

**Improvements Are Needed to Promptly
Resolve Missing Refund Checks**

June 2000

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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.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

June 27, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

Scott E. Wilson

FROM: (for) Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Improvements Are Needed to Promptly
Resolve Missing Refund Checks

This report presents the results of our review of the Internal Revenue Service's (IRS) process to trace missing refund checks. We assessed the effectiveness of the IRS' process for timely and accurately resolving taxpayer claims of missing refund checks.

In summary, we found the IRS should improve its process for resolving taxpayers' claims of missing refund checks and improve its communication process with taxpayers. The IRS agreed with our findings and recommendations and has initiated corrective action. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Our audit recommendations will provide benefits to tax administration by decreasing taxpayer burden and by increasing taxpayer entitlements to timely replacement refunds. The Treasury Inspector General for Tax Administration identified suspended replacement refunds totaling \$1.3 million from inquiries made through the IRS' Telephone Routing Interactive System that were not being monitored and had not been resolved. This condition impairs a taxpayer's right to the timely replacement of a missing refund by increasing the time required to effectively resolve his/her initial claim. Appendix IV of this report provides a detailed description of these benefits, which will be included in our Semiannual Report to the Congress.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Walter E. Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs), at (770) 986-5720.

**Improvements Are Needed to Promptly
Resolve Missing Refund Checks**

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Improvements Are Needed to Promptly Resolve Missing Refund Checks

Executive Summary

During the 1999 Filing Season, the Internal Revenue Service (IRS) refunded more than \$133 billion to individual taxpayers who overpaid their tax liabilities. When taxpayers inform the IRS that they have not received their refund checks, the IRS should address their claims promptly. The IRS provides this service by coordinating with the Department of the Treasury's Financial Management Service (FMS). While the IRS processes tax returns, the FMS issues refund checks to taxpayers.

A taxpayer may report a missing refund check to the IRS by calling its automated computer system, sending a written complaint, or speaking with a customer service representative. The IRS then sends a refund trace request to the FMS to determine whether the check has been cashed. If the check has not been cashed, the FMS stops payment and the IRS re-processes the refund. If the check has been cashed, the FMS sends the taxpayer a form so he/she may file for a replacement. If the FMS cannot process the trace because of incorrect or incomplete information, it returns the request to the IRS.

We evaluated the effectiveness of the IRS' process for timely and accurately resolving taxpayer claims of missing refund checks. To determine this, we reviewed claims processed at 2 of the IRS' 10 customer service centers. (We did not evaluate the process used by the FMS to resolve missing refund checks.)

Results

The IRS did not provide adequate customer service to all taxpayers who reported missing refund checks. Improvements are needed to ensure the IRS:

- Processes all taxpayer claims effectively.
- Communicates with taxpayers to inform them of delays in resolving their claims.

These conditions occurred primarily because employees did not always follow procedures for processing refund traces and, in some instances, procedures were inadequate. A more comprehensive management information system (MIS) is also needed to allow the IRS to evaluate this program's performance.

Improvements Are Needed to Promptly Resolve Missing Refund Checks

The Internal Revenue Service Should Promptly Process Missing Refund Claims

Our analysis at two customer service centers showed that claims were not processed in a timely manner.

- Of the 10,319 claims received through the automated computer system, 95 percent (9,838) were listed as overage on IRS reports. These claims required processing within established Telephone Routing Interactive System time frames that ranged between 14 to 60 days and included \$1.3 million in suspended replacement refunds affecting 497 taxpayers. This occurred because IRS procedures did not require employees to periodically review computer reports showing the age of cases.
- Of the 6,452 claims received in the Refund Inquiry Units through personal taxpayer contact and administrative request, we determined that 29 percent of these claims were attributable to the IRS not timely performing necessary follow-up to resolve situations such as the following:
 - ◆ Correcting erroneous information provided to the FMS.
 - ◆ Following up with the FMS when its actions are overdue.
 - ◆ Resolving replacement refunds that are suspended in IRS processing.

The IRS' MIS does not provide national information to monitor the volume or the age of all taxpayer inquiries. As a result, IRS executives cannot effectively evaluate the overall effectiveness of refund claim processing at all 10 customer service centers.

The Internal Revenue Service Should Communicate More Effectively With Taxpayers

The IRS did not always provide taxpayers with periodic updates on the status of their claims. Fourteen percent of the taxpayers (28 of 198) we sampled received acknowledgement letters indicating their case would be processed within 90 days. However, the IRS did not advise them when their cases were not processed within this time period.

Improvements Are Needed to Promptly Resolve Missing Refund Checks

Summary of Recommendations

To ensure taxpayer claims of missing refund checks are effectively resolved, we recommend the IRS perform a series of actions that include revising its refund trace procedures, more timely monitoring refund trace actions, and advising taxpayers when there are delays in processing their claims. The IRS should also strengthen its oversight of this program by developing and using a comprehensive MIS. This system should evaluate the program's results from a national level and summarize the age of claims from the IRS received date.

Management's Response: The IRS agreed that improvements are needed in processing all taxpayer claims effectively and in communicating with taxpayers when their refund claim is delayed. The IRS has taken immediate actions to enable the customer service centers and Headquarters to more effectively monitor timeliness and overage refund claims, including the development of a national inventory report to capture program results and the revision of the Internal Revenue Manual program guidelines. The IRS also agreed that our audit recommendations will provide benefits to tax administration by decreasing taxpayer burden and by increasing taxpayer entitlements to timely replacement refunds.

Improvements Are Needed to Promptly Resolve Missing Refund Checks

Objective and Scope

The overall objective of this audit was to evaluate the effectiveness of the IRS' process for timely and accurately resolving missing refund checks.

The overall objective of this audit was to evaluate the effectiveness of the Internal Revenue Service's (IRS) process for resolving taxpayer complaints of missing refund checks. To accomplish this objective, we determined if the IRS:

- Had an effective process to identify, control, and resolve missing refund check complaints.
- Informed taxpayers about the status of their claims.

We performed this audit at the IRS' Atlanta and Austin Customer Service Centers and obtained pertinent information from the Office of the Assistant Commissioner (Customer Service). We did not evaluate the process used by the Department of the Treasury's Financial Management Service (FMS) to resolve missing refund checks, nor did we evaluate the process used by the Secret Service to investigate forgery of refund checks.

This audit was performed in accordance with *Government Auditing Standards* from September through December 1999. Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

IRS processes provide for taxpayers to contact the IRS and report their missing refund checks.

During the 1999 Filing Season, the IRS refunded more than \$133 billion to individual taxpayers who had overpaid their tax liabilities. When a taxpayer informs the IRS that he/she has not received his/her refund check, the IRS should promptly address the taxpayer's claim. The IRS provides this service by coordinating with the FMS. While the IRS processes tax returns, the FMS issues refund checks to taxpayers.

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A taxpayer may report a missing refund check by calling an automated computer system, sending a complaint to the IRS, or contacting a CSR.

A taxpayer may report a missing refund check to the IRS by calling its automated Telephone Routing Interactive System (TRIS), mailing a complaint, or speaking with a Customer Service Representative (CSR).

The IRS' Refund Inquiry Unit, located in each of its 10 customer service centers, serves as the IRS' primary liaison with the FMS. They are responsible for manually processing missing refund claims received by mail or by CSRs. They also monitor the requests received by the TRIS to ensure they are processed timely.

During the time of our review, there were 16,771 missing refund cases on-hand at the 2 customer service centers we reviewed.

- TRIS inventories contained 10,319 cases.
- Refund Inquiry Units' inventories contained 6,452 cases. (These cases were primarily received via personal taxpayer contact and by administrative request.)

After receiving notification from a taxpayer, the IRS sends a refund trace to the FMS to determine if the check has been cashed. The FMS researches its records and sends a magnetic tape back to the IRS indicating whether or not the refund check has been cashed. The IRS should receive this information within five workdays of its initial request.

If the refund check was not cashed and the FMS successfully stopped payment on the check, the FMS returns a credit for the check to the IRS, and a new check is automatically issued to the taxpayer.

If the refund check was not cashed and the FMS successfully stops payment, it returns a credit to the IRS, and a new check is automatically issued to the taxpayer. If the check was cashed, the FMS sends the taxpayer a form so he/she can file for a replacement. In the event that the FMS cannot process the trace because of incorrect or incomplete information, it returns the request to the IRS.

The IRS should notify a taxpayer to acknowledge receipt of his/her claim and to advise him/her that he/she

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should receive a replacement check or a claim form within six weeks of his/her inquiry.

Results

The IRS does not ensure that all taxpayers who report missing refund checks receive adequate customer service.

The IRS does not ensure that all taxpayers who report missing refund checks receive adequate customer service. Additional management oversight is needed to ensure that the IRS:

- Processes all taxpayer claims effectively.
- Communicates with taxpayers to inform them of delays in resolving their claims.

These conditions occurred primarily because employees did not always follow established procedures for processing refund trace claims and, in some instances, the procedures were inadequate.

The Internal Revenue Service Should Promptly Process Missing Refund Claims

The IRS did not always timely process missing refund claims at the two customer service centers we reviewed.

The IRS did not always process missing refund claims promptly. To effectively coordinate a refund trace with the FMS and provide quality customer service to the taxpayer, the IRS must monitor the refund trace from its initiation to its resolution. In addition, the IRS often needs to intervene to ensure timely resolution. For example, the IRS is responsible for:

- Correcting erroneous information provided to the FMS.
- Following up with the FMS when its actions are overdue.
- Resolving replacement refunds that are in a suspended condition on the IRS' computer system.

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- Verifying authenticity of taxpayer signatures on negotiated refund checks (through the National Forensic Laboratory).
- Closing claims off of the IRS' inventory after they are resolved.

Missing refund inquiries made through the TRIS were not effectively monitored

IRS processes did not ensure that claims made through the TRIS were controlled and monitored.

IRS employees should periodically review TRIS inventory reports to ensure that claims requiring follow-up action are identified and resolved. We found that TRIS inventory reports were not worked at one site and were not worked timely in the other. This occurred because IRS procedures did not require employees to monitor TRIS claims using these weekly inventory listings.

As a result, the TRIS reports were not adequately monitored, as evidenced by IRS reports that showed 95 percent of the claims listed as average. Our review of these reports found that 78 percent (8,043 of 10,319) of these claims required the following actions:

- For 3,784 claims, the refund trace was complete and should have been closed by the IRS.
- For 4,259 claims, the refund trace was incomplete and required follow-up action on the part of the IRS. In 497 of these cases, replacement refunds totaling \$1.3 million were suspended on the IRS' computer system.

Replacement refunds totaling \$1.3 million for 497 taxpayer claims were suspended pending IRS evaluation prior to release.

Taxpayer claims were not timely forwarded to the FMS from Refund Inquiry Units

The IRS took an average of 23 days from receipt to forward the claims to the FMS.

Our computer analysis of IRS reports showed that the IRS took an average of 23 days from receipt to forward the claims to the FMS for 1,025 of 6,452 inquiries received from taxpayers by mail or through contact with a CSR. A breakdown of tasks performed during these 23 days showed that an average of:

- Thirteen days (from the date of receipt) were required to assign the claim to an IRS examiner and

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control the claim to the Refund Inquiry Unit's inventory.

- An additional 10 days were required to prepare and submit the refund trace request to the FMS.

IRS requirements for submitting refund trace requests to the FMS are inconsistent. For example, procedures require submission of a refund trace to the FMS within 17 days from the date the IRS receives the claim. However, inventory listings do not identify overaged refund traces until 45 days after the received date.

Timely submission of a refund trace to the FMS is critical, as it allows the FMS to stop payment on the missing check and authorize its reissuance, when appropriate.

Follow-up actions on claims were not timely performed

The IRS does not always perform timely actions to follow-up on taxpayer claims.

The Refund Inquiry Unit processes include timely initiating refund claims, contacting the taxpayers for additional information, correcting information on the FMS-rejected trace requests, sending taxpayers results of their refund trace actions, and coordinating with the FMS on all taxpayer refund claims.

Existing IRS reports showed that 36 percent (2,358 of 6,452) of the claims processed through the Refund Inquiry Units were overaged based on criteria that is variable depending on the circumstances of each claim. To validate this error rate, we reviewed 198 of these claims and determined that 34 percent were overage.

Of the 34 percent, we determined that 29 percent were attributable to untimely actions by the IRS and 5 percent to a FMS problem associated with refunds that had been reduced to pay taxpayer debt.

The following examples illustrate the types of problems we attributed to the IRS:

- Eleven requests rejected by the FMS had been waiting 18-74 days for IRS correction. Follow-up

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should have been done quickly as they became overage in 14 days.

- Nine unresolved requests had been in the IRS' inventory for an average of 163 days. The IRS should have followed up with the FMS after 14 days to determine the status of the claims.
- Three resolved claims had been waiting 35-75 days for replacement checks of \$600-\$2,489 to be issued. These cases should have been followed up on immediately as they became overage in 14 days.
- One claim received back from the FMS for follow-up action was not resolved for 263 days.
- Eight claims required an average of 76 days after IRS receipt before being sent to the National Forensic Laboratory for signature analysis to determine possible forgery.

Management information reports do not provide data for effective national oversight

A more comprehensive management information system (MIS) is needed to allow the IRS to evaluate the program's performance. While information is available to evaluate the program's performance on a local level, this information is not combined to evaluate the program's overall performance. For example, a national MIS has not been established to show the:

- Total number of claims received and the method taxpayers used to report them.
- Number of claims requiring additional research.
- Number of days from the taxpayer's inquiry until the case is resolved.

We could not determine the total number of taxpayers who reported missing refund checks during 1999 because the IRS' MIS did not provide national statistics. IRS management could have more readily identified the problems previously noted if its MIS provided

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cumulative information for all 10 of its customer service centers.

We also could not readily determine the total time required to resolve taxpayers' claims because IRS reports are programmed to measure timeliness from the last IRS action date rather than from the date a claim is first received from the taxpayer. Our computer analysis of the 6,452 claims in the Refund Inquiry Units' open inventories at 2 customer service centers showed the following results when aged from the date the claim was first received:

Location	0-44 Days	45-119 Days	120+ Days
Atlanta	1,578	1,132	250
Austin	2,016	1,109	367
Total	3,594	2,241	617

A national information system that also includes age measurement from the IRS received date would help provide the IRS with a more informative measurement for timeliness from the taxpayers' perspectives.

Recommendations

To ensure that taxpayer claims of missing refund checks are timely resolved, we recommend the IRS:

1. Revise its procedures so they are consistent and ensure that refund trace requests are forwarded to the FMS in a timely manner.

Management's Response: The IRS stated, "We agree with the TIGTA findings that the timeframes identified in this report for the length of time from receipt of claim to forwarding to FMS is unacceptable. To ensure a better understanding by IRS employees of the required timeframes to start trace action, we are adding a new section to the IRM. TRIDOC 21.4.2.3.1, Comprehensive Processing and Controlling – Timeliness of Actions, was available to employees in May 2000. It contains step-by-step actions and timelines employees must meet from receipt of the Refund Inquiry."

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2. Increase its management oversight to ensure that employees perform timely follow-up actions when required.

Management's Response: The IRS agreed and stated, "As soon as we became aware of the TIGTA findings, we immediately contacted all centers to stress the need to closely monitor the TRIS reports. During the week of April 17, we held a meeting in Austin with managers and tax examiners from all centers. At this meeting, we stressed the need for management oversight of the TRIS reports as well as the Integrated Data Retrieval System (IDRS) aged case listings. The Headquarters Customer Service analyst has also requested each center to forward these reports monthly to Headquarters for review and oversight."

3. Develop comprehensive national information reports that capture cumulative program results and also include timeliness measurements from the date claims are first received by the IRS.

Management's Response: The IRS agreed and stated, "A national inventory report which includes statistics on the refund inquiry program was implemented January 1, 2000. This report will enable the individual centers as well as Headquarters to effectively monitor timeliness and overage. In addition, we are revisiting the aging criteria for the IDRS case control report. While we feel it is necessary to monitor each action for aging, we will also be exploring ways to tighten these timeframes as well as monitor overall aging from receipt of claim to resolution."

The Internal Revenue Service Should Communicate More Effectively With Taxpayers

Additional management oversight is needed to improve the IRS' communication with taxpayers.

Additional management oversight is needed to improve the IRS' communication with taxpayers on missing refund claims.

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Our judgmental sample of 198 cases showed that the IRS did not advise 14 percent (28 of 198) of the taxpayers when their claims were not processed within the 90 days originally stated. As a result, the IRS has no real assurance that taxpayers are being accurately advised or updated about the status of their claims.

Recommendation

4. Revise IRS procedures to notify taxpayers if their claims are not resolved within the time frame originally provided.

Management's Response: The IRS agreed and stated, "We are adding new procedures to the IRM to specifically address this issue. The refund inquiry IRM for 2001 will contain specific information on contacting the taxpayer when we fail to meet established timeframes. The 2001 IRM will be effective October 1, 2000."

Conclusion

To provide quality customer service to taxpayers, the IRS should improve its processes to resolve taxpayer inquiries of missing refunds. These improvements are needed to ensure that all inquiries are effectively addressed and timely resolved.

An enhanced MIS is also needed so the IRS can more easily identify and correct problems impacting this program. Cumulative national reports would help ensure that the IRS has the ability to effectively monitor improvements and timely resolve taxpayer claims.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to evaluate the effectiveness of the Internal Revenue Service's (IRS) process for timely and accurately resolving taxpayer complaints of missing refund checks. To accomplish this objective, we:

- I. Determined if the IRS has an effective process to identify and control taxpayer inquiries relating to missing refunds.
 - A. Identified and reviewed the IRS policies, procedures, and systems established to resolve taxpayer complaints of missing refund checks.
 - B. Performed a walk-through of the Atlanta and Austin Customer Service Refund Inquiry Units and the Atlanta and Austin Customer Service call sites to determine whether adequate information is provided for IRS management to effectively control and monitor taxpayer inquiries.
 1. At the Refund Inquiry Units, we determined if processes are in place for:
 - (a) Providing initial responses and timely updates to taxpayers.
 - (b) Timely assigning uncontrolled refund inquiry requests on the Refund Inquiry inventory system.
 - (c) Timely reassigning control of applicable refund inquiries from the Telephone Routing Interactive System to the Refund Inquiry Unit.
 2. At the Customer Service call sites, we determined if processes are in place for:
 - (a) Forwarding refund inquiries to the Refund Inquiry Unit.
 - (b) Educating employees about the refund inquiry process, including providing training to properly handle taxpayer refund inquiries.
 - C. Contacted the National Taxpayer Advocate's office to determine the number of missing refund inquiries that have been received and evaluated the controls in place to monitor its inventory.
 - D. Contacted the Secret Service and determined if it receives referrals for potentially forged missing refund checks.
 - E. Evaluated the effectiveness of the process the IRS has established with the Financial Management Service (FMS) for resolving missing refund checks.

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1. Evaluated the process or Memoranda of Understanding that the IRS has established with the FMS to ensure that refund inquiries are timely resolved.
 2. Determined whether the IRS has established a process to follow up with the FMS on all refund inquiries that have not been resolved within established time frames.
 3. Determined whether quality review procedures prevent inaccurate information from being sent to the FMS and if IRS management is alerted to employees who are forwarding erroneous data.
 4. Reviewed the daily disposition list from the FMS and determined the percentage of rejected inquiries to successful inquiries.
- II. Determined if the IRS informs taxpayers as to the status of their refund inquiries and timely resolves their inquiries.
- A. Obtained inventory listings of taxpayer complaints from the Atlanta and Austin Customer Service sites, quantified the number of taxpayer inquiries in the Customer Service Center inventories by status of case, and determined the percentage that were aged.
 - B. Using the inventory listings and random selection techniques, selected a judgmental sample of 198 taxpayers from the total inventories of 6,452 claims. Reviewed the case files and other audit evidence and determined:
 1. The time that had expired from the taxpayer's initial inquiry to the time the case was referred to the FMS, to the stop payment, and to the issuance of a replacement check.
 2. If the taxpayers were kept informed of the status of their inquiries.
 3. If the IRS followed up with the FMS on all cases not resolved by the FMS within established time standards.
 - C. Reviewed IRS documentation and determined whether issues impacting the refund inquiry program were elevated to the FMS.

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Appendix II

Major Contributors to This Report

Walter E. Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs)

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Appendix III

Report Distribution List

Deputy Commissioner Operations C:DO
Chief Operations Officer OP
Assistant Commissioner (Customer Service) OP:C
Executive Officer for Service Center Operations OP:SC
Chief, Customer Service Field Operations OP:CSF
National Director, Customer Service Compliance, Accounts and Quality OP:C:A
National Director, Education, Walk-In, and Correspondence Improvement OP:C:E
National Director, Telephone Operations Division OP:C:T
National Director for Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis M:O
Office of Management Controls M:CFO:A:M
Office of the Chief Counsel CC
Office of the National Taxpayer Advocate C:TA
Audit Liaison: Chief Operations Officer OP

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Appendix IV

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 the Congress.

Finding and recommendation:

The Internal Revenue Service's (IRS) refund trace process does not provide all taxpayers with adequate customer service. The IRS should:

- Promptly process missing refund claims.
- Communicate more effectively with taxpayers.

Insufficient management information and inconsistent procedures hamper oversight of the process. As a result, Customer Service executives cannot effectively evaluate the combined processing of refund claims at the customer service centers.

To ensure more timely resolution of taxpayer claims, we recommend the IRS perform a series of actions that includes revising refund trace procedures for written communication with taxpayers and more timely monitoring all refund trace actions. The IRS should also strengthen its oversight of the missing refund process by developing and using a comprehensive management information system (MIS) that summarizes the results of this process for all 10 customer service centers (providing a national perspective). The MIS should also summarize the longitudinal age of claims from the IRS received date (providing a taxpayer's perspective).

Type of Outcome Measure:

Taxpayer Burden/Taxpayer Rights and Entitlements - Potential

Value of the Benefit:

When refund inquiries are not resolved and the results are not communicated to the taxpayer in a timely manner, the IRS is at risk of damaging taxpayer relations. In addition, there is a potential effect of increased burden on taxpayers if additional contacts with the IRS are necessary to resolve their refund claims. Another potential effect on taxpayers is impairment of taxpayers' rights and entitlement to timely replacement of their missing refunds. Our review discovered 497 taxpayers who submitted their refund

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inquiry through the Telephone Routing Interactive System (TRIS) and replacement refunds were suspended. The total amount of these refunds was \$1.3 million.

Our audit tests identified a combined total of 12,196 taxpayers whose refund claims were shown as overage on the TRIS and the Refund Inquiry Unit Inventory Listings. A sample review of cases from the Refund Inquiry Units' inventories also found 28 taxpayers who had no additional correspondence after being advised they would be hearing from the IRS on the status of their claims within 90 days.

Methodology Used to Measure the Reported Benefit:

This review used an analysis of the following reports and a judgmental sample of cases selected from them to support these results:

- The Refund Inquiry Unit Inventory Listings dated September 18 and October 16, 1999, respectively, for the Atlanta and Austin Customer Service Centers to identify the status of claims.

- The TRIS Refund Inquiry Inventory Listings dated September 11 and October 23, 1999, respectively, for the Atlanta and Austin Customer Service Centers to identify the status of claims and all inquiries containing a suspended replacement refund.

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Appendix V

Management's Response to the Draft Report



COMMISSIONER

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

June 5, 2000

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

for Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT:

Treasury Inspector General for Tax Administration (TIGTA)
Draft Report – Improvements Are Needed To Promptly
Resolve Missing Refund Checks (Audit No. 199940104)

Thank you for the opportunity to respond to your draft report entitled "Improvements Are Needed to Promptly Resolve Missing Refund Checks." We agree with your assessment that improvements are needed in processing all taxpayer claims effectively and communicating with taxpayers to inform them of delays in resolving their claims. We have taken immediate actions to enable the centers and headquarters to more effectively monitor timeliness and overage. We developed a national inventory report to capture cumulative program results and timeliness measurements. We will be updating our Internal Revenue Manual (IRM) to provide further guidelines to our employees on communicating with taxpayers when we fail to meet established timeframes.

We agree that your audit recommendations will provide benefits to tax administration by decreasing taxpayer burden and by providing taxpayers with more timely replacement refunds. While we do not believe that taxpayers' claims were improperly denied, we expect to see increased efficiency in claims processing with taxpayers receiving settlement much sooner.

Your memorandum dated April 13, 2000, states that you were advised of a continuing problem with the Financial Management Service (FMS) database capacity that impacts the level of service provided to taxpayers. As of May 1, 2000, the database is current and contains the required 12 months of data. The National Director, Compliance and Accounts Division has worked closely with FMS executives to improve the effectiveness of refund processing. Several conference calls were held in April 2000 between Internal Revenue Service (IRS) and FMS management to define and resolve outstanding issues. Customer Service and Submission Processing will participate in quarterly meetings with FMS to resolve any concerns that surface in the future.

IDENTITY OF RECOMMENDATION/FINDING

To ensure that taxpayer claims of missing refund checks are timely resolved, the IRS should revise its procedures so they are consistent and ensure that refund trace requests are forwarded to the FMS in a timely manner.

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ASSESSMENT OF CAUSE

Missing refund inquiries made through the Telephone Routing Interactive System (TRIS) were not effectively monitored. Taxpayer claims were not timely forwarded to the FMS from Refund Inquiry Units. Follow-up actions on claims were not timely performed.

CORRECTIVE ACTIONS

We agree with the TIGTA findings that the timeframes identified in this report for the length of time from receipt of claim to forwarding to FMS is unacceptable. To ensure a better understanding by IRS employees of the required timeframes to start trace action, we are adding a new section to the IRM. TRIDOC 21.4.2.3.1, Comprehensive Processing and Controlling - Timeliness of Actions, was available to employees in May 2000. It contains step-by-step actions and timelines employees must meet from the receipt of the Refund Inquiry.

During the time of this review, IRS was encountering two major processing concerns involving FMS. The two issues were the Tax Offset Program (TOP) and the limited capacity of the FMS database. The volume of the TOP offsets delayed at FMS caused numerous problems with our ability to quickly resolve taxpayer inquiries. The capacity limitations of the FMS database eliminated our ability to have universal access for refund inquiries, necessitating alternate, less effective procedures. Both of these issues were subsequently resolved. However, the cumulative effects of dealing with these issues (from the beginning of the 1999 filing season) may have contributed to the lack of effectiveness of the overall refund program.

IMPLEMENTATION DATE:
COMPLETED May 8, 2000

RESPONSIBLE OFFICIAL(S)
National Director, Compliance and Accounts Division

CORRECTIVE ACTION(S) MONITORING PLAN
Not Applicable

IDENTITY OF RECOMMENDATION/FINDING

To ensure that taxpayer claims of missing refund checks are timely resolved, the IRS should increase management oversight to ensure that employees perform timely follow-up actions when required.

ASSESSMENT OF CAUSE

The refund trace process was not effectively monitored from its initiation to its resolution. Missing refund inquiries made through the TRIS were not effectively monitored.

Improvements Are Needed to Promptly Resolve Missing Refund Checks

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CORRECTIVE ACTION

As soon as we became aware of the TIGTA findings, we immediately contacted all centers to stress the need to closely monitor the TRIS reports. During the week of April 17, we held a meeting in Austin with managers and tax examiners from all centers. At this meeting, we stressed the need for management oversight of the TRIS reports as well as the Integrated Data Retrieval System (IDRS) aged case listings. The Headquarters Customer Service analyst has also requested each center to forward these reports monthly to Headquarters for review and oversight.

IMPLEMENTATION DATE:

COMPLETED April 30, 2000

RESPONSIBLE OFFICIAL(S)

National Director, Compliance and Accounts Division

CORRECTIVE ACTION MONITORING PLAN

The Headquarters Customer Service analyst will compare prior copies of the aged listing to new aged listings to determine the effectiveness of the new IRM procedures.

IDENTITY OF RECOMMENDATION/FINDING

To ensure that taxpayer claims of missing refund checks are timely resolved, the IRS should develop comprehensive national information reports that capture cumulative program results and also include timeliness measurements from the date claims are first received by the IRS.

ASSESSMENT OF CAUSE

Management information reports did not provide data for effective national oversight. Total time to resolve taxpayer's claims could not be determined as reports are programmed to measure timeliness from the last IRS action date.

CORRECTIVE ACTIONS

A national Inventory report which includes statistics on the refund inquiry program was implemented January 1, 2000. This report will enable the individual centers as well as headquarters to effectively monitor timeliness and overage. In addition, we are revisiting the aging criteria for the IDRS case control report. While we feel it is necessary to monitor each action for aging, we will also be exploring ways to tighten these timeframes as well as monitor overall aging from receipt of claim to resolution.

IMPLEMENTATION DATE:

COMPLETED January 1, 2000

RESPONSIBLE OFFICIAL(S)

National Director, Compliance and Accounts Division

Improvements Are Needed to Promptly Resolve Missing Refund Checks

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CORRECTIVE ACTION MONITORING PLAN
Not Applicable

IDENTITY OF RECOMMENDATION/FINDING
Revise IRS procedures to notify taxpayers if their claims are not resolved within the time frame originally provided.

ASSESSMENT OF CAUSE
Additional management oversight is needed to improve the IRS' communication with taxpayers. The IRS did not always provide taxpayers with periodic updates on the status of their claims.

CORRECTIVE ACTIONS
We are adding new procedures to the IRM to specifically address this issue. The refund inquiry IRM for 2001 will contain specific information on contacting the taxpayer when we fail to meet established timeframes. The 2001 IRM will be effective October 1, 2000.

IMPLEMENTATION DATE:
PROPOSED September 30, 2000

RESPONSIBLE OFFICIAL(S)
National Director, Compliance and Accounts Division

CORRECTIVE ACTION MONITORING PLAN
The National Director, Compliance and Accounts Division will address timing of IRM updates during weekly staff meetings.

If you have any questions about our response, please contact me at (202) 622- 9511 or a member of your staff may contact Robert Wilkerson, Assistant Commissioner (Customer Service), at (202) 622-5044.