



Treasury Inspector General for Tax Administration Office of Audit

RELIANCE ON NEW PROCEDURES ALLOWED SOME FALSE ECONOMIC STIMULUS PAYMENTS TO BE ISSUED AND POSE A CONTINUING RISK OF FALSE REFUNDS BEING ISSUED IN THE FUTURE

Issued on March 25, 2009

Highlights

Highlights of Report Number: 2009-10-049 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) distributed 119.2 million stimulus payments totaling \$96.3 billion during 2008. However, we identified \$1.2 million in false stimulus payments and \$16.3 million in false refunds that were inappropriately issued due to reliance on new controls that did not work effectively. Although the amount of erroneously issued stimulus payments is small in relation to the total amount issued, TIGTA remains concerned that the existing controls pose a risk that false refunds and stimulus payments will be erroneously issued in the future. Allowing false stimulus payments or false refunds to be issued reduces the dollars in the United States Treasury, which is especially critical in this current economic environment.

WHY TIGTA DID THE AUDIT

The objective was to evaluate the effectiveness of the Criminal Investigation (CI) Division's actions to prevent the issuance of economic stimulus payments for tax returns identified by the IRS as claiming false refunds. The audit was conducted as part of TIGTA's risk-based audit coverage of the CI Division addressing the major management challenge of Erroneous and Improper Payments.

WHAT TIGTA FOUND

While the CI Division actively participated in the IRS-wide planning process, the Action Plan submitted did not adequately ensure that stimulus payments were not issued on known false returns. After bringing these concerns to management's attention, the IRS took immediate corrective action. As a result of these changes, TIGTA estimated that \$7.1 million in stimulus payments on false returns were prevented from being issued. TIGTA also found that the CI Division generally relied on new

procedures to prevent payments associated with false returns from being issued. However, TIGTA identified \$1.2 million in stimulus payments and \$16.3 million in false refunds that were inappropriately issued because the temporary freeze was released due to processing delays or systemic deficiencies. TIGTA estimates that approximately \$117.6 million in false refunds could be erroneously released over 5 years due to the expiration of the temporary freeze within the established time periods. Finally, TIGTA estimates that more than \$138 million in stimulus payments on false returns that were not issued in 2008 may be at risk of being issued during 2009 if false returns for these taxpayers are filed during 2009.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS extend the time to verify potentially false returns and prevent the issuance of false refunds, establish a quality review process to identify false refunds not timely processed to or updated on the computer system used to control false returns, and seek a Counsel opinion to determine whether a rebate recovery credit calculated by the IRS requires a statutory notice of deficiency.

In response to the report, IRS management agreed to request a formal written opinion from Chief Counsel. IRS management disagreed with the other recommendations, stating that the prior manually intensive process was replaced with an automated, streamlined process that negates the need for manual intervention and that it continues to monitor and take proactive steps to refine processes to hold the refund until all issues are resolved.

However, in spite of the IRS' new automated process and other freeze conditions, TIGTA identified instances where false refunds were erroneously issued due to the expiration of the temporary freeze within the established time periods. TIGTA also identified control weaknesses in the CI Division's processes. The CI Division outlined several improvements it has made to monitor the referral process and ensure issues are timely resolved. While TIGTA believes some of the actions taken by the CI Division could be an improvement, these actions will not be implemented until Processing Year 2009. As a result, TIGTA cannot comment on their effectiveness. In addition, if the IRS does not take corrective actions, the IRS will continue to be at risk of allowing false refunds to be issued. TIGTA remains concerned that the programmed expiration for the temporary freeze may not give the IRS sufficient time to verify wages and refer false refunds for resolution.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to

<http://www.treas.gov/tigta/auditreports/2009reports/200910049fr.pdf>.

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