

**Management Advisory Report:
Duplicate Income Tax Refund Checks Erroneously
Mailed to Taxpayers by the Financial Management
Service**

July 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.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 17, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report – Duplicate Income Tax
Refund Checks Erroneously Mailed to Taxpayers by the
Financial Management Service

This report is to alert the Internal Revenue Service (IRS) that the Financial Management Service (FMS) sent voided duplicate income tax refund checks to an unknown number of taxpayers. Although we found no evidence to indicate that the IRS had caused these checks to be issued by posting duplicate data to taxpayers' accounts, the IRS may incur negative consequences.

We are making no formal recommendations in this report. However, we suggest that the IRS prepare its customer service employees to deal with taxpayer calls regarding these checks, and work with the FMS to determine the extent of the problem.

We previously shared a discussion draft of this report with the office of the Assistant Commissioner (Customer Service). We are also providing the Director for Legislative Affairs copies of the report for appropriate distribution within the IRS and will provide a copy to the Treasury Inspector General.

Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Executive Summary

On June 16, 2000, a taxpayer contacted the office of the Treasury Inspector General for Tax Administration (TIGTA) in the Ogden Internal Revenue Service (IRS) Center to discuss two refund checks she had received in the mail one day earlier. The first check was made out to her, was dated approximately 3 months earlier, and was for the same amount as the income tax refund check she had received in March 2000. The second check was in the same envelope and was made out to another taxpayer living in the same city as this taxpayer.

The issuance of checks such as these could have significant impact on taxpayers attempting to cash them. In addition, depending on the volume of these checks, this situation could also have a potentially significant impact on the IRS, since it would likely receive telephone calls and letters regarding them. Therefore, the objective of our review was to determine what caused the checks to be issued, and how many taxpayers were (or could be) involved.

Results

The Financial Management Service (FMS)¹ sent voided duplicate refund checks to an unknown number of taxpayers. Without close inspection, the checks appeared to be legitimate, negotiable checks. We found no evidence to indicate that the IRS had caused these checks to be issued by posting duplicate data to taxpayers' accounts.

Taxpayers receiving these checks may cash, or try to cash, them. In addition, these taxpayers may contact the IRS to obtain an explanation for the checks or to find out what to do with the checks. The IRS needs to address this issue with its customer service employees and with the FMS.

Irregular (Voided) Income Tax Refund Checks Were Erroneously Mailed to Taxpayers by the Financial Management Service

The FMS should have shredded the two checks we reviewed. Instead, the checks were manually placed in the same envelope and mailed to one of the taxpayers. Based on very limited information, we estimate that on the day these two checks were generated, there could have been as many as 7,400 irregular income tax refund checks that should have

¹ The FMS issues payments for the U.S. Government. Each year, the FMS issues nearly 880 million non-defense payments, with a dollar value in excess of \$1.2 trillion, to a wide variety of recipients, such as those who receive Social Security, IRS tax refunds, and veteran's benefits.

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been voided and shredded. Neither we nor personnel from the FMS have been able to determine whether the erroneously issued checks were confined to just one day. We were advised that FMS personnel are continuing to research this issue to try to determine the number of checks erroneously issued and the control breakdown that allowed this to happen.

We suggest the Assistant Commissioner (Customer Service) consider preparing customer service employees for calls from taxpayers relating to these checks, working with the FMS to determine the exact number of checks issued erroneously, and if warranted, educating taxpayers about the duplicate checks.

Because this problem could potentially occur again, we are referring this issue to the Treasury Inspector General for any action he deems necessary.

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Objectives and Scope

The objectives of this review were to determine what caused duplicate income tax refund checks for two taxpayers to be issued, and how many other taxpayers were affected.

The objectives of this review were to determine what caused duplicate income tax refund checks for two taxpayers to be issued, and how many other taxpayers were affected.

We conducted this review from June 16 through June 26, 2000. The review was performed from the Ogden Internal Revenue Service (IRS) Center. The scope of our review was limited because:

- It was necessary to quickly communicate our findings to the IRS.
- Most of the documentation necessary to accomplish our objective was at the Financial Management Service (FMS),¹ which is outside the jurisdiction of the Treasury Inspector General for Tax Administration (TIGTA).

To accomplish our objectives, we performed the following:

- Reviewed two duplicate refund checks for two separate taxpayers that had been mailed to one taxpayer.
- Researched the tax accounts of the two taxpayers involved.
- Discussed the refund checks with IRS personnel.
- Interviewed FMS personnel in Austin, Texas and San Francisco, California regarding the duplicate checks, FMS operating procedures, and possible explanations for the duplicate checks.

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Details of our objectives, scope and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

One taxpayer received a duplicate refund check addressed to her, as well as another addressed to a different taxpayer living in the same city.

On June 16, 2000, a taxpayer contacted the TIGTA office in the Ogden IRS Center to discuss two refund checks she had received in the mail one day earlier. The first check was: made out to her; dated approximately three months earlier; and for the same amount as the income tax refund check she had received in March 2000. The second check was in the same envelope and was made out to another taxpayer living in the same city.

The issuance of checks such as these could have significant impact on taxpayers attempting to cash them. In addition, depending on the volume of these checks, this situation could also have a potentially significant impact on the IRS, since it would likely receive telephone calls and letters regarding them.

Results

Without close inspection, the duplicate checks issued by the FMS appeared to be legitimate, negotiable checks.

The FMS sent voided duplicate refund checks to an unknown number of taxpayers. Without close inspection, the checks appeared to be legitimate, negotiable checks. We found no evidence to indicate that the IRS had posted duplicate data to taxpayers' accounts to cause these checks to be issued.

Taxpayers receiving these checks may cash, or try to cash, them. In addition, these taxpayers may contact the IRS to obtain an explanation or to find out what to do with the checks. The IRS needs to address this issue with its customer service employees and with the FMS.

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Irregular (Voided) Income Tax Refund Checks Were Erroneously Mailed to Taxpayers by the Financial Management Service

Most taxpayers prepay some or all of their federal income taxes either through amounts withheld by their employers from their wages or through estimated tax payments. Often the amounts the taxpayers have prepaid exceed the amounts owed by the taxpayers. When these taxpayers file their federal income tax returns, they can elect to have any overpayments refunded to them.

Income tax refund checks are prepared and issued for the IRS by the FMS. The checks are machine-generated. Two operators run the machines. One is responsible for the general performance of the machine. The other continually reviews the checks to determine if they are printing in an acceptable manner. When one of the operators determines there is an irregularity with one or more checks, they stop the machine, pull the check(s) in question, label them “spoils,” and place them in a separate file. Periodically, these spoils are gathered and sent to be stamped “VOID,” and then sent to another branch where they are to be shredded.

The two checks included in our review were “spoils” and should have been shredded.

We were notified of two such irregular checks that were mailed to a taxpayer rather than being shredded. We reviewed these checks and found the following key features:

- Both checks were stamped “VOID” in very light red ink. However, the word void appeared completely on only one check. The writing was difficult to distinguish on both checks.
- Based on the appearance of the envelope in which the checks were mailed, FMS personnel determined that the checks were placed in the envelope by hand rather than by machine.
- Both checks were dated March 17, 2000, and were generated at the FMS site in San Francisco, California.

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We could not determine the total number of spoils issued on March 17, 2000. FMS personnel informed us there were no reports to document the cumulative number of spoils for all the runs on any given day. From the FMS runs in San Francisco that day, there were 558,467 checks processed. These checks would have been generated from approximately 14 reels of computerized data. Both of the checks we reviewed were from the same reel containing 531 spoils. If other runs contained a similar number of spoils, there could have been approximately 7,400 spoils on March 17, 2000.

We could not determine, nor did the personnel from the FMS, whether the erroneously issued checks were confined to just one day.

Neither TIGTA nor personnel from the FMS have been able to determine whether the erroneously issued checks were confined to just one day. We were advised that FMS personnel are continuing to research this issue to try to determine the number of checks erroneously issued and the control breakdown that allowed this to happen.

Because this problem could potentially occur again in the future, we are referring this issue to the Treasury Inspector General for whatever action he deems necessary. In addition, we suggest the Assistant Commissioner (Customer Service) consider the following actions to address this issue:

- Prepare customer service employees for calls from taxpayers. These employees should be able to ascertain whether a taxpayer's duplicate check is a "spoil," i.e., "VOID" lightly stamped across the check in red ink, no signature on the check, etc., and should be able to tell the taxpayer exactly what to do with the check.
- Work with the FMS to determine the exact number of spoiled checks issued.
- If warranted, consider options for educating taxpayers about the duplicate checks.

Detailed Objectives, Scope, and Methodology

The objectives of this review were to determine what caused duplicate income tax refund checks for two taxpayers to be issued, and how many other taxpayers were affected.

To accomplish our objectives, we performed the following steps:

- I. Researched the Internal Revenue Service's (IRS) Individual Masterfile¹ for the tax accounts of two taxpayers who had been issued duplicate income tax refund checks to determine if the IRS had taken actions to cause a second refund to be issued.
- II. Interviewed personnel from the Refund Inquiry Unit in the Ogden IRS Center to determine their procedures for researching problems with refund checks issued by the Financial Management Service (FMS).²
- III. Obtained the names of management officials at both the Austin and San Francisco FMS operations to contact regarding their procedures for processing IRS income tax refund checks.
- IV. Discussed FMS' controls to ensure checks with irregularities are identified and destroyed.
- V. Discussed potential causes of the mailing of the two duplicate checks included in our review.
- VI. Obtained available data regarding volumes of IRS refund checks issued on March 17, 2000, and the number of irregular checks generated.

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

² The FMS issues payments for the U.S. Government. Each year, the FMS issues nearly 880 million non-Defense payments, with a dollar value in excess of \$1.2 trillion, to a wide variety of recipients, such as those who receive Social Security, IRS tax refunds, and veteran's benefits.

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- VII. Researched the IRS' Customer Service website through June 20, 2000, to determine if there had been any problem entries or mention of the issuance of duplicate income tax refund checks or any problems related to FMS.

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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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