

GAO Highlights

Highlights of [GAO-20-454](#), a report to the Republican Leader, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Exempt organizations often provide charitable services, or in some instances, membership benefits in furtherance of an exempt purpose. They generally do not pay federal income tax. IRS examines exempt organization returns (Form 990 and others) to address noncompliance, which may promote confidence in the tax exempt sector. In 2016, IRS started using three analytical models using Form 990 data to identify potential noncompliance and select returns for examination.

GAO was asked to review IRS's use of Form 990 data. This report assesses (1) IRS's use of data to select returns for examination and, (2) the process IRS has established for selecting returns. GAO analyzed (1) examination data from fiscal years 2016 through 2019 including results from the largest Form 990 model, and (2) model documentation for a generalizable sample. GAO interviewed IRS officials and assessed IRS policies and procedures using relevant standards for internal control.

What GAO Recommends

GAO makes 13 recommendations, including that IRS establish objectives, revise model documentation, fully document processing and using data in decisions, and regularly evaluate examination selection. IRS agreed with all recommendations except one related to evaluating examination selection methods using consistent historical data over time. GAO continues to believe that this recommendation is valid as discussed in the report.

View [GAO-20-454](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or mctiguej@gao.gov.

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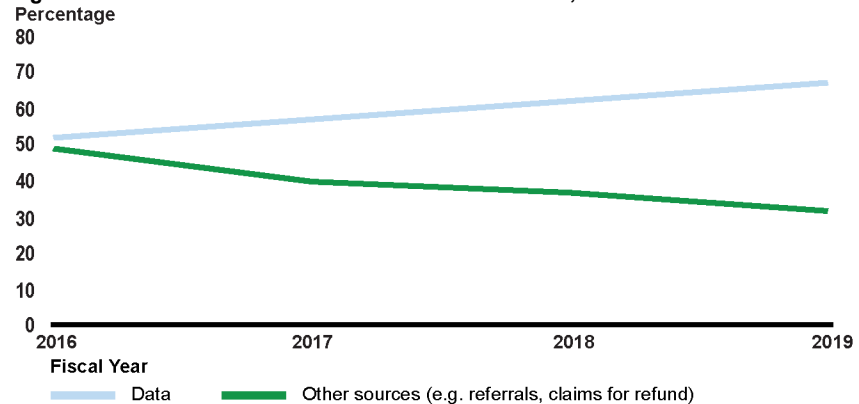
TAX EXEMPT ORGANIZATIONS

IRS Increasingly Uses Data in Examination Selection, but Could Further Improve Selection Processes

What GAO Found

The Internal Revenue Service (IRS) used data to select almost 70 percent of its examinations of Form 990 returns in fiscal year 2019. Almost half of these examinations were selected using models that score returns for potential noncompliance (see figure).

Figure: Increased Use of Data in Examination Selection, Fiscal Years 2016-2019



Source: GAO analysis of the Returns Inventory and Classification System (RICS). | GAO-20-454

Of the returns examined that were selected using the model, 87 percent resulted in a change to the return, indicating that IRS identified noncompliance. GAO found that the model did not improve change rates compared to prior selection methods and a higher model score is not associated with a higher change rate.

IRS has not fully implemented or documented internal controls in its established processes for analyzing data for examination selection. For example:

- **IRS has not defined measurable objectives for using data to select returns for examination.** Without measurable objectives, IRS cannot assess how well it is doing or fully implement other internal controls.
- **IRS's models have deficiencies affecting the validity and reliability of return scoring and selection.** IRS has incomplete definitions and procedures and did not always follow its definitions when assigning point values for identifying potential noncompliance for examination. As a result, return scoring by the models is not always consistent.
- **IRS did not consistently document the processing and use of data in decision-making on examination selection.** Without such documentation, IRS cannot support its use of data in examination selection in all cases.
- **IRS does not regularly evaluate examination selection.** Examination data were inconsistent across years and IRS only tracks one prior year of data. IRS also did not save data on all returns that the models scored. Without data and regular evaluations, IRS cannot assure that its models are selecting returns as intended and that deficiencies are identified and corrected.