

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



The Accuracy of Currency Transaction Report Data in IRS Systems Should Be Improved to Enhance Its Usefulness for Compliance Purposes

September 4, 2020

Reference Number: 2020-30-055

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HIGHLIGHTS: The Accuracy of Currency Transaction Report Data in IRS Systems Should Be Improved to Enhance Its Usefulness for Compliance Purposes



Final Audit Report issued on September 4, 2020
Reference Number 2020-30-055

Why TIGTA Did This Audit

In a prior audit, TIGTA found that Currency Transaction Report (CTR) data stored in the Integrated Data Retrieval System incorrectly aggregated CTR amounts for multiple individuals and showed the same CTR total dollar amount for these individuals. This audit was initiated as a follow-up audit to determine filing noncompliance of taxpayers who have received CTRs, and evaluate the accuracy of CTR data in IRS information systems.

Impact on Taxpayers

The Currency and Foreign Transactions Reporting Act of 1970, referred to as the Bank Secrecy Act, requires U.S. financial institutions to assist U.S. Government agencies by filing reports concerning currency transactions. One such report is the CTR, which financial institutions are required to file with the Financial Crimes Enforcement Network (FinCEN) for currency transactions that exceed \$10,000 or multiple currency transactions that aggregate more than \$10,000 in a single day. The IRS considers CTR information to be useful in identifying cash activity that may not be reported accurately on the income tax return. It may lead the examiner to discover sources of unreported income, often derived from criminal activity, and provides invaluable information not obtainable elsewhere.

What TIGTA Found

Some subjects of the CTRs with significant dollar amounts of cash-in transactions may not be filing income tax returns. Although CTR data are officially collected and maintained by FinCEN, the IRS can use CTR data for compliance purposes. TIGTA found that 5,266 subjects of cash-in CTRs totaling more than \$1.9 billion did not file income tax returns for Tax Year 2017; however, the IRS is not using this data to identify nonfilers.

Additionally, the IRS is not tracking CTR amounts accurately for some individuals. The data retrieval system used by IRS employees in some cases incorrectly aggregated CTR amounts for multiple unrelated individuals and presented these amounts as CTRs for one person. The IRS is also including the CTRs from earlier processing years. Instead of using the transaction date to assign a calendar year to the CTR, the date of entry was used which, in some cases, was assigned the incorrect processing year.

The IRS has limited processes to validate the quality and reliability of the data imported from FinCEN. For example, the IRS does not perform record counts to verify that all transactions are properly imported. TIGTA reviewed data contained in FinCEN's database and compared it to IRS systems and found that some CTRs were missing from some IRS databases. Additionally, the IRS imports some details of currency transactions but does not import or make available some information that could be useful for compliance.

What TIGTA Recommended

TIGTA recommended that the IRS use CTR data to systemically identify potentially noncompliant taxpayers and nonfilers, ensure the accuracy of CTR data in the Information Returns Master File, develop processes to verify that data imported are complete and reliable, and ensure the data are accessible to IRS employees.

IRS management agreed with one recommendation and plans to conduct a review of its case identification and selection processes to determine if CTR data can be used more effectively to systemically identify and/or select cases. The IRS partially agreed with another recommendation pertaining to ensuring the accuracy of CTR data and disagreed with two recommendations pertaining to developing processes to ensure that imported data are complete and reliable and to ensure that the data are accessible to IRS employees. TIGTA believes that in cases when the initial review of CTR data are based on inaccurate, incomplete, or missing data presented in IRS systems, an examiner may make incorrect decisions based on the inaccurate data or may not request FinCEN data if the examiner believes that no such data exist. Given that the errors of the data presented in some IRS systems amount to trillions of dollars, the IRS should attempt to validate CTR data imported into its systems, whether or not it owns the data.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 4, 2020

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Accuracy of Currency Transaction Report Data in IRS Systems Should Be Improved to Enhance Its Usefulness for Compliance Purposes (Audit # 201830035)

This report presents the results of our review to determine filing noncompliance of taxpayers who have received Currency Transaction Reports, and evaluate the accuracy of Currency Transaction Reports data in the Internal Revenue Service's information systems. This review is part of our Fiscal Year 2020 Annual Audit Plan and addresses the major management and performance challenge of *Improving Tax Compliance and Payment Compliance*.

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

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).



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Background

The U.S. Department of the Treasury established the Financial Crimes Enforcement Network (FinCEN) in 1990 to provide a Government-wide multisource financial intelligence and analysis network. The organization's operation was broadened in 1994 to include regulatory responsibilities for administering the Bank Secrecy Act (BSA), one of the Nation's most potent weapons to prevent corruption of the U.S. financial system.¹

Congress passed the BSA in 1970 as one of the first laws to fight money laundering in the United States. The BSA requires businesses to keep records and file reports that are determined to have a high degree of usefulness in criminal, tax, and regulatory matters. The documents filed by businesses under BSA requirements are used by law enforcement agencies, both domestic and international, to identify, detect, and deter money laundering whether it is in furtherance of a criminal enterprise, terrorism, tax evasion, or other unlawful activity. As a partner in the U.S. National Money Laundering Strategy, the Internal Revenue Service (IRS) seeks to achieve a balance between enforcement of the money laundering laws and education.

Federal law requires financial institutions to report currency (cash or coin) transactions of more than \$10,000 conducted by, or on behalf of, one person, as well as multiple currency transactions that aggregate to be more than \$10,000 in a single day. FinCEN Form 112, *Currency Transaction Report*, is used to report these transactions. The Federal law requiring Currency Transaction Reports (CTR) was passed to safeguard the financial industry from threats posed by money laundering and other financial crime. To comply with this law, financial institutions must obtain personal identification information about the individual conducting the transaction such as a Social Security Number, as well as a driver's license or other government-issued document. This requirement applies whether the individual conducting the transaction has an account relationship with the institution or not.

FinCEN's regulations implementing the BSA require financial institutions to aggregate multiple currency transactions, "if the financial institution has knowledge that [the multiple transactions] are by or on behalf of any person and result in either cash in or cash out totaling more than \$10,000 during any one business day."² Accordingly, the financial institution must file FinCEN Form 112 when it has knowledge that the same person has conducted multiple transactions that total more than \$10,000 in currency in one business day or when it has knowledge that multiple transactions that total more than \$10,000 in currency in one business day are on behalf of the same person.

Prior to 2012, the IRS was responsible for receiving and maintaining the CTRs. In 2012, the responsibility for tracking the CTRs transitioned to FinCEN. Although FinCEN is now responsible

Federal law requires financial institutions to report currency (cash or coin) transactions of more than \$10,000 conducted by, or on behalf of, one person, as well as multiple currency transactions that aggregate to be more than \$10,000 in a single day.

¹ Pub. L. No. 91-508, 84 Stat. 1114-4 (1970) (codified as amended in scattered sections of 12 U.S.C., 18 U.S.C., and 31 U.S.C.).

² 31 Code of Federal Regulations section 1010.313 (2011).



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for the administration of the CTRs, the IRS can still use CTR information to identify cash activity that may not be accurately reported on income tax returns and as an indicator of compliance issues that should be incorporated into income tax examinations. For example, one examination method involves using the CTRs and bank deposits to conduct an analysis of potential taxable income.

The Treasury Inspector General for Tax Administration (TIGTA) issued an audit report on the BSA Program in September 2018 that found that referrals of Title 31 penalty cases to FinCEN go through lengthy delays and have little impact on compliance.³ The report also found that less than one-half of the referrals made to IRS Criminal Investigation were accepted. TIGTA recommended that the IRS: 1) coordinate with FinCEN on the authority to assert Title 31 penalties or reprioritize resources to more productive work, 2) leverage the BSA Program's Title 31 authority and annual examination planning in the development of the IRS's virtual currency strategy, 3) notify examiners of new appointment letter enclosures that includes Publication 1, *Your Rights as a Taxpayer*, 4) evaluate the effectiveness of the newly implemented review procedures for FinCEN referrals, and 5) improve the process for referrals to IRS Criminal Investigation. The IRS agreed with four of the five recommendations, but disagreed with pursuing Title 31 penalty authority stating it was outside its purview and that FinCEN intends to retain this authority.

TIGTA issued another audit report in September 2018 on the IRS's use of CTR information to select and examine taxpayers.⁴ This audit found that the IRS was not systemically using the CTRs to identify and pursue potentially noncompliant individuals. The IRS also was not effectively tracking information referrals from BSA Program examiners to the Examination function. IRS management agreed with the recommendations and planned to take corrective actions. However, the IRS's response to the report stated that it disagreed with TIGTA's assertion that the IRS did not make effective use of the CTRs.

During the fieldwork for the September 2018 CTR review, TIGTA found that CTR data stored in the IRS's Integrated Data Retrieval System displayed incorrectly aggregated CTR amounts for multiple individuals and showed the same CTRs total dollar amount for these individuals.⁵ The current audit is a follow-up to this earlier CTR audit with the objective to determine filing noncompliance of taxpayers who have received the CTRs and evaluate the accuracy of CTR data in the IRS's information systems.

Results of Review

Our review of CTR data obtained directly from FinCEN found that thousands of individuals with billions of dollars of CTR cash-in transactions for Calendar Year (CY) 2017 have not filed income tax returns.⁶ CTR data have been officially maintained and reported by FinCEN since 2012. Prior to this, the IRS collected CTR data. However, programming limitations in IRS computer systems

³ TIGTA, Ref. No. 2018-30-071, *The Internal Revenue Service's Bank Secrecy Act Program Has Minimal Impact on Compliance* (Sept. 2018).

⁴ TIGTA, Ref. No. 2018-30-076, *The Internal Revenue Service Still Does Not Make Effective Use of Currency Transaction Reports* (Sept. 2018).

⁵ See Appendix IV for a glossary of terms.

⁶ FinCEN defines cash-in as a transaction or series of transactions in currency into a financial institution involving more than \$10,000 conducted by or on behalf of the same person on the same business day.



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since the transfer of responsibility to FinCEN have resulted in FinCEN's CTR data being inaccurately presented in IRS systems due to changes in reporting methodology initiated by FinCEN and programming limitations in IRS computer systems. In addition, the IRS has limited processes to validate the quality and reliability of the data imported from FinCEN.

Some Subjects of Currency Transaction Reports With Large Cash-In Transactions Are Not Filing Income Tax Returns

During our review, we found that individuals identified in the CTRs with a total of more than \$100,000 of cash-in transactions may not be filing required income tax returns. We reviewed FinCEN CTR data to identify all taxpayers with combined CTRs with total cash-in of more than \$100,000 and found that 5,266 subjects of cash-in CTRs totaling more than \$1.9 billion did not file income tax returns for Tax Year 2017. We are unable to determine the amount of taxable income for these subjects of the CTRs because they did not file tax returns. However, the large amount of cash transactions for these taxpayers, combined with the failure to file a tax return, is an indication of tax noncompliance.

The IRS's latest estimate of the Tax Gap, the amount of tax liability not paid voluntarily and timely, was \$441 billion annually for Tax Years 2011 through 2013. The Tax Gap is comprised of taxpayers not providing tax returns to establish liabilities (nonfiling), taxpayers misreporting amounts used to calculate liabilities (underreporting), and taxpayers not paying liabilities reported on timely filed tax returns (underpayment). The IRS estimates that these components contribute \$39 billion, \$352 billion, and \$50 billion, respectively, to the Tax Gap annually.

TIGTA's review found that 5,266 subjects of cash-in CTRs totaling more than \$1.9 billion did not file income tax returns for Tax Year 2017.

In response to our September 2018 CTR report, IRS officials stated that the IRS is not systemically using the CTRs to identify and pursue individuals who are not meeting their filing obligations. Based on the number of subjects of the CTRs we found who have not filed tax returns, and the amount of cash-in transactions, the IRS could potentially be missing an opportunity to bring thousands of individuals into compliance and reduce the nonfiling and underreporting portions of the Tax Gap. TIGTA continues to believe that accurate CTR data would be useful to IRS functions such as Criminal Investigation, Collection, and Examination, as part of planning, selecting, and accomplishing their workload.

Recommendation 1: The Commissioner, Small Business/Self-Employed Division, should improve the case identification and selection process by using CTR data to systemically identify potentially noncompliant taxpayers and nonfilers.

Management's Response: IRS management agreed with this recommendation. In its response, the IRS stated that it will conduct a review of the case identification and selection processes to determine if CTR data can be used more effectively to systemically identify and/or select cases.



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Data Importing Errors Cause Inaccurate Currency Transaction Report Data

Since 2012, FinCEN has had the responsibility to collect CTR data, which the IRS collected previously. Certain outside agencies, such as the IRS, can access the data to download into their own systems. After assuming the responsibility for collecting CTR data, FinCEN allowed the batching of individual CTR transactions into larger batches of data. However, technical issues with the IRS's data translation process transmit the CTR Form total rather than the CTR Transaction total from one IRS system (Web Currency and Banking Retrieval System) to another (Information Returns Master File) when multiple transactions are reported on a single CTR form, which resulted in a large number of overstated cash transactions. An IRS Unified Work Request was approved in May 2020 that is intended to address the data translation issues, with an implementation date of September 2021. In addition, the IRS is not adequately validating FinCEN's data or performing record counts, resulting in the addition of millions of inaccurate CTR transactions each year to IRS databases.

IRS computer systems display incorrect CTR amounts for individuals

The IRS was originally responsible for the collection of CTR information, initially using its Currency and Banking Retrieval System. In 2012, this responsibility was transferred to FinCEN. The IRS now obtains CTR data by accessing a FinCEN server, where files are placed on a daily basis for downloading by outside agencies, including the IRS. After CTR data are downloaded from the FinCEN server, IRS programs transmit the data into other IRS systems. Prior to 2013, CTR forms were filed on a transaction-by-transaction basis, with a dollar amount recorded for each transaction. Starting in 2013, multiple CTR records could be batched in a single record that included an individual transaction amount and a form total amount.

The IRS has experienced technical difficulties with importing FinCEN data following the change to batched CTR records, causing some individual CTR records to reflect the form total instead of the individual transaction amount, resulting in millions of overstated transactions. Below is a hypothetical example showing the misstated CTR amounts.

Batched FinCEN Cash-In CTR With Two Individual Transactions:

Person A batched in FinCEN CTR Cash-In Amount: \$10,000

Person B batched in FinCEN CTR Cash-In Amount: \$15,000

Total Batched FinCEN CTR Cash-In Amount: \$25,000

IRS CTR Cash-In Data Resulting From Import of Batched FinCEN Data:

Person A CTR Cash-In Amount Shown in IRS data: \$25,000

Person B CTR Cash-In Amount Shown in IRS data: \$25,000

Figures 1 and 2 show the amounts by which CTR cash-in and cash-out transactions were overstated in IRS computer systems for CYs 2015 to 2017.⁷ This inaccurate information was

⁷ FinCEN defines cash-out as a transaction or series of transactions in currency out of a financial institution involving more than \$10,000 conducted by or on behalf of the same person on the same business day.



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included in IRS computer systems, including the Information Returns Master File and the Integrated Data Retrieval System, preventing IRS examiners and workload planning functions from using the data to select and examine returns of taxpayers with cash transactions that may indicate underreported income.⁸

Figure 1: Overstated Cash-In CTRs for CYs 2015 to 2017 (IRS Amount Greater Than FinCEN Amount)

CY	Number of CTR Transactions	Overstated CTR Amount
2015	5,151,586	\$2,331,179,418,378
2016	5,678,862	\$2,875,069,767,377
2017	6,361,336	\$4,825,035,690,442
Total	17,191,784	\$10,031,284,876,197

Source: TIGTA analysis of IRS and FinCEN data.

Figure 2: Overstated Cash-Out CTRs for CYs 2015 to 2017 (IRS Amount Greater Than FinCEN Amount)

CY	Number of CTR Transactions	Overstated CTR Amount
2015	315,079	\$52,172,495,770
2016	381,106	\$84,549,120,759
2017	526,567	\$129,188,515,556
Total	1,222,752	\$265,910,132,085

Source: TIGTA analysis of IRS and FinCEN data.

In August 2019, the IRS issued an Interim Guidance Memo to clarify actions examiners must take to analyze and document CTR data during an audit. The memo cautioned that CTR data on some IRS systems contain minimal information and the total reflected could be an aggregate of several unrelated transactions. Therefore, examiners must complete a form to request a full copy of CTR data from a FinCEN Query Super User. In May 2020, an IRS Unified Work Request was approved to make programming changes to ensure that multiple transactions recorded on a single CTR are correctly attributed to the respective transaction subject.⁹ The proposed implementation date for the changes is September 2021.

IRS CTR data for individuals include transactions from earlier calendar years

The IRS's system should record CTR transactions for the calendar year in which they occurred. However, our review found that some CTRs from earlier calendar years are recorded as current

⁸ The FinCEN Query search engine replaced the IRS Web Based Currency and Banking Retrieval System, previously used to obtain BSA data.

⁹ A Unified Work Request is an IRS document used to manage demand for information technology products and services.



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year transactions in the IRS's databases although they occurred in prior calendar years, because the IRS performs limited validation on FinCEN data it receives (consisting of confirming that the CTR contains a Taxpayer Identification Number, name, and dollar amount). The IRS could perform additional data validation techniques such as checking for duplicate entries, confirming no missing entries, verifying null entries, and checking for unusually large outliers and out-of-date data. As a result, IRS data do not reflect accurate CTR amounts for a given calendar year, and IRS employees may not see transactions in the actual year of occurrence. Figure 3 shows the number of transactions reported in the incorrect year for CYs 2015 to 2017.

Figure 3: CTRs With Incorrect Transaction Dates for CYs 2015 to 2017 (Dates Prior to Transaction Calendar Year)

CY	Number of CTRs	Oldest Transaction Date
2015	3,856,212	8/25/1950
2016	1,429,892	7/26/1916
2017	1,096,440	6/19/1917

Source: TIGTA analysis of IRS and FinCEN data.

Recommendation 2: The Commissioner, Small Business/Self-Employed Division, should continue to work with the IRS Information Technology organization to ensure the accuracy of CTR data in the Information Returns Master File. Specifically, ensure that the proper amounts are shown for CTR cash-in and cash-out transactions and accurate calendar year totals are transmitted.

Management's Response: The IRS partially agreed with this recommendation and disagreed with the related outcome measure (see Appendix II for more detailed information on the reported outcome measures). In its response, the IRS stated that significant demands across the IRS for information technology updates resulting from recent legislative changes would prevent the IRS from implementing this recommendation. However, if the suggested changes were implemented, agents would still need to request the most comprehensive and current data available during an examination.

Office of Audit Comment: We believe that presenting significantly inaccurate data in IRS systems can adversely affect an examiner's decision on whether to review data directly using FinCEN Query. In cases in which the initial review of CTR data is based on inaccurate, incomplete, or missing data presented in IRS systems, an examiner may make incorrect decisions based on the inaccurate data or may not request FinCEN data if the examiner believes that no such data exist.

Existing Controls Do Not Ensure That All Useful Currency Transaction Report Data Are Available

The IRS currently has limited processes to validate the quality and reliability of the data imported from FinCEN. For example, the IRS does not perform record counts to verify that all



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transactions are properly imported. In addition, the IRS does not include all useful data fields for use in IRS systems.

Some CTR reports in FinCEN's database are missing from IRS systems

The IRS attempts to import all CTR data from FinCEN, but it does not perform record count checks or other procedures to verify that all transactions are properly imported. The Government Accountability Office's *Standards for Internal Control in the Federal Government* requires government entities to use quality information to achieve the entity's objectives.¹⁰ IRS management should evaluate both internal and external sources of data for reliability to meet these standards.

During our review, we compared the total number and amounts of the CTRs contained in the FinCEN database for CYs 2015 to 2017 to the number and amounts of the CTRs contained in IRS computer systems for the same period and found 446,399 CTRs from the FinCEN database that were not in the IRS's databases. Figure 4 shows the number of CTRs contained in the FinCEN database that were not found in IRS computer systems. According to IRS management, a limited review of these records found that some transactions had incorrect account numbers that were erroneously used in place of transaction amounts, duplicated entries, and amended CTRs correcting previous errors.

Figure 4: FinCEN CTRs Not Found in IRS Databases for CYs 2015 to 2017

CY	Total Number of FinCEN CTRs Not Found in IRS Databases
2015	134,048
2016	115,182
2017	197,169

Source: TIGTA analysis of IRS and FinCEN data.

The August 2019 Interim Guidance Memo noted that CTR data may exist but not be shown on some IRS systems. Examiners were encouraged to consider requesting FinCEN Query data from a Super User in situations that indicate CTR data may be present.

More useful CTR data are available but not included in IRS systems

The IRS imports CTR transactions from FinCEN data, but does not import or present all the data fields. The primary reason for this is that the IRS used data fields designed to import data for multiple tax forms including the Form 1098, *Mortgage Interest Statement*, the Form 1099 series, and several other forms and repurposed the data fields to import CTR data. However, not all CTR fields were viewable in IRS systems. Some examples of missing fields that could be useful to the IRS are shown below:

- Type of CTR Report (Initial/Amended).

¹⁰ Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).



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- Person Involved Type (Conducting Transaction on own behalf, On behalf of another).
- Alternate Name/Business Name.
- Occupation/Type of Business.
- Bank Account Numbers.
- Contact information (Telephone Number, E-mail Address).

The Government Accountability Office's *Standards for Internal Control in the Federal Government* requires government entities to use quality information to achieve the entity's objectives. Quality information is defined as appropriate, current, complete, accurate, accessible, and provided on a timely basis. IRS management should evaluate CTR transaction data viewable in its systems to ensure that quality information is available. Otherwise, the IRS may not have sufficient information to identify potential tax noncompliance and conduct quality examinations because incomplete CTR transaction data from FinCEN are imported into IRS computer systems.

The Commissioner, Small Business/Self-Employed Division, should:

Recommendation 3: Work with the IRS Information Technology organization to develop processes to validate the reliability of the CTR data accessible to IRS employees viewing CTR data in IRS systems. These processes should include steps to ensure that all records are imported as intended.

Management's Response: The IRS disagreed with this recommendation and the related outcome measure (see Appendix II for more detailed information on the reported outcome measures). In its response, the IRS stated that it accurately and completely imports FinCEN data daily, including all relevant fields and amendments. In addition, the IRS noted that it does not own the data that are imported from FinCEN and lacks authority to validate the reliability of the information.

Office of Audit Comment: As noted in our report, the Government Accountability Office's *Standards for Internal Control in the Federal Government* recommends that government entities use quality information to achieve the entity's objectives. During our review, IRS management completed a limited review of the records we identified and found that some transactions had incorrect account numbers that were erroneously used in place of transaction amounts, duplicated entries, and amended CTRs correcting previous errors. For example, as Figure 1 demonstrates, the erroneous cash-in transactions over three years exceeded \$10 trillion. Perfecting this important tax administration information should be an IRS priority.

Recommendation 4: Work with the IRS Information Technology organization to validate the quality of CTR data accessible to IRS employees viewing CTR data in IRS systems. These processes should ensure that all useful fields are available to IRS employees using CTR records.

Management's Response: The IRS disagreed with this recommendation. In its response, the IRS stated that it accurately and completely imports FinCEN data daily, including all relevant fields and amendments. The IRS noted that it does not own the data that are imported from FinCEN and lacks authority to validate the reliability of the information. However, the IRS stated that its processes, procedures, and guidance



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ensure that employees who need CTR data receive complete and up-to-date FinCEN information directly from its source.

Office of Audit Comment: During our review, IRS management completed a limited review of the records we identified and found that some transactions had incorrect account numbers that were erroneously used in place of transaction amounts, duplicated entries, and amended CTRs correcting previous errors. As we point out in our Office of Audit Comment to Recommendation 3, such errors amount to trillions of dollars. In cases in which the initial review of CTR data is based on inaccurate, incomplete, or missing data presented in IRS systems, an examiner may make incorrect decisions based on the inaccurate data or may not request FinCEN data if the examiner believes that no such data exist.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine filing noncompliance of taxpayers who have received CTRs, and evaluate the accuracy of CTR data in the IRS's information systems. To accomplish our objective, we:

- Identified and documented IRS policies, procedures, and controls over importing CTR data from FinCEN.
- Obtained CTR data for CYs 2015 through 2017 from FinCEN and compared to data in IRS systems to determine the accuracy of IRS data by comparing CTR transactions in FinCEN Query to the same transactions in the Information Returns Master File to determine if the IRS is accurately reporting the transactions as shown in FinCEN Query.
- Analyzed CTR data, information returns, and individuals' tax records on IRS systems to determine if there is a potential for unreported income by identifying individual nonfilers with cash-in CTRs of more than \$100,000.
- Evaluated the risk of fraud, waste, and abuse to obtain reasonable assurance that CTR data inaccuracies do not exist due to impropriety.

Performance of This Review

This review was performed with information obtained from the IRS Application Development office located in Detroit, Michigan, and from IRS personnel in various locations during the period September 2018 through May 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Linna Hung, Director; Robert Jenness, Audit Manager; and John Park, Lead Auditor.

Validity and Reliability of Data From Computer-Based Systems

During this review, we relied on data stored at TIGTA's Data Center Warehouse and performed analysis of data received from the IRS and FinCEN. We performed tests to assess the reliability of the data and evaluated the data by performing electronic testing of required data elements, reviewing existing information about the data and the system that produced them, and interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.



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Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the Internal Revenue Manual, along with other IRS policies and procedures for handling FinCEN CTR data.



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Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 18,414,536 CTR records with cash-in and cash-out transactions were overstated in IRS computer systems (see Recommendation 2).

Methodology Used to Measure the Reported Benefit:

We compared CTR cash-in and cash-out transactions obtained from FinCEN for CYs 2015 to 2017 to CTR cash-in and cash-out data in IRS data systems for the same period. Our analysis determined that due to technical difficulties with importing FinCEN data into IRS systems, a total of 18,414,536 CTR records (17,191,784 cash-in CTRs and 1,222,752 cash-out CTRs) had larger transaction amounts in IRS systems than in FinCEN data.

Management's Response: The IRS disagreed with this outcome measure, stating that the overstated CTR amounts were limited to the Information Returns Master File, which is the data source for the Integrated Data Retrieval System. CTR data in other IRS systems, such as the Web Currency and Banking Retrieval System, are not overstated and are presented correctly. In addition, the IRS stated that CTR overstatements identified do not hinder examinations, as the mere presence and not the amount of CTR information in IRS systems triggers the examiner to obtain complete and accurate CTR information from the FinCEN Query System, the system of record for all FinCEN forms data.

Office of Audit Comment: We believe that the methodology used to quantify the outcome was appropriate and provides a reasonable estimate of the number of CTR records that were potentially unreliable in the Information Returns Master File. TIGTA acknowledges that the IRS has processes that instruct the examiner to obtain complete and accurate CTR data from the FinCEN Query System; however, this does not negate the existence of CTR data with overstated cash-in and cash-out transaction amounts. Furthermore, the IRS has requested programming changes designed to ensure that multiple transactions recorded on a single CTR are correctly recorded.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 6,382,544 CTR records had transaction dates from earlier calendar years (see Recommendation 3).



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Methodology Used to Measure the Reported Benefit:

We compared the dates for CTR transactions in FinCEN data for CYs 2015 to 2017 to the transaction dates for CTR transactions in IRS data systems for the same period. Our analysis determined that due to the limited data validation performed by the IRS, a total of 6,382,544 CTR records had transaction dates from earlier calendar years.

Management's Response: The IRS disagreed with this outcome measure, stating that the IRS does not control the timing of submissions and/or corrections issued by the financial institutions to FinCEN. Additionally, recently issued Interim Guidance for IRS examiners addresses these timing issues by requiring use of FinCEN Query data when CTR information is present (in any amount) on Information Return Processing transcripts.

Office of Audit Comment: We believe that the methodology used to quantify the outcome was appropriate and provides a reasonable estimate of the number of CTR records that were potentially unreliable in the Information Returns Master File. TIGTA acknowledges that the IRS does not control the timing of submissions and/or corrections issued by the financial institutions to FinCEN; however, the IRS is responsible for ensuring that the information available in its system is accurate and reliable.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 446,399 CTR records in the FinCEN database were not in the IRS's computer systems (see Recommendation 4).

Methodology Used to Measure the Reported Benefit:

We compared CTR transactions in FinCEN data for CYs 2015 to 2017 to CTR transactions in IRS data systems for the same period. Our analysis found 446,399 CTRs contained in the FinCEN database that were not in the IRS's computer systems.

Management's Response: The IRS disagreed with this outcome measure, stating that the missing CTRs were found in the Information Returns Master File, which is the data source for the Integrated Data Retrieval System. The information in the Web Currency and Banking Retrieval System is accurate. In addition, the IRS believes the count of records reported as missing is overstated and includes faulty records.

Office of Audit Comment: We believe that the methodology used to quantify the outcome was appropriate and provides a reasonable estimate of the number of CTR records that were not in the Information Returns Master File. We acknowledge that the IRS has processes that instruct the examiner to obtain complete and accurate CTR data from the FinCEN Query System; however, in cases in which the initial review of CTR data are based on missing data presented in IRS systems, an examiner may not request FinCEN data if the examiner believes that no such data exist. With respect to the IRS's concerns that the numbers reported are overstated and include faulty records, the IRS's review of the records provided to it during this review confirmed our concerns with the reliability of the data in the IRS's system. As noted in the IRS's response, CTR records we obtained from the IRS's systems included a number of duplicate records and records that were still available despite amended CTR filings.



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Appendix III

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/Self-EMPLOYED DIVISION

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

August 20, 2020

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Eric C. Hylton **Eric C. Hylton** Digitally signed by Eric C. Hylton
Date: 2020.08.20 11:02:24 -04'00'
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report - The Accuracy of Currency Transaction
Report Data in IRS Systems Should Be Improved to Enhance Its
Usefulness for Compliance Purposes (Audit # 201830035)

Thank you for the opportunity to review and comment on the above subject draft audit report. Under the Currency and Foreign Transactions Reporting Act of 1970, U.S. financial institutions are required to file reports, including the Currency Transaction Report (CTR), concerning currency transactions. This information can be useful in identifying cash activity that may not be reported accurately on an income tax return. However, the presence of CTR information, by itself, does not establish unreported income and, therefore, we cannot make a tax assessment or confirm non-compliance based solely on CTR information. Nonetheless, we utilize CTRs in our case building process, in examinations, and to generate referrals.

The IRS recognizes the impact accurate CTR information has on tax compliance and agrees that proper analysis of this information may uncover sources of unreported income or provide important information that can't be obtained elsewhere. We receive daily imports of Financial Crimes Enforcement Network (FinCEN) data, which includes the most comprehensive and current data available, and use that information to detect possible non-tax compliance during our examinations. We have processes, procedures, and guidance in the Internal Revenue Manual that direct examiners to request FinCEN Query data from designated IRS personnel in all cases where the need for such information is indicated. In calendar year 2019, IRS personnel completed 132,974 FinCEN inquiries. Additionally, when a Bank Secrecy Act (BSA) examination identifies unusual cash activity, those cases are referred; from fiscal year 2015 through July 2020, Field Examination closed over 7,000 returns and assessed approximately \$525.1 million from BSA referrals.

We will review our case identification and selection processes to determine if CTR data can be more effectively used. However, we cannot commit to updating the Information Return Master File (IRMF) when recent legislation has placed significant demands on



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our Information Technology resources, especially when our agents already have access to complete and up-to-date FinCEN data. In addition, we do not believe we should weaken our internal controls to create direct access for all examiners based on perceived efficiency gains or improved convenience.

We disagree with your outcome measures and we address our disagreement in the attachment to this memorandum, which also provides a detailed response to address your recommendations. If you have any questions, please contact me or Scott Irick, Director, Examination Operations, Small Business/Self-Employed Division.

Attachment



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Attachment

Recommendation 1:

The Commissioner, Small Business/Self-Employed Division, should improve the case identification and selection process by using CTR data to systemically identify potentially noncompliant taxpayers and nonfilers.

Planned Corrective Action:

We will conduct a review of the case identification and selection processes to determine if CTR data can be more effectively utilized systemically to identify and/or select cases.

Implementation Date:

November 15, 2021

Responsible Official:

Director, Exam Case Selection

Corrective Action Monitoring Plan:

IRS will monitor this corrective action as part of our internal management system of controls.

Recommendation 2:

The Commissioner, Small Business/Self-Employed Division, should continue to work with the IRS Information Technology organization to ensure the accuracy of CTR data in the Information Returns Master File. Specifically, ensure that the proper amounts are shown for CTR cash-in and cash-out transactions and accurate calendar year totals are transmitted.

Planned Corrective Action:

The IRS already has processes, procedures, and guidance that allow examiners to obtain the sensitive FinCEN Query data when needed for examinations. Additionally, there are significant demands across the IRS for information technology updates resulting from recent legislative changes. Therefore, we cannot commit to this recommendation. Moreover, the compliance impact of this recommendation is limited, because the IRMF information is only updated annually. Even if the suggested changes were implemented, our agents would still need to request FinCEN Query data to receive the most comprehensive and current data available.

Implementation Date:

N/A

Responsible Official:

N/A



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Corrective Action Monitoring Plan:

N/A

Recommendation 3:

The Commissioner, Small Business/Self-Employed Division, should work with the IRS Information Technology organization to develop processes to validate the reliability of the CTR data available accessible to IRS employees viewing CTR data in IRS systems. These processes should include steps to ensure that all records are imported as intended.

Planned Corrective Action:

The IRS accurately and completely imports the FinCEN data daily, including all relevant fields and amendments. The IRS does not own the data that is imported from FinCEN and lacks authority to validate the reliability of this information.

Implementation Date:

N/A

Responsible Official:

N/A

Corrective Action Monitoring Plan:

N/A

Recommendation 4:

The Commissioner, Small Business/Self-Employed Division, should work with the IRS Information Technology organization to validate the quality of CTR data accessible to IRS employees viewing CTR data in IRS systems. These processes should ensure that all useful fields are available to IRS employees using the CTR records.

Planned Corrective Action:

The IRS accurately and completely imports the FinCEN data, including all relevant fields and amendments, daily. The IRS does not own the data that is imported from FinCEN and lacks authority to validate the reliability of this information. Our processes, procedures, and guidance ensure that employees who need CTR data receive complete and up-to-date FinCEN information directly from its source.

Implementation Date:

N/A



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Responsible Official:

N/A

Corrective Action Monitoring Plan:

N/A

OUTCOME MEASURE 1:

Reliability of Information – Potential; 18,414,536 CTR records with cash-in and cash-out transactions were overstated in IRS computer systems (see Recommendation 2).

IRS RESPONSE:

This measure refers collectively to IRS computer systems, but the overstated CTR amounts identified by TIGTA are limited to one IRS system only, the IRMF, which is the data source for the Information Data Retrieval System (IDRS). CTR data in other IRS systems, such as WebCBRS, are not overstated and are presented correctly.

Moreover, the CTR overstatements identified by TIGTA do not hinder examinations, as the mere presence and not the amount of the CTR information in IRMF/IDRS triggers the examiner to obtain complete and accurate CTR information from the FinCEN Query System, the system of record for all FinCEN forms data.

OUTCOME MEASURE 2:

Reliability of Information – Potential; 6,382,544 CTR records had transaction dates from earlier calendar years (see Recommendation 3).

IRS RESPONSE:

The IRS does not control the timing of submissions and/or corrections issued by the financial institutions to FinCEN. Additionally, recently issued Interim Guidance for IRS examiners addresses these timing issues by requiring use of FinCEN Query data when CTR information is present (in any amount) on Information Return Processing (IRP) transcripts.

OUTCOME MEASURE 3:

Reliability of Information – Potential; 446,399 CTR records in FinCEN database were not in the IRS's computer systems (see Recommendation 4).

IRS RESPONSE:

Outcome Measure 3 refers collectively to IRS computer systems when the records reported missing by TIGTA were based on data from only one IRS system, the IRMF,



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from which IDRS pulls data. The information in WebCBRS, which is an IRS computer system, is accurate.

Additionally, we believe the count of records that TIGTA reports as missing is overstated and includes faulty records. When the IRS requested data supporting the basis for Recommendation 4, TIGTA agreed to provide only the 10 CTR records for each year having the largest transaction amount. A review of this small subset of data identified several data quality issues, including duplicated records. The data set included ten records each for 2015, 2016 and 2017, for a total of 30 records. Of the ten CTR records provided for 2017, seven were duplicate records, with one of the records duplicated six times. For the 2016 data subset, two faulty transactions were included, which totaled more than 3 trillion dollars. One of the transactions resulted from the filer's erroneous substitution of a 13-digit account number for the transaction amount. For the 2015 data subset, TIGTA included an implausible cash transaction of more than 9 billion dollars and did not consider two amended CTR filings.



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Appendix IV

Glossary of Terms

Term	Definition
Bank Secrecy Act Program	The IRS BSA Program educates, examines, and enforces compliance with BSA reporting requirements for individuals required to file a FinCEN Form 114, <i>Report of Foreign Bank and Financial Accounts</i> , and nonbank financial institutions required to file the CTRs, as well as trades and businesses that are required under both the BSA and the Internal Revenue Code to file a FinCEN Form 8300, <i>Report of Cash Payments Over \$10,000 Received in a Trade or Business</i> , when receiving cash of more than \$10,000.
Calendar Year	The 12-consecutive-month period beginning January 1 and ending on December 31.
Information Returns Master File	Part of the IRS taxpayer batch file that contains all taxpayer information return data extracted from various sources.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Code	Title 26 of the U.S. Code enacted by Congress containing all relevant legislation pertaining to Federal tax law.
Internal Revenue Manual	The IRS's primary official source of instructions to employees related to the administration and operations of the IRS.
Tax Year	The 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Web Currency and Banking Retrieval System	An online IRS database that contains BSA information.



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Appendix V

Abbreviations

BSA	Bank Secrecy Act
CTR	Currency Transaction Report
CY	Calendar Year
FinCEN	Financial Crimes Enforcement Network
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration