



*Review of Processes to Identify and Assist in
Investigations of Tax-Exempt Organizations
With *****2******

February 12, 2019

Reference Number: 2019-10-011

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document

Redaction Legend:

1 = Tax Return/Return Information

2 = Law Enforcement Techniques/ Procedures and Guidelines for Law Enforcement Investigations or Prosecutions.

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P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

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HIGHLIGHTS

REVIEW OF PROCESSES TO IDENTIFY AND ASSIST IN INVESTIGATIONS OF TAX-EXEMPT ORGANIZATIONS WITH

Highlights

Final Report issued on February 12, 2019

Highlights of Reference Number: 2019-10-011 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The Tax Exempt and Government Entities (TE/GE) Division plays a role in the U.S. Government's

WHY TIGTA DID THE AUDIT

The overall objective was to determine what actions the TE/GE Division has taken to identify and assist IRS Criminal Investigation and other Government agencies with the

WHAT TIGTA FOUND

The TE/GE Division created processes to identify and assist other Government agencies with the investigation of tax-exempt organizations with. However, some processes were not functioning properly. As a result, TIGTA determined that the IRS could improve the processes to identify and follow up on tax-exempt organizations with when: (1) processing tax-exempt tax returns, (2) reviewing referrals (allegations), and (3) examining tax-exempt tax returns.

While processing tax-exempt tax returns, the IRS identified 123 returns

TIGTA recommended that the IRS conduct further research on and, as a result, the TE/GE Division referred three individual names to Criminal Investigation for follow-up.

TIGTA's analysis of TE/GE Division's referral records identified that documentation was limited on how reviewers determined whether to forward referrals for examination consideration, and only one classifier was trained to review referrals.

TE/GE Division management stated that Examination personnel did not identify any during general program examinations of tax-exempt organization tax returns in Fiscal Year 2017. However, these employees have not received any. TE/GE Division management stated that examiners perform focused audits, and if potential fraud issues or suspicious transactions are identified, the examiners should discuss the issues with Financial Investigations Unit revenue agents, who have specialized training to. However, without an awareness of, examiners may not raise issues with the Financial Investigations Unit.

WHAT TIGTA RECOMMENDED

TIGTA made five recommendations to the Acting Commissioner, TE/GE Division; the Director, Compliance, Planning and Classification; and the Director, Exempt Organizations Examination, including the need to develop procedures to timely forward monthly reports of used by the IRS and provide to general program Examination personnel.

IRS management agreed with all five recommendations. The IRS stated that it has developed written procedures assigning responsibility for forwarding reports with and that it plans to provide awareness training to Exempt Organizations Examination employees.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 12, 2019

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Review of Processes to Identify and Assist in Investigations of Tax-Exempt Organizations With *****2*****
*****2***** (Audit # 201710028)

This report presents the results of our review to determine what actions the Tax Exempt and Government Entities Division has taken to identify, and assist Internal Revenue Service (IRS) Criminal Investigation and other Government agencies with the investigation of, tax-exempt organizations with *****2*****. The audit was requested by the Chairman of the U.S. Senate Committee on Finance and addresses the major management challenge of Improving Tax Compliance.

Management's complete response to the draft report is included as Appendix VI. We have concerns about certain statements in the IRS's response to our report that we believe warrant further comment. Our comments are included in Appendix VII.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Deann Baiza, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations).



*Review of Processes to Identify and Assist in Investigations of
Tax-Exempt Organizations With*****2******

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Tax-Exempt Organizations With*****2******

Abbreviations

CI	Criminal Investigation
EO	Exempt Organizations
2	*****2*****
FIU	Financial Investigations Unit
FY	Fiscal Year
IRS	Internal Revenue Service
2	*****2*****
2	*****2*****
RCCMS	Reporting Compliance Case Management System
SEIN	Statistics of Income EO Return Image Net
TE/GE	Tax Exempt and Government Entities
TIGTA	Treasury Inspector General for Tax Administration



Review of Processes to Identify and Assist in Investigations of Tax-Exempt Organizations With*****2*****

Background

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The Internal Revenue Service’s (IRS) Tax Exempt and Government Entities (TE/GE) Division plays a role in the U.S. Government’s *****2*****

*****2***** The IRS’s Exempt Organizations (EO) function4 is responsible for reviewing applications for tax-exempt status and conducting examinations of tax-exempt organizations. This audit report focuses on the EO function’s efforts to address tax-exempt organizations’ *****2***** through (1) the review of incoming tax-exempt organization tax returns, (2) the review and processing of referrals (allegations), (3) the examination of tax-exempt organization tax returns, and (4) assistance to Criminal Investigation (CI) and other Government agencies.5

For the purposes of this review, The Treasury Inspector General for Tax Administration (TIGTA) used the definition of *****2***** *****2***** *****2*****6

The Department of the Treasury’s *****2***** *****2***** *****2*****

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

2 *****2***** *****2*****

3 *****2*****

4 The EO function is part of the IRS’s Tax Exempt and Government Entities Division.

5 CI special agents investigate potential criminal violations of the Internal Revenue Code and related financial crimes. In addition, CI *****2***** *****2*****

6 *****2*****



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Assistance to CI and other Government agencies

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*****17 *****2*****
*****2*****
*****2*****

This review was performed at the Submission Processing Center in Ogden, Utah, and the TE/GE Division offices in Dallas, Texas, during the period August 2017 through June 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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*****2*****
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17 *****2*****
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*Review of Processes to Identify and Assist in Investigations of
Tax-Exempt Organizations With* *****2*****

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*****2*****. Figure 2 summarizes the results of our review of the 29 tax-exempt organizations' tax returns.

20 *****2*****
*****2*****
*****2*****.



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Figure 2: Number of Tax Returns With ***2*******
 *****2*****

Type of *****2*****	Number of Returns
*****2*****	19
*****2*****	*1*
*****2*****	*1*
Total	29

Source: TIGTA analysis of the *****2*****
 *****2***** dated October 2016 through December 2017 and the IRS's *****2***** dated February 28, 2018.

Reviewing referrals of tax-exempt organizations

TE/GE Division management has developed a process to evaluate referrals of tax-exempt organizations with *****2***** and to forward tax-exempt organizations for examination consideration, when warranted. However, documentation on how the classifiers determined examinations were or were not warranted was limited, and only one classifier is trained to review referrals involving *****2*****.

Only limited documentation was retained in the referral inventory records

The referral inventory records maintained on the RCCMS do not fully document the classifiers' decisions on whether to forward the referrals for examination consideration. All classification referrals are maintained on the RCCMS to allow TE/GE Division management to track information, such as the date the referral was received, the source of the referral, who made the decision to examine or not, and the reason for the decision.

Our analysis of the RCCMS inventory records for EO function referrals received during FY 2017 identified 54 referrals that were coded as having allegations that may *****2*****
 *****1*****

- *****1*****
- *****1*****

We reviewed available documentation for the 54 referrals to determine what research was performed by the classifiers and the reasons for the decision whether or not to forward these referrals for examination consideration. However, the RCCMS data and documentation provided by TE/GE Division management did not always show the basis for the decisions made by the classifiers. According to TE/GE Division management, classifiers record the basis for their decisions in an RCCMS comment field; however, the data field has a character limitation that resulted in the entries being cut off. In addition, TE/GE Division management stated that



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*****2***** Due to limited resources, the FIU works only the most complex cases, such as cases involving money laundering, public corruption, and assisting CI in investigations involving *****2***** According to TE/GE Division management, EO function general program Examination personnel did not identify any cases involving *****2***** during FY 2017; all *****2***** cases worked by the FIU during FY 2017 were the result of requests for assistance from CI.

The *****2***** provided to personnel in other EO function offices includes training to *****2***** and to recognize when organizations are *****2*****
*****2***** In addition, *****2*****
*****2*****. When discussing our concerns regarding awareness training during the audit, a CI senior analyst recognized the benefits of awareness training and offered CI’s assistance in providing this training to the general program revenue agents to increase their awareness of *****2*****
*****2*****
*****2*****

Recommendations

The Acting Commissioner, TE/GE Division, should:

Recommendation 1: Develop written procedures assigning responsibility for timely forwarding Ogden Submission Processing Center reports that identify tax-exempt tax returns with *****2***** and who should review the reports to verify *****2*****.

Management’s Response: The IRS agrees with this recommendation. In April 2018, the TE/GE Division developed written procedures assigning the responsibility for forwarding Submissions Processing Center reports. These procedures will be incorporated into an Internal Guidance Memorandum by the implementation date and subsequently into the appropriate Internal Revenue Manual section.

Recommendation 2: Develop criteria for use by the Ogden Submission Processing clerks in determining whether tax-exempt organizations’ tax returns contain *****2*****
*****2*****.

Management’s Response: The IRS agrees with this recommendation. **2*
*****2***** will be developed for the Ogden Submission Processing clerks who



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determine whether tax-exempt organizations' information returns (referred to as "tax" returns in the report) contain *****2*****
*****2*****

Recommendation 3: Ensure that classifiers document referral case files with the actions taken, research performed, and reasons for decisions on whether or not to forward referrals for examination consideration.

Management's Response: The IRS agrees with this recommendation. The IRS regularly trains classifier personnel. In April 2018 training, the TE/GE Division emphasized the requirements for consistently documenting related research in the RCCMS. The Internal Revenue Manual and desk guide will be updated in the normal course of business to provide clear guidance to classifiers regarding how to document referral case files with the actions taken, research performed, and reasons for decisions whether or not to forward referrals for examination consideration. Training will be provided to classifiers after updates to the Internal Revenue Manual and desk guide.

The Director, Compliance, Planning and Classification, should:

Recommendation 4: Cross-train additional TE/GE Division EO Referral Group classifiers to review referrals alleging *****2***** of tax-exempt organizations.

Management's Response: The IRS agrees with this recommendation. The Director, Compliance, Planning and Classification, will provide training to four senior TE/GE Division EO Referral Group classifiers regarding review of referrals alleging *****2***** of tax-exempt organizations. All classifiers will be provided awareness training on the topic.

The Director, EO function Examinations Program, should:

Recommendation 5: Provide general *****2***** to general program Examination employees.

Management's Response: The IRS agrees with this recommendation. The EO function will coordinate with IRS CI to provide awareness training to EO function Examination employees.

The Financial Investigations Unit Assists Criminal Investigation and Other Federal Agencies With Investigations Involving ***2*******
*****2******

The TE/GE Division created processes to assist other Government agencies with investigations of tax-exempt organizations with *****2***** CI and *****2*****
*****2***** use the specialized skills of FIU revenue agents to provide assistance in investigating *****2***** to tax-exempt organizations. The FIU



Review of Processes to Identify and Assist in Investigations of Tax-Exempt Organizations With*****2*****

receives requests for assistance in developing issues involving tax-exempt organizations from CI cases via Form 6544, Request for Cooperating Examiner/Revenue Officer. Except for requests for expert witness testimony regarding tax-exempt organizations from the Department of Justice, all requests for assistance from other Government entities are made through CI.

*****2***** personnel advised us that *****2***** generally begin with identifying individuals involved in *****2***** and then the *****2***** *****2***** When tax-exempt organizations are involved, *****2***** works through CI to request FIU assistance. According to TE/GE Division and CI management, the FIU had three cases initiated by the *****2***** that were open during FY 2017. All three cases are currently open in Grand Jury status.

According to FIU management, the revenue agents have expended more than 1,450 hours on these three cases providing assistance such as reviewing:

- Integrated Data Retrieval System²⁵ records to verify organizational entity information, tax filings, and sources of income and to identify additional banking sources.
- SEIN²⁶ records to obtain unredacted Form 990 series tax returns.
- *****2*****²⁷ *****2***** *****2*****
*****2*****²⁸

According to *****2***** the IRS’s involvement increases the chances of a successful prosecution in these types of cases.

²⁵ The Integrated Data Retrieval System is an IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer’s account records.

²⁶ The secure IRS document imaging system used by the Ogden Submission Processing Center clerks to scan and create images of specific tax-exempt organization returns. Authorized TE/GE Division personnel may access the system to view unredacted tax-exempt organizations’ tax returns.

²⁷ *****2***** *****2***** *****2*****

²⁸ See Appendix V for additional research sources that may be used by FIU agents.



Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine what actions the TE/GE Division had taken to identify, and assist IRS's CI and other Government agencies with the investigation of, tax-exempt organizations with *****2*****. To accomplish our objective, we:

- I. Determined if the TE/GE Division established processes to identify, and assist CI and other Government agencies with the investigation of, tax-exempt organizations with *****2*****.
 - A. Determined if the Ogden Submission Processing Center had established processes to identify and document tax-exempt organizations with *****2***** through reviews of incoming Form 990, *Return of Organization Exempt From Income Tax*, series tax returns.
 - B. Determined if the TE/GE Division EO Referral Group had established processes to identify and document tax-exempt organizations with *****2*****.
 - C. Determined if the EO function's Examinations program had established processes to identify and document tax-exempt organizations with *****2*****.
 - D. Determined if the FIU had established processes to investigate and document tax-exempt organizations with *****2***** when requested by CI and other Government agencies.
- II. Determined the results of following established processes to identify, and assist CI and other Government agencies with the investigation of, tax-exempt organizations with *****2*****.
 - A. Determined the results of the Ogden Submission Processing Center's actions to identify tax-exempt organizations with *****2*****.
 - B. Determined the results of the EO Referral Group's actions taken to identify tax-exempt organizations with *****2*****. We analyzed RCCMS data and validated the case list provided by EO Referral Group management of the referrals received during FY 2017. We determined that the data were reliable for our purposes by reviewing the related documentation including the desk guide, the data dictionary, and the query language used by IRS officials to produce the data extract; interviewing knowledgeable agency officials; and testing (electronic filtering and sorting) and inspecting all fields (name fields contained names, Taxpayer Identification Number field contained Taxpayer Identification Numbers, *etc.*).



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- Additionally, we matched and validated the case extract from the RCCMS back to the full-system download.
- C. Determined the results of the EO function Examinations program’s actions taken to identify tax-exempt organizations with *****2*****.
 - D. Determined the results of the FIU actions taken to investigate tax-exempt organizations with *****2***** when requested by CI or other Government agencies *****2*****

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 Ogden Submission Processing Center process for reviewing tax-exempt organizations’ tax returns for *****2***** *****2***** and sending monthly reports to TE/GE Division management; the TE/GE Division process for reviewing and evaluating referrals (allegations) involving tax-exempt organizations; the EO function’s process for identifying *****2***** when examining tax returns; and the EO function’s process for assisting CI and other Government agencies to investigate tax-exempt organizations with *****2*****. We evaluated these controls by interviewing TE/GE Division management; obtaining TE/GE Division management’s lists of tax-exempt organizations with *****2***** that were identified by each process; and reviewing reports, case documentation, and electronic records (where available) to determine whether established processes were functioning.



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Appendix II

Major Contributors to This Report

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Deann L. Baiza, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Troy D. Paterson, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Carl L. Aley, Audit Director
LaToya R. Penn, Acting Audit Director
Andrew J. Burns, Acting Audit Manager
Julia Moore, Acting Audit Manager
Michele N. Strong, Acting Audit Manager
Melinda H. Dowdy, Senior Auditor
Catherine R. Sykes, Auditor



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Tax-Exempt Organizations With*****2******

Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Acting Commissioner, Tax Exempt and Government Entities Division
Acting Deputy Commissioner, Tax Exempt and Government Entities Division
Director, Exempt Organizations, Tax Exempt and Government Entities Division
Acting Director, Government Entities and Shared Services, Tax Exempt and Government
Entities Division
Director, Office of Audit Coordination



Appendix IV

Outcome Measure

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

Type and Value of Outcome Measure:

- Reliability of Information – Actual; *****2*****

Methodology Used to Measure the Reported Benefit:

According to the *****2*****, Ogden Submission Processing Center clerks identified 123 tax-exempt tax returns with *****2***** from October 2016 through December 2017. *****2*****

*****2***** If the returns are not coded properly, reviewers may be unable to identify the *****2***** and will have to duplicate the efforts of the Ogden Submission Processing Center clerks to *****2*****. Additionally, when reviewing original, unredacted tax returns (i.e., when classifying or examining returns), IRS personnel will be unaware of the *****2*****.¹

¹ *****2*****



Review of Processes to Identify and Assist in Investigations of Tax-Exempt Organizations With *****2*****

Appendix V

Research Sources

The following table provides a list of some of the research sources TE/GE Division personnel may use to consider and address indicators of *****2***** and other issues in tax-exempt organization cases.

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*****2*****	*****2***** *****2***** *****2***** *****2*****
*****2***** ****2****	*****2***** *****2*****
*****2***** *****2*****	*****2***** *****2***** *****2*****

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*****2*****



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Tax-Exempt Organizations With *****2******

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*****2***** *****2*****	*****2***** *****2***** *****2*****
*****2***** *****2*****	*****2***** *****2*****

*****2*****



Review of Processes to Identify and Assist in Investigations of Tax-Exempt Organizations With *****2*****

Appendix VI

Management's Response to the Draft Report



COMMISSIONER
TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

November 8, 2018

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David W. Horton *David W. Horton*
Acting Commissioner, Tax-Exempt and Government
Entities Division (TE/GE)

SUBJECT: Draft Audit Report – Review of Processes to Identify and Assist in
Investigations of Tax-Exempt Organizations With *****2*****
*****2***** (Audit # 201710028)

Thank you for the opportunity to review the draft audit report titled: "Review of Processes to Identify and Assist in Investigations of Tax-Exempt Organizations With *****2***** (Audit # 201710028)."

We appreciate TIGTA's acknowledgment that TE/GE has in place processes to identify and assist other Government agencies with the investigation of tax-exempt organizations with *****2*****. Your report notes that *****2*****

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Nevertheless, the IRS takes seriously its responsibilities to administer compliance with Federal tax law, and TE/GE concurs with TIGTA's recommendations to improve its existing processes.

TIGTA observes in its report that in one instance TE/GE personnel did not forward or review *****2*****
*****2***** . As indicated above and in the detailed response outlining our corrective actions, TE/GE agrees to create written procedures for the forwarding, review, and verification of these



Review of Processes to Identify and Assist in Investigations of Tax-Exempt Organizations With *****2*****

reports. However, TE/GE observes that the situation identified was an anomaly that resulted from employee attrition and not necessarily from a lack of written procedures. Moreover, as TIGTA observes, the relevant returns were subsequently appropriately reviewed and evaluated, resulting in the referral of three individuals to IRS Criminal Investigation.

TIGTA also observed that there were some instances in which submission processing clerks did not *****2***** exactly in accordance with procedures. While TE/GE will continue to train the clerks regarding how to *****2*****, the documentation utilized by the clerks did not ultimately preclude identification and review of the cases for *****2*****. TIGTA also observed that certain *****2***** completed by submission processing clerks *****2***** under guidance for TE/GE employees that review applications for exemption. In fact, applicable TE/GE procedures provides that while *****2***** other facts and circumstances may be the basis for treating it as a *****2*****. Nevertheless, IRS intends to issue additional instruction and criteria to submissions processing clerks regarding what constitutes *****2*****

TIGTA states that employees who perform examinations of tax-exempt organizations do not receive *****2*****. While TE/GE concurs with the recommendation to provide awareness training to these employees, it should be referenced that the existing Internal Revenue Manual provides guidance to these employees on techniques and actions to take when an examiner encounters a tax-exempt organization that is potentially involved in *****2*****

Finally, we wish to clarify that references throughout the report to *****2*****

We appreciate the opportunity to review and comment on the draft report. Attached is a detailed response outlining our corrective actions to address your recommendations, some of which have already been completed. If you have any questions, please contact me, or a member of your staff may contact Margaret A. Von Lienen, Director, Exempt Organizations, at (513) 975-6562.

Attachment



*Review of Processes to Identify and Assist in Investigations of Tax-Exempt Organizations With *****2******

Attachment

**Corrective Actions for TIGTA Draft Audit Report –
Review of Processes to Identify and Assist in Investigations of Tax-Exempt
Organizations With *****2***** (Audit # 201710028)**

RECOMMENDATION 1:

The Acting Commissioner, TE/GE Division, should develop written procedures assigning responsibility for timely forwarding Ogden Submission Processing Center reports that identify tax-exempt tax returns with *****2*****, and who should review the reports to verify *****2*****.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. In April 2018, TE/GE developed written procedures assigning the responsibility for forwarding submissions processing reports. These procedures will be incorporated into an Internal Guidance Memorandum by the implementation date, and subsequently into the appropriate Internal Revenue Manual section.

IMPLEMENTATION DATE:

April 15, 2019

RESPONSIBLE OFFICIAL(S):

Director, Government Entities and Shared Services (GE/SS), Tax Exempt and Government Entities Division

CORRECTIVE ACTION MONITORING PLAN:

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

RECOMMENDATION 2:

The Acting Commissioner, TE/GE Division, should develop criteria for use by the Ogden Submission Processing clerks in determining whether tax-exempt organizations' tax returns contain *****2*****

CORRECTIVE ACTION:

The IRS agrees with this recommendation. *****2***** will be developed for the Ogden Submission Processing clerks who determine whether tax-exempt organizations' information returns (referred to as "tax" returns in the report) contain *****2*****.

IMPLEMENTATION DATE:

April 15, 2019



*Review of Processes to Identify and Assist in Investigations of
Tax-Exempt Organizations With *****2******

RESPONSIBLE OFFICIAL(S):

Director, Government Entities and Shared Services (GE/SS), Tax Exempt and Government Entities Division

CORRECTIVE ACTION MONITORING PLAN:

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

RECOMMENDATION 3:

The Acting Commissioner, TE/GE Division, should ensure that classifiers document referral case files with the actions taken, research performed, and reasons for decisions on whether or not to forward referrals for examination consideration.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. IRS regularly trains classifier personnel. In April 2018 training, TE/GE emphasized the requirements for consistently documenting related research in Reporting Compliance Case Management System. The IRM and desk guide will be updated in the normal course of business to provide clear guidance to classifiers regarding how to document referral case files with the actions taken, research performed, and reasons for decisions whether or not to forward referrals for examination consideration. Training will be provided to classifiers after updates to IRM and desk guide.

IMPLEMENTATION DATE:

April 15, 2019

RESPONSIBLE OFFICIAL(S):

Director, Compliance Planning and Classification, Tax Exempt and Government Entities Division

CORRECTIVE ACTION MONITORING PLAN:

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

RECOMMENDATION 4:

The Director, Compliance, Planning and Classification, should cross-train additional TE/GE Division EO Referral Group classifiers to review referrals alleging *****2*****
*****2*****.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. The Director, Compliance, Planning and Classification, will provide training to four senior TE/GE Division EO Referral Group



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Tax-Exempt Organizations With *****2******

classifiers regarding review of referrals alleging *****2*****.
*****2*****. All classifiers will be provided awareness training on the topic.

IMPLEMENTATION DATE:

April 15, 2019

RESPONSIBLE OFFICIAL(S):

Director, Compliance Planning & Classification, Tax Exempt and Government
Entities Division

CORRECTIVE ACTION MONITORING PLAN:

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

RECOMMENDATION 5:

The Director, EO function Examinations Program, should provide general *****2*****
*****2***** to general program Examination employees.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. Exempt Organizations will coordinate
with IRS Criminal Investigation to provide awareness training to EO Examinations
employees.

IMPLEMENTATION DATE:

April 15, 2019

RESPONSIBLE OFFICIAL(S):

Director, Exempt Organizations, Tax Exempt and Government Entities Division

CORRECTIVE ACTION MONITORING PLAN:

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



Appendix VII

Office of Audit Comments on Management's Response

In response to our draft report, the Acting Commissioner, TE/TG Division, included some general comments and assertions that we believe warrant additional comment. We have included portions of management's response and our related comments below.

Management Statement: [The] report notes that *****2*****
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Office of Audit Comment: In their response, IRS officials highlight that the
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Management Statement: TIGTA observes in its report that in one instance TE/GE personnel did not forward or review monthly reports from submission processing clerks of annual information returns (referred to as "tax" returns throughout the report) with *****2*****
*****2*****...However, TE/GE observes that the situation identified was an anomaly that resulted from employee attrition and not necessarily from a lack of written procedures.

Office of Audit Comment: We disagree with this statement. We identified 15 monthly reports covering the period of October 2016 through December 2017 that were not forwarded or reviewed. We believe that, had written procedures been available for employees to consult, employees would know expected time frames for forwarding



*Review of Processes to Identify and Assist in Investigations of
Tax-Exempt Organizations With *****2******

the reports, who the reports should be forwarded to, and an established time frame for reviewing the reports.

Management Statement: *TIGTA also observed that there were some instances in which submission processing clerks did not document *****2***** exactly in accordance with procedures. While TE/GE will continue to train the clerks regarding how to *****2*****, the documentation utilized by the clerks did not ultimately preclude identification and review of the cases for *****2*****.*

Office of Audit Comment: As noted in our report, when returns are not coded properly, reviewers may be unable to *****2***** on the returns that triggered the *****2***** and will have to duplicate effort of the submission processing clerks to *****2*****. In addition, when reviewing original unredacted returns, IRS personnel will be unaware of *****2*****.

Management Statement: *TIGTA states that employees who perform examinations of tax-exempt organizations do not receive *****2*****. While TE/GE concurs with the recommendation to provide *****2***** to these employees, it should be referenced that the existing Internal Revenue Manual provides guidance to these employees on techniques and actions to take when an examiner encounters a tax-exempt organization that is potentially *****2*****.*

Office of Audit Comment: Before being able to follow guidance in the Internal Revenue Manual on techniques and actions to take regarding tax-exempt organizations that are potentially *****2***** examiners must be aware of how to identify organizations with *****2*****. As noted in our report, personnel who perform general program examinations do not receive *****2***** *****2*****.