
6. Large Business and International Office of Tax Shelter Analysis Reports abusive tax shelters involving large numbers of taxpayers and posing greater compliance risk	None	Hotline, email	No	0
7. Tax Exempt and Government Entities (TE/GE) Exempt Organizations Reports an alleged violation by a tax-exempt organization	13909 ^c	Mail, fax, email	Yes	836
8. TE/GE Employee Plans Reports abusive tax transactions by a retirement plan	None ^c	Email, hotline	No	42
9. E-file program Reports fraudulent and abusive returns	3949-A and 14157	Mail, fax	No	0

Source: GAO analysis of IRS referral forms and IRS.gov. | GAO-16-155

^aIn March 2014, IRS revised Form 3949-A instructions directing individuals to use appropriate forms to submit directly to other specialized referral programs. This change was intended to reduce the volume of referrals submitted on the general 3949-A which then needs to be routed to other IRS referral programs.

^bForm requires a signature with statement about penalty of perjury. Form is mailed not faxed.

^cThe website on how to report suspected fraud states to use Form 13909 to report noncompliance involving an employee plan. However, Form 13909 does not list reporting abusive transactions by employee plans in the list of violations on the form.

^dSB/SE Abusive Transaction receives forms 3949-A mailed to the wrong address and routes them to the Image Control Team.

Fragmentation and overlap across a mix of IRS external referral programs and processes create duplication of effort, contribute to inefficient use of resources, and may be confusing to individuals submitting referrals. We cannot quantify the extent of duplication when a person submits the same information to more than one program or submits duplicate information referrals because IRS has no way to track information across the multiple referral programs. However we did identify some issues:

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- **The public submits referral information on the wrong form or to the wrong office.** Although IRS revised the information referral instructions in March 2014 to help clarify how to submit specialized forms directly to other referral programs (as shown in table 4), Fresno ICT continues to erroneously receive information referrals that must be routed to those referral programs and the Whistleblower Office. For example, Fresno ICT routed more than 2,900 information referrals related to identity theft and return preparer misconduct in fiscal year 2015. Also, some individuals mistakenly mail information referrals to the SB/SE Abusive Transactions referral program instead of the Fresno ICT address specified on the information referral form.
 - **Some individuals submit multiple forms for the same allegation.** IRS officials stated that several programs could receive the same referral for processing. For example, some whistleblowers submit both the information referral Form 3949-A and the whistleblower claim Form 211, either together as a package or separately to both Fresno ICT and the Whistleblower Office.
 - **Routing between referral programs results in delays and added costs for re-screening.** For specialized referrals submitted as information referrals, the Fresno ICT first screens and routes the referrals to other IRS referral programs where the referrals again undergo intake and screening. Similarly, staff from the SB/SE Abusive Transactions program must screen and mail the information referrals to the Fresno ICT for processing. Form 3949-A referrals submitted directly to the E-file program—discussed further below—are first screened in IRS scheme detection centers and then mailed to Fresno ICT for information referral processing.

Referral Programs May Benefit from Improved Communication and Options to Increase Referral Intake Efficiencies

According to federal internal control standards, management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have significant impact on achieving goals. Effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information.

IRS Lacks Mechanisms for Coordinating and Streamlining Referral Intake Processes

IRS does not have a mechanism to facilitate information sharing across the multiple referral programs used for handling tax noncompliance and other issues reported by the public. While Accounts Management uses the Tiger Team to enable communication and coordination with other IRS units that receive information referrals, IRS does not consistently draw on this vehicle in coordinating information referral activity.

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- For example, we found that officials from one referral program (tax exempt organizations) attend the Tiger Team meeting. Officials from other referral programs were not aware of the Tiger Team, met separately with Accounts Management officials, or did not attend the Tiger Team meeting. According to an Accounts Management official, the Tiger Team was established to address misrouted Form 3949-A information referrals and to respond to inquiries from IRS units that receive most of the information referrals—specifically, SB/SE and W&I.
 - The SB/SE Abusive Tax Transactions program does not receive information referrals routed from Fresno and thus does not have staff participate in Tiger Team discussions on information referral routing guidelines. However, the Abusive Tax Transactions program does receive information referrals that are mistakenly mailed by the public to the Abusive Tax Transactions mailing address. According to an official from the Abusive Tax Schemes programs, they must then screen and forward the erroneously submitted information referrals to the IRS Fresno office for appropriate screening and routing. This referral program had not reached out through the Tiger Team or to Accounts Management to determine and resolve why the public is mailing information referrals to their program.
 - The E-file program does not participate in the Tiger Team or in discussions on developing the information referral routing guidelines. However, the E-file program began using Form 3949-A for its own referral program for reporting fraudulent or abusive tax returns. Accounts Management officials were not previously aware of this use of the information referral form until we brought it to their attention. According to an Accounts Management official, this gap in coordination on the use of the form could result in some e-file related information referrals mailed to Fresno being destroyed.

In the past, our work has found that mechanisms or strategies to coordinate programs that address crosscutting issues may reduce potentially fragmented, overlapping, and duplicative efforts.³⁵ Some of the specialized referral programs with overlapping responsibilities already have some formal means of coordinating on crosscutting issues and sharing information on related referrals. For example, the Return Preparer

³⁵[GAO-12-1022](#).

Office and SB/SE Abusive Transactions regularly coordinate on abusive transactions involving tax preparers and can access common electronic information systems to identify overlapping referrals. The Return Preparer Office also shares information with the Identity Theft Program on identity theft, a crosscutting issue. For example, identity theft can involve another IRS unit and a different referral form, such as the Identity Theft Program and the Return Preparer Office based on the type of identity theft. If the taxpayer is alleging that they are an actual or potential victim of identity theft, the specific Identity Theft referral form should be used to report the allegation. If the taxpayer is alleging a return preparer filed a return or altered their return without their consent, the Return Preparer Office referral form should be used to report the allegation. Other referral programs using specialized forms also have practices that could improve information referral processing, as shown in table 5.

Table 5: Referral Program Information Sharing and Processing Practices

Referral program	Program practices			
	Acknowledge referral receipt	Document tracking system	Monitor processing by IRS units/ Share performance data	Target timeframes for initial intake and screening
1. Whistleblower Office	X	X	X	X
2. Identity Theft	X	X	X	X
3. Small Business and Self Employed (SB/SE) Abusive Transactions	X			X
4. Tax Exempt and Government Entities (TEGE) Exempt Organizations	X	X		X

Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-16-155

Improving the referral intake process through improved collaboration and coordination could benefit both IRS and the public. Specifically, harmonizing referral forms and instructions to avoid duplicate and misdirected filings may improve efficiency and help to reduce public confusion and administrative burden. For example, an IRS mechanism for coordinating referrals could explore electronic fax (e-fax) as a method to improve efficiency of referral intake. In fiscal year 2015, IRS received over 87,000 information referrals submitted on Form 3949-A or as letters. As previously mentioned, IRS only accepts paper information referrals, which must be mailed to the Fresno office where the Image Control Team manually sorts and routes the form to other IRS units for further review. In contrast, five referral programs with forms—Identity Theft, SB/SE Abusive Transactions, Return Preparer Office, TE/GE Exempt Organizations, and

E-file program—allow the public to submit referrals by fax. In 2013, IRS briefly explored and rejected the e-fax option for information referrals because the Image Control Team screening clerks at that time did not have computers to access fax submissions.³⁶ Since December 2014, Fresno Image Control Team clerks have had access to computers to perform TIN research for information referrals; however, IRS has not revisited the e-fax option. Although IRS officials stated they do not believe e-fax for information referrals is feasible due to the large volume received, other IRS units collaborating across referral programs could provide lessons learned or suggestions for streamlining the intake process through e-fax or other options.

Without a broader collaborative mechanism to communicate across its referral programs and collaborate on practices for receiving and screening referrals, IRS may be missing opportunities to leverage resources, streamline intake processes, and address challenges arising from the fragmented and overlapping referral programs.

Opportunities to Consolidate Referral Intake

Resolving the inefficiencies of IRS's paper-based information referral system poses a unique challenge for management, given resource constraints, the complexity of current processes, and the need to protect taxpayer information. We have previously identified a number of management approaches that may enable IRS to consolidate the referral intake and screening process and improve efficiency, including implementing process improvement methods and technology improvements that improve efficiency, increase product quality, and decrease costs.³⁷ Process improvement methods can involve examining processes and systems to identify and correct costly errors, bottlenecks, or duplicative processes while maintaining or improving the quality of outputs. Providing information to policymakers on how to improve efficiency and reduce and better manage fragmentation, overlap, or duplication can help alleviate some of the government's fiscal pressures and improve program effectiveness.

³⁶IRS explored the e-fax option for information referrals following a TIGTA report on improving the processing of information referrals.

³⁷GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, GAO-15-49SP (Washington, D.C.: Apr. 14, 2015).

Another component of improved efficiency involves identifying, developing, and implementing strategies that streamline the reporting of tax noncompliance while appealing to the public. According to IRS's Strategic Plan for fiscal years 2014 through 2017, the public has a preference for Internet-based service over other service channels such as phones, paper, or in-person. IRS says it is committed to expanding its portfolio of digital service offerings to meet customer expectations while continuing to keep taxpayer data secure. State tax agencies and other federal agencies accept fraud referrals via online Internet submission. For example, among seven of the most populous states, five provided an online reporting option to report allegations of tax fraud and evasion. Similarly, the Social Security Administration has an online form for reporting fraud via its website.

Finally, strengthened collaboration across the nine referral programs could enable IRS to explore a more systemic online referral submission process: such an effort could help the agency improve its ability to more efficiently receive and process information referrals, while also reducing the public confusion caused by trying to choose among multiple forms. Currently, IRS's specialized referral forms to report alleged tax noncompliance are received within IRS units through different channels (mail, fax, email). As discussed earlier, the public often uses information referrals because it is a general form that is used to report different tax noncompliance; however, we found that information referrals are misrouted and often retained for destruction. According to a Return Preparer Office official, the Return Preparer Office is exploring conversion of its specialized referral form to an online form. However, if the various referral programs separately explore developing online form submission, IRS risks replicating or compounding the fragmented mix with multiple referral forms and means of submission. An IRS official stated that a universal online referral intake system to control the routing of referrals would be preferable to separate systems for each referral form. Streamlining referral submission could be less cumbersome for the public and could reduce delays and rework in re-routing information to specialized referral programs. According to IRS officials, more electronic submissions is a vision for the future but funding is limited. However, officials stated that committing resources for referral capacity is in the queue behind direct taxpayer account services. An IRS plan and timeline for developing a consolidated, online referral submission could assist IRS in leveraging specialized expertise to further consolidate the referral intake process.

Conclusions

Information referrals are a key mechanism for the public to report potential tax noncompliance and aid IRS in addressing the tax gap. Audits of individuals and businesses based on information referrals resulted in at least \$62 million in recommended assessments in fiscal year 2014. However, IRS oversight and management of its information referral screening process is fragmented across multiple IRS units, with the actual handling of referral follow-up further dispersed across operating divisions, multiple referral programs, and other IRS units. Although IRS has guidelines for screening and routing the information referrals, it does not have an organizational structure for the Form 3949-A information referral process that identifies responsibility for defining program objectives and an appropriate line of reporting for measuring results. Without such a structure, IRS cannot ensure accountability in the referral process or determine how effectively it is using resources in this area.

IRS has not consistently documented and implemented procedures for the information referral process. Procedures are not clearly documented for the screening and routing guidelines and changes are not consistently communicated to relevant staff, resulting in referrals being misrouted or inadvertently destroyed and errors in inventory management. In addition, IRS does not have procedures for monitoring information referrals retained for destruction or those that are incorrectly routed. Without adequate internal controls, IRS cannot effectively manage the information referral process. Documenting and implementing procedures for the information referral process would help IRS ensure that the process is implemented consistently.

IRS has a fragmented and overlapping system for the public to report tax noncompliance, with several units having their own forms and mechanisms for intake and screening. Multiple referral forms and instructions may contribute to inefficient use of IRS resources. In addition, IRS does not have a mechanism for coordinating referral issues across the multiple programs used for handling tax noncompliance. Without a coordination mechanism, IRS may be missing opportunities to leverage resources and address challenges from the multiple referral programs. Choosing to stay with the paper information referral means that the manual screening of the waiting inventory must compete with other IRS staffing resources needed for scanning and relaying time-sensitive taxpayer correspondence. Strengthened collaboration across the referral programs could enable IRS to explore an online referral submission process which could help the agency improve its processing of information referrals. Without a mechanism to coordinate on a plan and timeline for developing a consolidated, online referral submission, IRS

cannot receive referrals efficiently or meet its strategic goal of expanding its portfolio of digital service offerings to the public.

Recommendations for Executive Action

We recommend the Commissioner of Internal Revenue take the following seven actions:

- Establish, document, 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 internal controls for processing information referrals by
 - establishing, documenting, and implementing procedures for maintaining and communicating the information referral screening and routing guidelines to ICT and IRS units receiving information referrals as well as procedures for ICT screening and routing operations;
 - establishing, documenting, and implementing supervisory review and segregation of duties for inventory management reporting procedures;
 - establishing, documenting, and implementing ongoing monitoring of information referrals retained for destruction, including a mechanism for tracking the reasons referrals were retained prior to destruction; and
 - establishing, documenting, and implementing 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 establish a mechanism to coordinate on a plan and timeline for developing a consolidated, online referral submission in order to better position IRS to leverage specialized

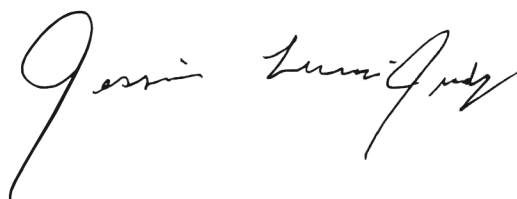
expertise while exploring options to further consolidate the initial screening operations.

Agency Comments

We provided a draft of this product to the Commissioner of Internal Revenue for comment. The IRS Deputy Commissioner for Services and Enforcement provided written comments dated February 8, 2016, which are summarized below and reprinted in appendix III. In an email 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.

As agreed with your offices, unless you publically release its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. The report will also be available at no charge on the GAO website at <http://www.gao.gov>.

If you, or your staff, have any questions about this report, please contact me at (202) 512-9110 or at lucasjudyj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.



Jessica Lucas-Judy
Acting Director, Tax Issues
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

You asked us to assess the overall effectiveness of the Internal Revenue Service's (IRS) information referral process. This report (1) describes IRS's process for screening and routing Form 3949-A information referrals and for prioritizing information referrals within the IRS audit workload; (2) assesses the controls for the information referral screening and routing process; and (3) evaluates the coordination between the information referral process, the Whistleblower Office, and other IRS referral programs.

For the first objective, we reviewed IRS documents, to the extent that they were available, describing the information referral screening, routing, classifying, prioritizing, and selection of information referrals for audit.¹ The documents include the Internal Revenue Manual (IRM), Form 3949-A Screening and Routing Guidelines, operating division referral processing flowcharts, organizational charts, and training materials. We interviewed IRS officials responsible for maintaining the screening and routing guidelines and those overseeing the clerical screening and routing process, and in March 2015 we observed the information referral screening process in Fresno, California. We reviewed coordination meeting agendas and minutes and observed coordination meetings between the officials responsible for the screening process and with other IRS unit officials. In addition, we analyzed inventory data on the volumes of referrals received and routed to operating divisions for fiscal years 2012 through 2015. Based on testing of the data and review of documentation and interviews, we identified several weaknesses in the information referral inventory reporting including minor miscalculations of referral routing totals and lack of supervisory review but determined that the data were reliable for the purposes of this report.

We also interviewed IRS audit officials in the Wage and Investment (W&I) and Small Business/Self-Employed (SB/SE) operating divisions because they receive about two-thirds of the referrals sent for screening, classifying, prioritizing, and audit selection. We also interviewed IRS officials from the Criminal Investigation division which receives referrals involving possible large dollar value or broader schemes. We analyzed data from the Audit Information Management System for W&I and SB/SE

¹An IRS audit (also called examination) is where correspondence is sent to taxpayers asking them to provide information about an item on their tax return, or taxpayers' books and records are reviewed to determine whether information such as income, expenses, and credits are being reported accurately.

referral audits closed and the recommended tax assessments from fiscal year 2012 through 2015 (as of August 2015, the latest data available). We compared the results of our analyses of data to the tabulations provided by W&I and SB/SE to assess consistency of the results. Based on our testing of the data and review of documentation and interviews, we determined that these data were reliable for the purposes of this report.

For the second objective, we reviewed existing internal controls for the information referral screening process and assessed whether the procedures aligned with relevant *Standards for Internal Control in the Federal Government*.² To assess how IRS implements its procedures and controls, we used IRS's Form 3949-A screening and routing guidelines and other procedure documents as criteria. We reviewed inventory data including data on misrouted referrals returned by other IRS units for fiscal years 2012 through 2015, and we interviewed IRS officials on misrouted referrals. Based on our review of the data and interviews, we determined that the misroute data were not reliable for the purposes of this report because the total number of misroutes is unknown as not all misrouted referrals are properly identified and recorded. We also reviewed a nongeneralizable sample of 38 referrals retained for destruction to check whether the documentation followed the procedures.³ We selected a systematic sample of these referrals from among 5,935 referrals retained for destruction from January through March 2015; we selected about every 150th referral among those boxed for destruction. To follow-up on information obtained during the site visit regarding ICT clerical staff screening of referrals alleging child identity theft, we identified 12 referrals that were related to child identity theft out of 155 referrals that were retained for destruction in March 2015. The 12 referrals were referrals reporting identify theft by a parent/custodian of a child's identification number where the parent/custodian did not know who was using the child's identity. We did not include cases that involved custodial issues about eligibility to claim a dependent which are not considered identity

²GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1, 1999). GAO, *Internal Control: Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014). The new standards are effective beginning fiscal year 2016. We did not use the new standards to evaluate the current information referral process, but as context in preparing for an effective internal control system in the future.

³We originally sampled 40 information referrals, but reduced our sample size to 38 due to incomplete information.

theft. Finally, we interviewed IRS officials about the processes and controls for the routing guidelines and screening process, and to discuss any potential deficiencies we identified.

For the third objective, we interviewed IRS officials to determine the extent of coordination between the information referral process and other IRS external referral programs. Specifically, we reviewed referral programs with forms for reporting identity theft, fraud by tax return preparers, abusive tax promotions, and misconduct by tax-exempt organizations. We drew on information and analysis from our October 2015 report on the IRS Whistleblower Office.⁴ We analyzed and compared the Form 3949-A, Form 211, Application for Award for Original Information, (Whistleblower Office form), and five other public referral forms to identify common information items as well as information specific to the various referral programs.⁵ We reviewed the IRS web page on reporting tax noncompliance.⁶ We also reviewed other IRS web pages that identified other referral programs that handled issues for the E-file program, employee plans and tax shelters.⁷ We reviewed the IRM and other IRS guidance and interviewed IRS officials for referral programs with forms to determine how the other referral programs receive and screen their referrals and also process information referrals. We reviewed the *Standards for Internal Control in the Federal Government* and our prior reports on interagency collaboration, which discuss key practices

⁴GAO, *IRS Whistleblower Program: Billions Collected, but Timeliness and Communication Concerns May Discourage Whistleblowers*, GAO-16-20 (Washington, D.C.: Oct. 29, 2015).

⁵Five other public referral forms: (1) Identity Theft Affidavit Form 14039; (2) Complaint: Tax Return Preparer Form 14157; (3) Tax Return Preparer Fraud or Misconduct Affidavit form 14157-A; (4) Report Suspected Abusive Tax Promotions or Preparers Form 14242; (5) Tax Exempt Organization Complaint (Referral) Form 13909

⁶Internal Revenue Service, How Do You Report Suspected Tax Fraud Activity?, <http://www.irs.gov/Individuals/How-Do-You-Report-Suspected-Tax-Fraud-Activity%3F>.

⁷Internal Revenue Service, Reporting Fraud and Abuse Within the IRS E-File Program, (<http://www.irs.gov/uac/Reporting-Fraud-and-Abuse-Within-the-IRS-E-File-Program>); Tax Scams How to Report Them, (<https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Tax-Scams-How-to-Report-Them>); and Employee Plan Abusive Tax Transactions, (<https://www.irs.gov/Retirement-Plans/EP-Abusive-Tax-Transactions>).

and considerations for implementing collaborative mechanisms.⁸ We also drew on our April 2015 guide on fragmentation, overlap, and duplication.⁹ We interviewed IRS officials about options to coordinate or consolidate referral form intake in order to address areas of potential fragmentation, overlap, and duplication.

We conducted this performance audit from December 2014 to February 2016 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁸GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, [GAO-12-1022](#) (Washington, D.C.: Sept. 27, 2012), and *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005).

⁹GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, [GAO-15-49SP](#) (Washington, D.C.: Apr. 14, 2015).

Appendix II: IRS Form 3949-A Information Referral

Form 3949-A (March 2014)	Department of the Treasury - Internal Revenue Service Information Referral <i>(See instructions on reverse)</i>	OMB Number 1545-1960
Use this form to report suspected tax law violations by a person or a business.		
CAUTION: READ THE INSTRUCTIONS BEFORE COMPLETING THIS FORM. There may be other more appropriate forms specific to your complaint. (For example, if you suspect your identity was stolen, use Form 14039.)		
Section A – Information About the Person or Business You Are Reporting		
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.)		
1a. Name of individual	b. Social Security Number/TIN	c. Date of birth
d. Street address	e. City	f. State g. ZIP code
h. Occupation	i. Email address	
j. Marital status (<i>check one, if known</i>)		k. Name of spouse
<input type="checkbox"/> Married <input type="checkbox"/> Single <input type="checkbox"/> Head of Household <input type="checkbox"/> Divorced <input type="checkbox"/> Separated		
2a. Name of business	b. Employer Tax ID number (EIN)	c. Telephone number
d. Street address	e. City	f. State g. ZIP code
h. Email address	i. Website	
Section B – Describe the Alleged Violation of Income Tax Law		
3. Alleged violation of income tax law. (<i>Check all that apply.</i>)		
<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 (<i>describe in 5</i>)		
4. Unreported income and tax years Fill in Tax Years and dollar amounts, if known (<i>e.g., TY 2010- \$10,000</i>) TY _____ \$ _____ TY _____ \$ _____ TY _____ \$ _____ TY _____ \$ _____ TY _____ \$ _____		
5. Comments (<i>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.</i>) _____ _____ _____		
6. Additional information. Answer these questions, if possible. Otherwise, leave blank.		
a. Are book/records available? (<i>If available, do not send now. We will contact you, if they are needed for an investigation.</i>)		<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		Name
Street address		Street address
City	State ZIP code	City State ZIP code
Section C – Information About Yourself (<i>We never share this information with the person or business you are reporting.</i>) This information is not required to process your report, but would be helpful if we need to contact you for any additional information.		
7a. Your name	b. Telephone number	c. Best time to call
d. Street address	e. City	f. State g. ZIP code
Please print and send your completed form to: Internal Revenue Service Stop 31313 Fresno, CA 93888		
Catalog Number 47872E	www.irs.gov	Form 3949-A (Rev. 3-2014)

Instructions for Form 3949-A, Information Referral

General Instructions

What's New

The IRS has revised Section A of the form to clarify the information we are requesting, by rearranging and separating where to provide information about an individual, a business, or both. We provided more detailed explanations about the different check boxes for reporting alleged violations in Section B. We also clarified that Section C is where you provide information about yourself.

Purpose of the Form

Use Form 3949-A to report alleged tax law violations by an individual, a business, or both.

CAUTION: DO NOT USE Form 3949-A:

- o If you suspect your **identity was stolen**. Use [Form 14039](#). Follow "Instructions for Submitting this Form" on Page 2 of Form 14039.
- o To report suspected **misconduct by your tax return preparer**. Use [Form 14157](#). Submit to the address on the Form 14157.
- o If your **paid preparer** filed a return or made changes to your return **without your authorization**. Instead, use [Form 14157](#) AND [Form 14157-A](#). Submit both to the address on the Form 14157-A.
- o If you **received a notice** from the IRS about **someone claiming your exemption or dependent**. Follow the instructions on the notice. Do not complete Form 3949-A.
- o To report an **abusive tax avoidance scheme, promotion, or a promoter** of such a scheme. Use [Form 14242](#). Mail or FAX to the address or FAX number on the Form 14242.
- o To report misconduct or **wrongdoing by a tax exempt organization** or its officers, directors, or authorized persons. Use [Form 13909](#). Submit by mail, FAX, or email, according to the instructions on the Form 13909.

Specific Instructions

Section A – Provide Information About the Person/Business You Are Reporting, if known.

Provide as much information as you know about the person or business you are reporting.

1. **Complete if you are reporting an individual.** Include their name, street address, city, state, ZIP code, social security number or taxpayer identification number, occupation, date of birth, marital status, name of spouse (if married), and email address. Include as much information as you know.
2. **Complete if you are reporting a business.** Include the business name, business street address, city, state, ZIP code, employer identification number (EIN), telephone number(s), email address, and website, if known.
Note: Complete both parts if you are reporting a business and its owner.

Section B – Use to Describe the Alleged Tax Law Violation(s)

3. Check all Tax Violations That Apply to Your Report.

False Exemption- Claimed persons as dependents they are not entitled to claim.

False Deductions- Claimed false or exaggerated deductions to reduce their taxable income.

Multiple Filings- Filed more than one tax return to receive fraudulent refunds.

Organized Crime- Member of a group of persons who engaged in illegal enterprises such as drugs, gambling, loansharking, extortion, or laundering illegal money through a legitimate business.

Unsubstantiated Income- Reported false income from an unverifiable source in order to get a false refund.

Earned Income Credit- Claimed Earned Income Credit which they were not entitled to receive. They may have reported income they did not earn or claimed children they were not entitled to claim.

Public/Political Corruption- Public official or politician violated laws against using their position illegally for personal gain.

False/Altered Documents- Changed documents, such as a W-2 or Form 1099, or created fake documents to substantiate a false refund.

Appendix II: IRS Form 3949-A Information Referral

Page 3

Unreported Income- Received cash or other untraceable payments, such as goods or services, and did not report the income.

Narcotics Income- Received income from illegal drugs or narcotics.

Kickback- Received illegal payments or kickbacks in exchange for referring the business of a government agency or other business towards a company or for influencing business decisions that result in part of the payment for the business received or service performed being returned to the person who made the referral.

Wagering/Gambling- Did not report income received from wagering or gambling.

Failure to Withhold Tax- Individual or business did not withhold legally owed taxes from income paid to their employee(s), such as Social Security or Medicare taxes. Example: A business treated employees as independent contractors and issued Forms 1099, with no tax withheld, instead of a W-2.

Failure to File Return- Individual or business has not filed returns legally due.

Failure to Pay Tax- Individual or business has not paid taxes legally due.

Other- Describe in 5.

4. If your report involves unreported income, indicate the year(s) and the dollar amount(s).
5. Briefly describe the facts of the alleged tax law violation(s) as you know them. Please attach another sheet, if you need more room.
6. Additional Information, if known. Attach another sheet, if you need more room.

Section C – Provide Information about Yourself

7. Note: Information about yourself is NOT required to process your report, but may be helpful if we need additional information.

Please print and send your completed form to the Internal Revenue Service at:

Internal Revenue Service
Stop 31313
Fresno, CA 93888

Paperwork Reduction Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. This report is voluntary and the information requested helps us determine if there has been a violation of Income Tax Law. We need it to insure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administrations of any Internal Revenue laws. Generally, tax returns and tax return information are confidential, as required by Code section 6103.

The time required to complete this form will vary depending on individual circumstances. The estimated average time is 15 minutes.

Privacy Act Notice

We are requesting this information under authority of 26 U.S.C. 7801. The primary purpose of this form is to report potential violations of the Internal Revenue laws. The information may be disclosed to the Department of Justice to enforce the tax laws. Providing the information is voluntary. Not providing all or part of the information will not affect you.

Appendix III: Comment from the Treasury Department



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

February 08, 2016

Jessica Lucas-Judy
Acting Director, Tax Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Lucas-Judy:

Thank you for the opportunity to comment on the draft report titled *IRS Referral Programs: Opportunities Exist to Strengthen Controls and Increase Coordination across Overlapping Programs* (GAO 451131).

Information referrals are a key mechanism for the public to report potential tax noncompliance to the IRS, and this information has the potential to assist the IRS in identifying tax revenue that may otherwise go uncollected. Currently, the IRS has several avenues in which alleged tax noncompliance by individuals and businesses can be reported. Our specialized information referral programs include identity theft, misconduct by tax return preparers, abusive tax promotions, and wrongdoing by tax-exempt organizations. Individuals submitting these referrals can do so anonymously, and this operates outside of our Whistleblower Program (which is for individuals who are seeking a financial reward).

The information referrals that we receive go through a review and screening process to determine usability of the information submitted; culling out information that is erroneous, vague or otherwise not actionable. As noted in your report, in fiscal years 2012 through 2015, approximately 7% of information referrals routed to our operating divisions led to audits, which is a rate that is significantly higher than our overall audit rate of less than 1%. And the audits generated based on those referrals yielded over \$209 million in additional tax assessments recommended. What these figures reveal is that our screening process is effectively identifying the productive referrals for audit, and moreover, these referrals are making an important contribution to tax administration.


Your report identifies several opportunities for improvement of our information referral process; and recommends that we evaluate an organizational structure that would improve the overall effectiveness of the process, bringing about efficiency gains and improved management and oversight of our various referral programs. We appreciate your insight on our referral programs, and in response, we have just set up a cross-functional working group that is tasked with taking into account your findings to develop

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a streamlined, coordinated and efficient process with appropriate internal controls for managing this important tax program. We will also be exploring the feasibility of using a single form for the reporting of referral information, as well as considering whether and when we could offer a secure online option for the submission of this information to IRS.

We appreciate GAO's continued support and thoughtful insight as we strive to further strengthen our processes and programs throughout IRS. We are identifying the specific IRS actions to be taken to effectively address your recommendations, and will provide a more detailed description of our actions, responsible officials, and implementation timelines in our response to the final report. If you have any questions, you can contact me, or a member of your staff may contact Ivy McChesney, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Sincerely,



John M. Dalrymple
Deputy Commissioner for
Services and Enforcement

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Jessica K. Lucas-Judy (202) 512-9110, LucasJudyJ@gao.gov

Staff Acknowledgments

In addition to the contact named above, MaryLynn Sergent (Assistant Director), LaSonya Roberts, (Analyst in charge), Jehan A. Chase, Deirdre Duffy, Steven Flint, George Guttman, Laurie C. King, James R. McTigue, Donna L. Miller, and Cynthia M. Saunders made key contributions to this report.

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