



*Processes to Resolve Undelivered and
Expired Refunds Are Generally Effective*

August 31, 2006

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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.

Phone Number | 202-927-7037

Email Address | Bonnie.Heald@tigta.treas.gov

Web Site | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

August 31, 2006

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM:

(for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Processes to Resolve Undelivered and Expired Refunds Are Generally Effective (Audit # 200540030)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) is resolving undelivered and expired refund check conditions efficiently and effectively. We evaluated the current resolution processes and reviewed samples of undelivered and expired refund checks to determine whether the processes might be improved.

Synopsis

The IRS issues over 100 million refunds annually to taxpayers. While taxpayers cash most refunds, hundreds of thousands are returned to the IRS as undeliverable or expire without ever being cashed. The IRS offers information via telephone, web site, and publications to help taxpayers claim undelivered or expired refunds. The IRS also has systemic processes to reissue refunds automatically when it receives new addresses for taxpayers who are owed refunds. Nevertheless, thousands of refunds go unclaimed each year.

The IRS' processes for resolving undelivered and expired refunds are generally effective. The IRS reissues refunds if the original refunds either were returned undeliverable or credited back to taxpayers' accounts when the original refunds were not cashed within a specific period. The IRS eliminated much unproductive research when it recently revised its procedures to discontinue research of each Undelivered Refund Check Notice. We estimate that, of the 207,750 Tax Year 2003 undelivered refunds still outstanding at the end of December 2004, 93 percent were resolved by the end of December 2005. Analysis of a statistical sample of 400 Tax Year 2001 cases unresolved in 2004 showed many of these older cases were resolved within another year. The IRS' efforts to get taxpayers their refunds were reasonably successful; however, the IRS



Processes to Resolve Undelivered and Expired Refunds Are Generally Effective

could enhance its processes to improve the timeliness and ease of getting refunds reissued to taxpayers or their estates.

The IRS could improve the Undelivered Refund Check Notice sent to taxpayers explaining how to obtain refunds after checks have been returned undeliverable. Our analysis of a statistical sample of 396 Tax Year 2003 undelivered refunds showed that processing time could be reduced by about a week if the IRS directed taxpayers to make contact by telephone rather than by written

IRS processes for resolving undelivered and expired refunds are generally effective; however, improvements to the processes could reduce taxpayer burden and improve customer service.

correspondence. Also, although the IRS has plans to address this issue, the current Undelivered Refund Check Notice does not direct taxpayers to the IRS Internet web site, IRS.gov, as another available alternative. Additionally, a higher proportion of Hispanic surname undelivered refund cases were not resolved, indicating that some of these taxpayers may not respond because they are having difficulty understanding the English-only Undelivered Refund Check Notice.

Processing of undelivered or expired refunds of deceased taxpayers could be improved. Our review of a statistical sample of 400 older cases from Tax Year 2001 indicated a higher proportion of deceased taxpayer cases in the unresolved cases than in the resolved cases. Currently, undelivered and expired refunds for deceased taxpayers are treated the same as other undelivered and expired refunds. A subsequent tax return filing was the most frequent means of obtaining contact information for the older cases. However, the IRS normally does not receive subsequent returns for deceased taxpayers. Depending on the situation, an executor may not know an undelivered or expired refund is owed to the deceased taxpayer.

Recommendations

The Commissioner, Wage and Investment Division, should revise the Undelivered Refund Check Notice to emphasize response by telephone and Internet. Additionally, the Undelivered Refund Check Notice should include sufficient information in Spanish to explain its purpose and to direct taxpayers to call a telephone number where they can receive Spanish-language assistance. The Commissioner, Wage and Investment Division, also should ensure deceased taxpayer accounts with significant credit balances are identified and reviewed as soon as possible after the refund check has been returned undeliverable and prior to an expired refund being reissued.

Response

The IRS partially agreed with the first recommendation and agreed with the second recommendation. The Wage and Investment Division will update the Undelivered Refund



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Check Notice to publicize the different options available for taxpayers to update their address with the IRS and to advise taxpayers in Spanish (after the toll-free telephone number) that assistance is available in Spanish by calling the toll-free number. In addition, the Wage and Investment Division will do further research in the area of deceased taxpayer accounts to determine if procedural changes are warranted. IRS management did not agree to eliminate the bottom portion of the Undelivered Refund Check Notice or to discontinue sending the taxpayer a return envelope. The IRS does not believe eliminating these items would provide good customer service. Management's complete response to the draft report is included as Appendix VII.

Office of Audit Comment

While we believe eliminating these items would provide faster, more efficient customer service with lower mailing costs, we accept the IRS' decision to continue to provide taxpayers with the return mail option.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Table of Contents

BackgroundPage 1

Results of ReviewPage 2

 Processes Are in Place to Address Undelivered and Expired
 RefundsPage 2

 Revising the Undelivered Refund Check Notice Would Make
 It More EfficientPage 4

Recommendation 1:.....Page 7

 Processing of Undelivered or Expired Refunds of Deceased
 Taxpayers Could Be ImprovedPage 8

Recommendation 2:.....Page 9

Appendices

 Appendix I – Detailed Objective, Scope, and MethodologyPage 10

 Appendix II – Major Contributors to This ReportPage 13

 Appendix III – Report Distribution ListPage 14

 Appendix IV – Outcome MeasurePage 15

 Appendix V – Undelivered and Expired Refunds ProcessPage 16

 Appendix VI – Undelivered Refund Check NoticePage 17

 Appendix VII – Management’s Response to the Draft Report.....Page 18



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Abbreviations

FMS	Financial Management Service
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
USPS	United States Postal Service



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Background

The Internal Revenue Service (IRS) issues over 100 million refunds annually to taxpayers. While taxpayers cash most refund checks, hundreds of thousands are returned to the IRS as undeliverable or expire without ever being cashed. The IRS offers information via telephone, web site, and publications to help taxpayers claim undelivered or expired refunds. The IRS also has systemic processes to reissue refunds automatically when it receives new addresses for taxpayers who are owed refunds. The United States Postal Service (USPS) periodically sends an electronic listing with new addresses to the IRS. The IRS uses this information to reissue refund checks to taxpayers. In addition, the IRS reissues refunds systemically when a tax return with a new address is received and posts to the taxpayer's account. Nevertheless, thousands of refunds go unclaimed each year.

The IRS coordinates with the Department of the Treasury Financial Management Service (FMS) to send refunds to taxpayers. The IRS is responsible for providing the FMS with all the information it needs to send refund checks. The FMS is responsible for mailing the refund checks or processing direct deposits to taxpayer bank accounts based on IRS directions.

For a number of reasons, some of these checks cannot be delivered by the USPS and are returned as undeliverable. If the USPS cannot deliver a refund check to the taxpayer's address, it will return the check to the FMS. The FMS cancels undelivered refund checks weekly and transmits this information to the IRS. The FMS also transmits to the IRS information for refunds that have not been cashed within 12 months of issuance and are considered expired. After receiving undelivered and expired refund information from the FMS, the IRS credits the refund amounts back to the taxpayers' accounts. The IRS subsequently attempts to send these refunds back to taxpayers.

This review was performed at the Customer Account Services function of the Wage and Investment Division Headquarters in Atlanta, Georgia, and the IRS Submission Processing Site at the Fresno Campus¹ in Fresno, California, during the period September 2005 through March 2006. Data from the IRS Individual Master File² were used to review information nationally. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹ The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Results of Review

The IRS' processes for resolving undelivered and expired refunds are generally effective. These processes provide most taxpayers with another refund after the original refund either was returned undeliverable or credited back to the taxpayer's account when the original refund was not cashed within a specific period. However, while generally effective, the processes could be enhanced to provide faster service with fewer resources.

Processes Are in Place to Address Undelivered and Expired Refunds

When a refund check is returned undeliverable, the IRS will issue a new check immediately if it received new address information after the initial refund check was issued. If no updated address information was received, an Undelivered Refund Check Notice (Notice) is sent to the same address. The Notice informs the taxpayer that a refund check was returned undelivered and requests a correct address. The taxpayer is asked to complete a form at the bottom of the Notice and return it to the IRS in the enclosed envelope provided. The Notice also has a telephone number for taxpayer assistance.

If the Notice is returned undeliverable, no additional actions are taken until the taxpayer contacts the IRS or files a return with an updated address or the USPS provides an updated address. Prior to Fiscal Year 2006, employees researched all Notices that were returned as undeliverable to try to locate better address information. The IRS eliminated much unproductive research when it recently revised its procedures to discontinue research of each Undelivered Refund Check Notice. A refund is reissued systemically (i.e., without further review of the case) when the address on a taxpayer account is updated by USPS information or by the taxpayer filing a subsequent income tax return. However, the primary source of systemic changes is subsequently filed income tax returns with updated addresses.

Sometimes the USPS returns the Notice to the IRS with an expired updated address label on the envelope. When this occurs, employees will send a letter to the expired address requesting the taxpayer to verify that it is a current address. If the taxpayer responds, the IRS will reissue the refund.

Procedures for resolving expired refunds are similar to undelivered refunds but vary depending on the amount of the refund. With limited exceptions, the IRS reissues lower dollar refunds along with a notice explaining the reason for the reissued refund.³ For higher dollar refunds, the IRS issues a notice informing the taxpayer that the check has expired and will not be reissued

³ A Computer Paragraph 32 Notice, New Refund Check – Old Check Not Cashed, is sent when the refund is reissued.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

until the taxpayer responds.⁴ No special action is taken for refunds under \$10. The processing of undelivered and expired refunds is illustrated in Appendix V.

The volumes of notices sent for undelivered and expired refunds have fluctuated in recent years, as shown in Figure 1. This is due primarily to additional individual income tax refunds related to the Economic Growth and Tax Relief Reconciliation Act of 2001⁵ and the Jobs and Growth Tax Relief Reconciliation Act of 2003.⁶ Sending millions of additional checks caused additional undelivered and expired checks. Another factor is the increased use of electronic filing and direct deposit. Errors are reduced with electronic transmissions as opposed to manual keying of data by the IRS. Additionally, direct deposits generally bypass the paper check process unless there is a transcription error in the direct deposit information. Electronic filing and direct deposits result in more accurate and faster processing of refunds.

Figure 1: Volumes of Refunds Issued and Undelivered and Expired Notices Sent by the IRS During Fiscal Years 2000–2005

Fiscal Year	Refunds Issued	Undelivered Refund Notices	Expired Refund Notices
2000	92,178,136	306,444	191,298
2001	180,348,526	641,950	195,881
2002	107,296,137	532,456	188,165
2003	126,428,137	479,176	249,639
2004	106,183,729	284,596	252,556
2005	106,274,023	293,253	229,190

Source: IRS Data Books 2000–2005 for refunds sent and IRS Gatekeeper web site notice volumes for Computer Paragraph 31, 32, and 32A Notices.

Most undelivered and expired refunds are reissued successfully

The IRS' efforts to resolve undelivered and expired refunds appear to be reasonably successful. To obtain information on undelivered refund characteristics, we selected two samples—one from Tax Year 2003 to examine the more recent cases and one from Tax Year 2001 to examine the older cases. For our Tax Year 2003 undelivered refund sample, we took a statistical sample of

⁴ A Computer Paragraph 32A Notice, New Refund Check – Old Check Not Cashied, is sent to inform the taxpayer he or she must contact the IRS to receive the refund.

⁵ Pub. L. No. 107-16, 115 Stat. 38 (2001).

⁶ Pub. L. No. 108-27, 117 Stat. 752 (2003).



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

396 cases from the 207,750 Tax Year 2003⁷ refunds that were undelivered as of the end of Calendar Year 2004. As of the end of Calendar Year 2005, approximately 93 percent of our sample cases had been resolved,⁸ and 7 percent were still unresolved.

Undelivered refunds and expired check refunds that have not been reissued for other reasons will automatically be reissued when a subsequent tax return posts to the taxpayer's account or when the IRS receives a new taxpayer address from the USPS. If the taxpayer does not file a subsequent return and no new address is obtained, after approximately 3 years of inactivity, the refund amount will be moved automatically from the taxpayer's account into the IRS Excess Collections account. However, subsequent activity on the taxpayer's account can reverse the transaction and restore the credit to the taxpayer's account.

We also determined the IRS continues to resolve older undelivered and expired refund cases. The IRS issued approximately 191.4 million⁹ individual refunds related to Tax Year 2001. Our analysis indicated approximately 634,000 refunds were undelivered or expired. About 39,000 were still unresolved, with a credit balance of at least \$100¹⁰ as of the end of December 2004. Our statistical sample of 400 of the approximately 39,000 unresolved Tax Year 2001 refunds showed that many of these cases were resolved within another year. These older sample cases were resolved most often by a subsequent income tax return with new address information posting to the taxpayer's account. Other actions that resolved cases included taxpayers contacting the IRS to inquire about a refund and address updates from the USPS. Most of the cases that remained unresolved had not had a return filed on the account since Tax Year 2001.

For the most part, the IRS is making a reasonable effort to provide taxpayers with refunds due them. However, the IRS could enhance its processes to improve timeliness and efficiency.

Revising the Undelivered Refund Check Notice Would Make It More Efficient

The IRS should consider more efficient and effective means of processing change of address information to minimize costs and ensure refund checks are reissued to taxpayers as quickly as possible. The instructions in the Undelivered Refund Check Notice do not promote the most advantageous methods. Consequently, in many instances, the processing time for change of address information is extended or taxpayers do not respond.

⁷ A "tax year" refers to that year's tax return (e.g., the Tax Year 2003 return would normally be filed in 2004 by the filing cutoff date of approximately April 15).

⁸ We considered a case "resolved" when a refund was reissued, even though in some cases the refund might subsequently be returned as undeliverable or expired again.

⁹ The 191.4 million includes 107.3 million individual income tax return refunds sent in Fiscal Year 2002 plus 84.1 million advance individual income tax refunds that were mailed in 2001.

¹⁰ We selected cases with a credit balance of at least \$100 to include only cases with a more significant balance for audit test purposes.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

In Fiscal Year 2003, the IRS mailed out approximately 479,000 Notices to taxpayers. Because the Notices are sent out after the USPS has already returned refunds to the IRS, many Notices also are returned undeliverable. However, some of the Notices do reach taxpayers. We could not estimate with reasonable certainty how many taxpayer change-of-address responses are attributable to the mailing of the Notices, but it appears sufficient benefit is derived from the process to make it worthwhile. Nonetheless, we have the following concerns with the current Undelivered Refund Check Notice.

- It instructs taxpayers to complete and mail in an attached change of address form, rather than to use toll-free telephone or Internet options, to inform the IRS of address changes.
- It does not provide Spanish-language instructions.

Change of address instructions are not advantageous to the IRS

To request that an undeliverable refund be reissued, taxpayers may contact the IRS by telephone, by mail, or via the Internet. The Notice instructs taxpayers to complete an attached change of address form and mail it to the IRS using the enclosed envelope (see Appendix VI for a copy of the Notice). The Notice also provides a toll-free telephone number for assistance. Although a significant number of taxpayers submit the information by mail, providing it by telephone is the most widely used method. We analyzed a random sample of 396 returned refunds for Tax Year 2003 and determined that 59 percent of the cases were handled by telephone. Figure 2 shows some of the results of our analysis.

Figure 2: Processing Times for Undelivered Refunds

Cases Handled by:	Number of Cases	Percentage of Cases	Number of Weeks to Process
Telephone	232	59%	6.6
Subsequent Filing or USPS Address Change	82	21%	32.1
Mail	43	11%	8.0
Not Determined	10	2%	19.6
Unresolved Cases	29	7%	-
Total	396	100%	12.8

Source: Treasury Inspector General for Tax Administration analysis.

Processing by mail averaged about 8 weeks from the time the Notice was sent out until the refund was reissued, while processing by telephone averaged 6.6 weeks. The average time to handle cases systemically (which included address corrections made by the filing of a subsequent



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

tax return or the USPS) was 32.1 weeks. The overall average processing time was 12.8 weeks. For the cases described as “Not Determined,” we were unable to determine the exact source for the case resolution.

Not only is the telephone option faster, there are no return mailing costs involved. Using IRS information, the estimate of this cost (enclosed return envelope) was \$223,636 over the last 5 years and will be about \$148,000 in the next 5 years. We do not have information on how labor or telephone costs would be affected by redirecting taxpayers from use of the mail to use of the telephone or Internet. However, with more timely resolution of undelivered refunds, taxpayers would receive the benefit of faster customer service.

Although response by mail is less efficient for both the taxpayer and the IRS, a segment of taxpayers may want to use this method. To accommodate those who cannot access the Internet or make a telephone call, the IRS could provide a mailing address on the Notice and advise the taxpayer to respond with a new address on the copy of the Notice. Use of return envelopes should be eliminated because there is no benefit extended to the majority of recipients who respond by other means, thereby saving the IRS the cost of the return envelopes.

The IRS maintains a link on its web site called “Where’s My Refund?” According to the IRS, the link offers taxpayers refund information as well as an Internet method of submitting a change of address. If the refund status indicates the refund check was undeliverable, the taxpayer is prompted to respond to authentication questions. After successful authentication, the taxpayer’s account will be updated automatically with the new or corrected address and the refund will be reissued systemically. Our sample analysis did not include Internet activity because the application was implemented in mid-2005, after the majority of Tax Year 2003 undelivered refunds had already been handled. However, experience with tax filings shows that electronic submissions have grown significantly in the past few years and Internet change of address submissions are likely to increase as well.

The IRS has acknowledged that the Notice needs revision and is in the process of making a change to promote the use of the Internet option for submitting changes of address. However, the Notice still instructs the taxpayer to complete the address change information at the bottom of the Notice and mail it to the IRS. The Notice does not clearly present the preferred method of calling the IRS to provide address change information. We estimate that 22,645 taxpayers with Tax Year 2003 refunds could have been served more quickly if they had used the telephone method of contacting the IRS instead of corresponding by mail. Based on Tax Year 2003 results, over a 5-year period as many as 113,225 taxpayers could be served more quickly (see Appendix IV).

Spanish translation on the Notice could improve responses

A significant number of taxpayers may have difficulty comprehending the Notice if their English-language skills are not fluent. Although we could not determine how many taxpayers are affected, we attempted to get a better understanding by analyzing our sample of 396 Tax



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Year 2003 undelivered refunds for the presence of Hispanic surnames. We used a Bureau of the Census list of Hispanic surnames and Internet searches to help determine whether a name was Hispanic. Ninety-one (23 percent) of the 396 undelivered refunds were for taxpayers with Hispanic surnames. This is somewhat more than the national percentage of Hispanic surnames in the United States population. Between 2000 and 2004, the Bureau of the Census reported that between 12.5 percent and 14.2 percent of the United States population was Hispanic.

Because a higher proportion of Hispanic surname cases are not resolved, it may be that some of these taxpayers do not respond because they are having difficulty understanding the English-only Notice. IRS goals include improving taxpayer service by providing products in Spanish. To help meet this goal, the Notice could provide Spanish-language instructions and thus facilitate refund receipts. The telephone number provided on the current Notice directs taxpayers to Spanish-language help if they desire it. Including text in Spanish explaining the taxpayer's refund has been undeliverable and directing them to call the telephone number would address this issue. Although we do not have enough information to determine how many taxpayers are affected, providing Spanish-language information could speed resolution of undelivered refunds for the Spanish-speaking segment of the population.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should revise the Undelivered Refund Check Notice to emphasize response by telephone and Internet and delete the bottom part of the Notice requesting change of address information by mail. Some taxpayers may not want to respond by telephone or Internet, so the IRS should provide a mailing address and advise taxpayers to respond with their new address on the copy of the Notice. Because most taxpayers do not reply via mail, no return envelope should be enclosed with the Notice. In addition, the Notice should be revised to include sufficient information in Spanish to explain the purpose of the Notice and to direct taxpayers to call a telephone number where they can receive Spanish-language assistance.

Management's Response: The IRS partially agreed with this recommendation. The IRS agreed to update the Undelivered Refund Check Notice to publicize the different options available for taxpayers to update their address with the IRS and to advise taxpayers that toll-free Spanish assistance is available by adding the approved language, "Asistencia en español disponible" (*Spanish assistance is available*) after the toll-free telephone number. The IRS did not agree to eliminate the bottom portion of the Notice, or to eliminate sending the taxpayer a return envelope. The IRS does not believe it is good customer service or in the best interest of the IRS to eliminate the tear-off section of the Notice where the taxpayer lists information related to the address change or to eliminate sending the taxpayer a return envelope.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Office of Audit Comment: While we believe eliminating these items would provide faster, more efficient customer service with lower mailing costs, we accept the IRS' decision to continue to provide taxpayers with the return mail option.

Processing of Undelivered or Expired Refunds of Deceased Taxpayers Could Be Improved

While the recent elimination of Notice research promoted efficiency and made sense for the majority of cases, reimplementing research procedures for deceased taxpayer cases would provide benefits to both the IRS and taxpayers' estates. Currently, undelivered or expired refunds for deceased taxpayers are treated the same as those for all other taxpayers. However, the current systemic process has not been as effective in resolving deceased taxpayers' cases as in resolving other types of cases. Our review of older cases indicated there was a higher proportion of deceased taxpayers' accounts in the unresolved cases than in the resolved cases. We estimate there were 5,289 Tax Year 2001 deceased taxpayer cases with significant balances as of December 2004.

The most common resolution for cases that were not resolved promptly through taxpayer telephone or mail contact is through a systemic process, primarily the filing of a subsequent tax return. This systemic process will not resolve these cases if the estate of the deceased taxpayer does not file a subsequent return. A higher proportion of deceased taxpayer cases were unresolved because the IRS normally does not receive a subsequent return. Depending on the situation, an estate executor may not be aware that a refund due from the IRS was undeliverable or expired.

We reviewed the Tax Year 2001 unresolved sample cases for deceased taxpayers to determine if we could find additional contact information to help locate a deceased taxpayer's estate. We reviewed final and estate returns, information return files, extension requests, copies of various documents provided by the taxpayer's estate or trustee, and other information available from IRS electronic files.

The IRS files contained information sufficient to identify a potential estate contact in many of these cases. We reviewed 43 cases for deceased taxpayers with undelivered or expired refunds still owed to the estate as of December 2005. Twenty-six of these cases had supplemental address information that could help locate the taxpayers' estates. Because the information can become outdated, it is important that the IRS conducts this research soon after the refunds are returned undeliverable or after they expire without being cashed. This would help reduce the number of unresolved cases and would improve customer service, which is a key IRS goal.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Recommendation

Recommendation 2: The Commissioner, Wage and Investment Division, should ensure deceased taxpayer accounts with significant credit balances are identified and reimplement research procedures for these deceased taxpayer accounts. The identified accounts should be researched as soon as possible after the refund check has been returned undeliverable and prior to an expired refund being reissued.

Management's Response: The IRS agreed with this recommendation and will do further research on the accounts we identified as part of our sample of older unresolved cases, to determine if an authorized party with another address is located on the deceased taxpayer's return. Based on the results of the review, the IRS will make procedural changes, if warranted.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of the review was to determine whether the IRS is resolving undeliverable and expired refund check conditions efficiently and effectively. We evaluated the current resolution processes and reviewed samples of undeliverable and expired refund checks to determine whether the processes might be improved. To accomplish our objective, we:

- I. Evaluated the current controls over the resolution of undeliverable and expired refund check cases.
 - A. Held discussions with National Headquarters Accounts Management function analysts, managers, and other employees and with Fresno, California, Accounts Management Site employees to determine how undeliverable refund and expired refund check cases currently are handled.
 - B. Reviewed relevant Internal Revenue Manual sections and analyzed the current procedures used by the Refund Inquiry and Accounts Maintenance functions to resolve undeliverable and expired refunds.
 - C. Reviewed relevant Program Requirement Packages and Functional Specification Packages and analyzed the current programming logic related to systemic refund and notice issuance. This analysis was cursory, to determine whether there were any obvious logic problems related to programming.
 - D. Determined the current status of the IRS agreement with the USPS for sharing of the National Change of Address file.¹
- II. Determined whether the current process used by the IRS to resolve undeliverable refund cases could be improved to resolve them in a more efficient and customer-friendly manner.
 - A. Selected a random sample of 396 Tax Year 2003 tax modules² with a Transaction Code 740 posted as of December 2004 from a total population of 207,750 undeliverable refunds. We selected a random sample so we could project the

¹ The National Change of Address file contains updated information from change of address forms filed with the USPS. The USPS licenses this information to companies for commercial mail list processing or internal mail list management. The purpose is to reduce undeliverable mail.

² A module is a collection of electronic data that is roughly equivalent to a tax return (e.g., an individual income tax return for a certain year with account activity related to that return and year is one module).



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

- results. We obtained our data from an Individual Master File³ extract prepared for the Treasury Inspector General for Tax Administration by the IRS and stored in our Data Center Warehouse. This sample selection reflects a 95 percent confidence level and a ± 5 percent precision and is appropriate for an occurrence rate of 50 percent. We validated the accuracy of the extracted Individual Master File sample case data while reviewing sample case information on the Integrated Data Retrieval System (IDRS).⁴ There were no discrepancies between the sample data and the IDRS. We did not verify the completeness of the population from which the sample cases were selected because we did not have a basis for comparison; however, the population results are roughly consistent with notice data from the IRS from slightly different time periods.
- B. Analyzed the sample cases and determined whether the undeliverable refund conditions were resolved, how they were resolved, what function resolved them (i.e., Refund Inquiry or telephone units), and the time periods for resolution.
 - C. Evaluated the results of the analysis in Step II.B. to determine whether there were ways to improve the efficiency of the process for trying to resolve undeliverable refunds.
 - D. Reviewed the content of the notices issued when refund checks are returned as undeliverable or expired and determined whether the content was necessary and appropriate or whether improvements could be made.
 - E. Attempted to determine the effect of any inefficiencies identified in the process and the cost savings of any improvements recommended by the audit team.
- III. Determined whether the current process used by the IRS to resolve aged undeliverable and expired refund check freeze cases was effective, either by locating the taxpayer and reissuing the refunds or by timely disposing of the credit so the account can be dropped from the Master File.⁵
- A. Based on the information obtained in Step I., determined whether the current process used to identify and research aged credit cases was working as intended and whether it was effective. We determined whether:
 - 1. The programming for generating transcripts for unresolved undelivered and expired refund freezes is in place and working as intended.

³ The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.

⁴ The IDRS is the IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

⁵ The Master File is the IRS database that stores various types of taxpayer account information. The database includes individual, business, and employee plans and exempt organizations data.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

2. The Internal Revenue Manual instructions used to research these transcripts were adequate to identify addresses for the taxpayers.
 3. Any steps were taken to resolve aged expired refund credits.
- B. Determined whether there was a more effective method of resolving aged credits.
1. Selected a random sample of 400 Tax Year 2001 tax modules with a Transaction Code 740 posted as of December 2004. We selected those modules with a credit balance of \$100 or more, but less than \$25,000, as of December 2004. This population of 39,176 transactions included both undelivered and expired refund checks. This sample selection reflects a 95 percent confidence level and a ± 5 percent precision and is appropriate for an expected occurrence rate of 50 percent. We selected a random sample so we could project results and cases with a credit balance of at least \$100 to include only cases with a more significant balance for audit purposes. We validated the accuracy of the extracted Individual Master File sample case data while reviewing sample case information on the IDRS. There were no discrepancies between the sample data and the IDRS. We did not verify the completeness of the population from which the sample cases were selected because we did not have a basis for comparison; however, the population results are roughly consistent with notice data from the IRS from slightly different time periods.
 2. For the selected sample cases, performed IDRS research to determine whether it appeared the IRS had for these taxpayers reasonably current address information that could be used to contact them and resolve the frozen refunds.
 3. Using the sample results, determined whether more cases could be resolved and used this to support recommendations for improvement.
- C. Identified deceased taxpayers with undelivered or expired refunds in the sample from Step III.B.1. and determined whether any special procedures could be implemented to more timely resolve the frozen refund condition.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Scott A. Macfarlane, Director

Richard J. Calderon, Audit Manager

Stephen D. Stephens, Lead Auditor

Kenneth L. Carlson, Jr., Senior Auditor

Carola A. Gaylord, Senior Auditor

Mary Jankowski, Senior Auditor

John Mansfield, Senior Auditor



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division
SE:S:CLD
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
Chief, GAO/TIGTA/Legislative Implementation Branch SE:S:CLD:PSP:GTL
Senior Operations Advisor, Wage and Investment Division SE:W:S



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

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:

- Taxpayer Burden – Potential; 113,225 taxpayers over 5 years could receive reissued refunds more quickly by emphasizing response by telephone and Internet and deleting the bottom part of the Undelivered Refund Check Notice requesting change of address information by mail (see page 4).

Methodology Used to Measure the Reported Benefit:

To determine how long it took to resolve cases processed by different means, we identified a population of 207,750 undelivered refunds in Tax Year 2003 by querying the Tax Year 2003 Individual Master File¹ on the Treasury Inspector General for Tax Administration Data Center Warehouse. From the population, we took a random sample of 396 cases. This sample selection reflects a 95 percent confidence level and ± 5 percent precision and is appropriate for an occurrence rate of 50 percent. For the sample cases, we identified transaction codes that caused a refund reissuance by reviewing various IDRS² command code output. We used IDRS audit trail files from the Data Center Warehouse to identify the functional unit of the employee who had initiated the refund reissuance (where applicable). Based on the transaction code and related data, as well as the functional unit of the initiating employee, we categorized the resolutions as due to the telephone, subsequent tax return filing, USPS address change, not determined, and unresolved (i.e., no reissued refund).

To determine how many taxpayers could be affected, we used Tax Year 2003 results for the mail, 10.9 percent (which was rounded to 11 percent in Figure 2), and applied that to the population of 207,750 undelivered refunds for an annual total of 22,645 taxpayers affected. Some taxpayers could be counted more than once due to multiple undelivered refunds. Using the results from our review we estimated that over 5 years the benefit could extend to 113,225 taxpayers (22,645 taxpayers per year times 5 years).

¹ The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.

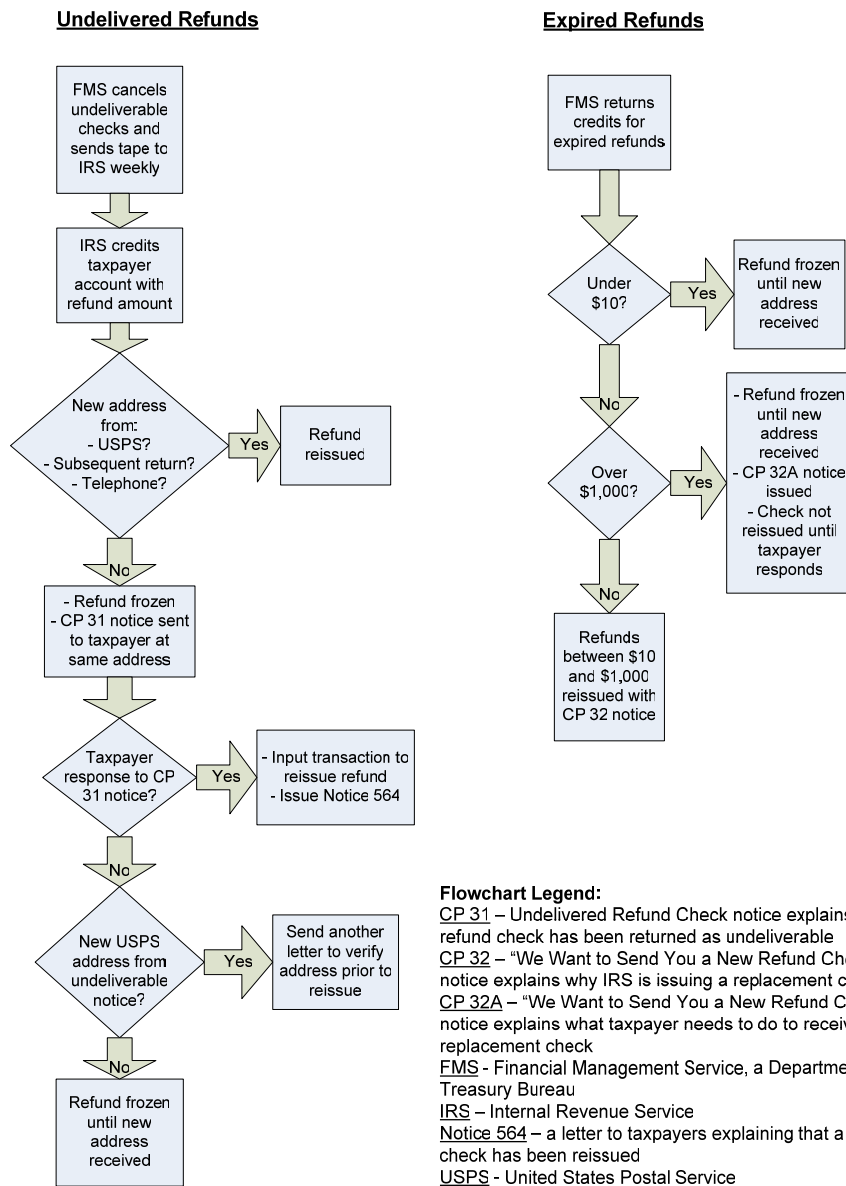
² The IDRS is the IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.



Processes to Resolve Undelivered and Expired Refunds Are Generally Effective

Appendix V

Undelivered and Expired Refunds Process



Source: Treasury Inspector General for Tax Administration analysis of IRS processes.




*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Appendix VI

Undelivered Refund Check Notice

A005637 SBQ 200304 CP: 31

 Department of the Treasury
Internal Revenue Service
P.O. BOX 444
HOLTSVILLE, NY 11742-9444

Date of this notice: FEB. 17, 2003
Taxpayer Identifying Number:

Form: 1040
Tax Period: DEC. 31, 2001
For assistance you may call us at:

Helpful Hint: For faster service, try calling us any day except Monday when our call volumes are highest.

UNDELIVERED REFUND CHECK

A refund check mailed to you at the above address has been returned by the Postal Service as undeliverable.

To have the check reissued to you, we need to know your current address. We also need to know your Social Security Number (SSN) and your spouse's SSN if you filed jointly as shown on your return. Please fill in the information requested below and sign and return the bottom portion of this notice within the next few days. We will then request that your check be reissued. An envelope is enclosed for your convenience.

Thank you for your cooperation.

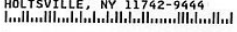
Keep Top Part of this form for Your Records DETACH HERE Return bottom part of this form to the IRS
Return this part to the IRS address shown below. Please correct any errors in your name, address, or social security number in the space below.

Your Telephone Number () _____	Best Time To Call _____
Current Address _____	Your SSN _____
_____	Spouse's SSN _____
_____	Your Signature _____
_____	Spouse's Signature _____

fold here

30

SBQ 200304

Internal Revenue Service
P.O. BOX 444
HOLTSVILLE, NY 11742-9444


31

AU 30 0 200112

Source: IRS publication Intranet web site.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Appendix VII

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

August 14, 2006

RECEIVED
AUG 14 2006

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM Richard J. Morgante *Richard J. Morgante*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Processes to Resolve Undelivered and
Expired Refunds Are Generally Effective (Audit # 200540030)

I have reviewed the subject draft audit report, and I appreciate your acknowledgment that our processes for resolving undelivered and expired refunds are effective. We, too, believe the procedures we have in place provide taxpayers a much needed service. The IRS annually issues over 100 million refunds to taxpayers and for a variety of reasons some of those refund checks are returned as undeliverable. If we receive updated address information, we subsequently attempt to send these refund checks back to taxpayers. However, if we receive no such information, we send the taxpayer an Undelivered Refund Check Notice (CP 31) to let them know their refund check is undeliverable.

While I agree with your recommendation to update the CP 31 notice to provide taxpayers with several options for updating their address information in order to get their undelivered refunds reissued, I do not agree that we should eliminate the existing tear-off portion of the CP 31 notice as a means by which taxpayers can do this. While we encourage taxpayers to visit the IRS website, irs.gov, or to contact us by telephone, we also recognize that some taxpayers do not have ready access to the internet or may be reluctant to contact us through that channel because of privacy concerns. We also recognize that some taxpayers may not be able to easily contact us by telephone, for example, because of their work schedule, or because the location or environment from which they are calling is not conducive to conducting such business over the telephone. For these taxpayers and others, the tear-off portion of the CP 31 provides a convenient option and format for updating their address information, and helps ensure taxpayers provide all of the information necessary to resolve their undeliverable refund.

Likewise, I do not agree with your recommendation to discontinue enclosing a windowed return envelope with the CP 31 notice. The tear-off portion of the notice



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

2

contains specific coding which routes it to the appropriate refund inquiry unit once the taxpayer sends it back to the IRS. This expedites the response for the taxpayer as well as for the IRS.

In your report, you also recommend that we translate the lines of the notice that instruct taxpayers to contact our toll-free numbers (1-800-829-0922 or 1-800-829-8374) for assistance. We agree that adding a line in Spanish after the toll-free number that states Spanish assistance is available on those numbers will be helpful to Spanish-speaking taxpayers.

Finally, in your review of a sample of older unresolved cases, you noted a higher proportion of deceased taxpayers' accounts than in the overall sample you reviewed. We will conduct additional research on the accounts of deceased taxpayers you identified to determine if an authorized party with another address is located on the return. Based on the results of the review, procedural changes will be made, if warranted.

Our response to your recommendations is detailed in the attachment. If you have any questions regarding this response, please call me at (404) 338-7060, or members of your staff may contact Betsy M. Kinter, Director, Customer Account Services, at (404) 338-8910.

Attachment



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

Attachment

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should revise the Undelivered Refund Check Notice to emphasize response by telephone and Internet and delete the bottom part of the form requesting change of address information by mail. Since some taxpayers may not want to respond by telephone or Internet, the IRS should provide a mailing address and advise taxpayers to respond with their new address on the copy of the Notice. Since most taxpayers do not reply via mail, no return envelope should be enclosed with the Notice. In addition, the Notice should be revised to include sufficient information in Spanish to explain the purpose of the Notice and to direct taxpayers to call a telephone number where they can receive Spanish language assistance.

CORRECTIVE ACTION

Recommendation 1 contains four separate recommendations; we will refer to them as (1a), (1b), (1c), and (1d).

- 1a – The notice CP31 should be revised to emphasize response by telephone and Internet.

We agree with this recommendation to update the CP31 to publicize the different options available for taxpayers to update their address with the IRS. We have contacted the Notice Prints Processing Section to determine if we can include this change with the current Request for Information Services (RIS) scheduled for implementation February 22, 2007. If the Notice Prints Processing Section is unable to honor this request, we will submit a new RIS by January 15, 2007, with a requested implementation date of January 15, 2008.

- 1b - The bottom portion of the CP31 requesting change of address information by mail should be deleted.

We disagree with the recommendation to eliminate the bottom portion of the notice. We do not believe it is good customer service or in the best interest of the Service to eliminate the tear off section of the notice where the taxpayer lists information relating to the address change.

- 1c – No return envelope should be enclosed with the CP31.

We disagree with the recommendation to eliminate sending the taxpayer a return envelope as we do not believe it is good customer service to eliminate sending the return envelope provided for the taxpayers convenience.

- 1d – The CP31 should be revised to include sufficient information in Spanish to explain the purpose of the notice and direct taxpayers to call a telephone number where they can receive Spanish language assistance.



*Processes to Resolve Undelivered
and Expired Refunds Are Generally Effective*

2

We also agree with this recommendation to update the CP31 to advise taxpayers that toll-free Spanish assistance is available by adding the approved language, "Asistencia en español disponible" (*Spanish assistance is available*) after the toll-free number. As previously stated, we have contacted the Notice Prints Processing Section to determine if we can include this change with the current Request for Information Services (RIS) scheduled for implementation February 22, 2007. If the Notice Prints Processing Section is unable to honor this request, we will submit a new RIS by January 15, 2007, with a requested implementation date of January 15, 2008.

IMPLEMENTATION DATE

1a and 1d – January 15, 2007

RESPONSIBLE OFFICIAL

Director, W&I CAS, Accounts Management

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should ensure that significant credit balance deceased taxpayer accounts are identified and reviewed as soon as possible after the refund check has been returned undeliverable and prior to an expired refund being reissued.

CORRECTIVE ACTION

We agree to do further research on the accounts TIGTA identified as part of its sample of older unresolved cases, to determine if an authorized party with another address is located on the deceased taxpayer's return. Based on the results of the review, we will make procedural changes, if warranted.

IMPLEMENTATION DATE

January 15, 2008

RESPONSIBLE OFFICIAL

Director, W&I CAS, Accounts Management

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.