



*Computer Programming Changes Are Needed  
to Reduce Delays in Reissuing Some  
Undelivered Refund Checks*

**August 22, 2008**

**Reference Number: 2008-30-155**

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.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 22, 2008

**MEMORANDUM FOR** COMMISSIONER, WAGE AND INVESTMENT DIVISION

**FROM:**

*Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Computer Programming Changes Are Needed to Reduce Delays in Reissuing Some Undelivered Refund Checks (Audit # 200730002)

This report presents the results of our review to determine the frequency of occurrence and the reasons why tax refund checks returned as undeliverable were later reissued to the same addresses to which notices were delivered to taxpayers asking for updated address information. This audit was part of our discretionary audit coverage and was included in the Treasury Inspector General for Tax Administration Fiscal Year 2007 Annual Audit Plan.

*Impact on the Taxpayer*

When the United States Postal Service (USPS) determines that a tax refund check is undeliverable because the address to which the check was sent is not the taxpayer's current or correct address, the check is returned to the Financial Management Service.<sup>1</sup> The Internal Revenue Service (IRS) corresponds with the taxpayer to try to obtain a current address, even in some cases when the IRS already has an updated address on record for the taxpayer.<sup>2</sup> This process delays receipt of the refund by the taxpayer, and the IRS generally does not pay interest to the taxpayer for the time required to get the refund check reissued. We identified 14,759 taxpayer accounts in Calendar Year 2007 in which reissued refund checks were delayed because the IRS unnecessarily corresponded with taxpayers for new addresses they already had.

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<sup>1</sup> The bureau in the Department of the Treasury that acts as the Federal Government's money manager.

<sup>2</sup> According to the IRS web site (IRS.gov), some post offices do not forward Federal Government checks. When a taxpayer changes his or her address, providing notification to the post office that services the old address ensures that the taxpayer's mail will be forwarded. However, this notification might not affect delivery of the taxpayer's refund check(s). The IRS sends a notice to the address it has on record because the notice will be forwarded to the taxpayer's new address.



## *Computer Programming Changes Are Needed to Reduce Delays in Reissuing Some Undelivered Refund Checks*

The IRS needs to ensure that undelivered refund checks are reissued promptly to taxpayers with updated addresses already on record.

### *Synopsis*

From two judgmental samples of IRS notices sent to and returned by taxpayers whose refund checks were returned by the USPS as undeliverable, we found that some taxpayers indicated that the address to which the notice was mailed was, in fact, their current address. Working with the IRS, we determined that many of the notices were not sent to the same addresses as the original undelivered refund checks because these taxpayers had address changes posted to their accounts between the time the original refund checks were issued and the time the checks were returned as undeliverable. Therefore, although these taxpayers had informed the IRS of their new addresses, the IRS did not reissue their refund checks to these new addresses. Rather, the IRS sent notices to their new addresses asking them for new addresses. As a result, these taxpayers received unnecessary notices and experienced avoidable delays in receiving their refund checks.

To determine how often this condition was occurring, we developed a computer program to identify all individual and business accounts on the IRS Master File<sup>3</sup> that met the following criteria:

- A refund check was returned as undeliverable for an account in Calendar Year 2007.
- An address change occurred between the date on which the original refund check was issued and the date on which it was returned as undeliverable.

We identified 8,134 individual and 6,625 business accounts that met these criteria. The undelivered refund checks on these accounts averaged \$1,829 for individual taxpayers and \$5,093 for business taxpayers. They totaled almost \$15 million for individuals and \$34 million for businesses.

We estimate that over a 5-year period, 73,795 taxpayers could be burdened by being asked to provide information the IRS already has and by having delivery of their refund checks delayed. We also estimate that the IRS could incur additional expenses of \$36,160 to mail the notices. This could occur because the IRS has not properly programmed its computer system to reissue undelivered refund checks when it has new addresses on record for the affected taxpayers.

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<sup>3</sup> The Master File is the IRS database that stores various types of taxpayer account information. This database contains individual, business, and employee plans and exempt organizations data.



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This issue was brought to the attention of the IRS in a prior Treasury Inspector General for Tax Administration report,<sup>4</sup> and the IRS implemented computer programming changes to correct the situation. However, the programming changes did not fully correct the problem. In addition, the IRS implemented no programming corrections for business accounts.

### *Recommendation*

We recommended that the Commissioner, Wage and Investment Division, revise computer programming to automatically reissue an undelivered refund check when an address change is reflected on a taxpayer's account between the date on which the check was originally issued and the date on which it is returned as undeliverable. Finally, the programming should be implemented on both individual and business accounts.

### *Response*

IRS management agreed with our recommendation. A programming change to implement the recommendation was submitted on June 27, 2008, with a requested operational date of January 15, 2010. Management's complete response to the draft report is included as Appendix V.

Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-8510.

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<sup>4</sup> *Advance Refunds Were Accurately Calculated and Issued to Eligible Taxpayers, But Some Undelivered Refunds Were Unnecessarily Delayed* (Reference Number 2002-40-116, dated June 2002).



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*Abbreviations*

FMS	Financial Management Service
IRS	Internal Revenue Service
USPS	United States Postal Service

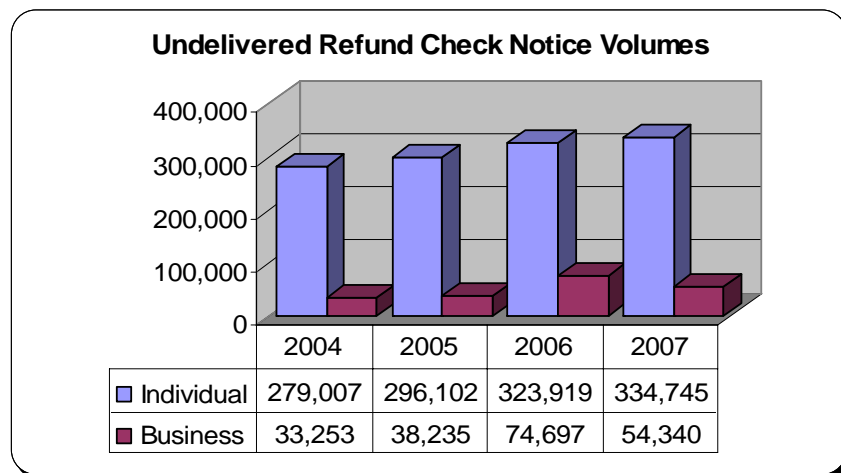


## Computer Programming Changes Are Needed to Reduce Delays in Reissuing Some Undelivered Refund Checks

### Background

When tax returns and refunds are processed by the Internal Revenue Service (IRS), any associated refund checks are ultimately generated to taxpayers through the Financial Management Service (FMS). The FMS is a bureau of the Department of the Treasury and acts as the Federal Government's money manager. Tax refund checks issued by the FMS are mailed to taxpayers through the United States Postal Service (USPS). If the USPS determines that a refund check is undeliverable because the address to which the check was sent is not the taxpayer's current or correct address, the check is returned to the FMS. When the FMS receives the returned refund check, it notifies the IRS.

Once the IRS receives this information, it sends a notice<sup>1</sup> to the affected taxpayer. This notice is mailed to the address the IRS has on record for the taxpayer.<sup>2</sup> It states, "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." The figure below shows the volumes of undelivered refund check notices issued by the IRS in Calendar Years 2004 – 2007.



Source: IRS Office of the Notice Gatekeeper.

<sup>1</sup> Individual Undelivered Refund Check notice (CP 31); Business Undelivered Refund Check notice (CP 231).

CP = Computer Paragraph.

<sup>2</sup> According to the IRS web site (IRS.gov), some post offices do not forward Federal Government checks. When a taxpayer changes his or her address, providing notification to the post office that services the old address ensures that the taxpayer's mail will be forwarded. However, this notification might not affect delivery of the taxpayer's refund check(s). The IRS sends a notice to the address it has on record because the notice will be forwarded to the taxpayer's new address.



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The taxpayer is instructed to fill in the information requested and to sign and return the notice within the next few days. When the IRS receives the notice with the new address information, it updates the taxpayer's address and reissues the refund check. During Calendar Year 2007, there were 334,745 individual and 54,340 business refund checks returned by the USPS as undeliverable.

Employees at the IRS Campus<sup>3</sup> in Ogden, Utah, advised us that some large-dollar refund checks (in excess of \$1 million) returned to the IRS as undeliverable appeared to have been subsequently reissued to taxpayers at the same addresses from which the checks had been originally returned as undeliverable. This seemed to indicate that some checks were being unnecessarily returned as undeliverable by the USPS.

We conducted our review at the Ogden Campus during the period November 2006 through April 2008. This review included analysis of undelivered refund check notice cases worked in the Wage and Investment Division Accounts Management offices in Holtsville, New York; Cincinnati, Ohio; and Ogden, Utah. It also included review of taxpayer account information nationwide. We conducted this review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>3</sup> Campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.





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## *Results of Review*

### ***Some Taxpayers Are Receiving Unnecessary Notices and Delayed Refund Checks***

We reviewed 2 judgmental samples of IRS notices sent to and returned by taxpayers whose refunds were returned as undeliverable (400 notices returned by individuals and 485 notices returned by business taxpayers). We found that 42 (10.5 percent) of the 400 individuals and 145 (30 percent) of the 485 business taxpayers indicated that the addresses to which the notices had been mailed were, in fact, their current addresses.

Because these taxpayers were indicating that their correct addresses were the same as the addresses to which the notices were sent, our initial assumption was that the USPS had returned the refund checks as undeliverable by mistake. However, working with the IRS, we determined that 134 of these notices (15 percent of our total sample size of 885) were not sent to the same addresses as the original undelivered refund checks.

IRS employees researching these cases on the FMS Treasury Check Information System<sup>4</sup> found that many of the taxpayers had address changes posted to their accounts between the date on which the original refund check was issued and the date on which the check was returned as undeliverable.<sup>5</sup> Thus, the notice had been sent to the newer address. We verified and agreed with the IRS' analysis of these cases. Therefore, although these taxpayers had informed the IRS of their new addresses, the IRS did not reissue their refund checks to their new addresses. Instead, the IRS sent notices to their new addresses, asking them for a new address. These taxpayers received unnecessary notices and experienced avoidable delays in receiving their refunds.

To determine how often this condition was occurring, we developed a computer program to identify all individual and business accounts on the IRS Master File<sup>6</sup> that met the following criteria: 1) a refund check was returned as undeliverable for an account in Calendar Year 2007 and 2) an address change occurred between the date on which the original refund check was issued and the date on which it was returned as undeliverable. We identified 8,134 individual and 6,625 business accounts that met these criteria. The undelivered refund checks on these

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<sup>4</sup> The Treasury Check Information System records and reconciles the worldwide issuance and payment of Department of the Treasury checks.

<sup>5</sup> This is generally the result of a taxpayer moving and notifying the IRS of the move, or the result of a taxpayer filing a tax return that contains an updated address.

<sup>6</sup> The Master File is the IRS database that stores various types of taxpayer account information. This database contains individual, business, and employee plans and exempt organization data.



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accounts averaged \$1,829 for individual taxpayers and \$5,093 for business taxpayers. They totaled almost \$15 million for individuals and \$34 million for businesses.

### **Unnecessary notices**

As discussed earlier, the IRS currently sends a notice to each taxpayer whose refund check has been returned by the USPS as undeliverable. The notice tells the taxpayer that a refund check mailed to the address on the notice was returned by the USPS as undeliverable and asks the taxpayer to furnish the IRS with a current address. The 8,134 individual taxpayers and 6,625 business taxpayers identified by our computer extract had already provided the IRS with updated address information. In addition, the information on the notice sent to each of these taxpayers was incorrect because the refund check in question had never been sent to the address on the notice. Instead, it had been sent to the taxpayer's old address.

Taxpayers are incurring burden by being asked to provide information the IRS already has, and the IRS is incurring additional expenses to mail the notices. The IRS spends approximately 49 cents to mail each notice. Based on the results of our computer extracts, 14,759 taxpayers experienced increased burden responding to unnecessary notices and the IRS spent just over \$7,200 unnecessarily to issue these notices in Calendar Year 2007.<sup>7</sup>

### **Delayed refund checks**

Sending notices to taxpayers asking for address information that the IRS already has on record creates financial burden on the taxpayers by delaying receipt of their refunds. In addition, these taxpayers are not compensated for the additional time the Federal Government has use of their monies. While the IRS was not responsible for the original refund checks being sent to the wrong addresses, it did have the information necessary to reissue the checks without sending notices to the taxpayers. Therefore, the IRS was responsible for at least part of the delay the taxpayers experienced in receiving their refunds. Based on our computer extract, issuance of notices to these taxpayers unnecessarily added an average of 45 calendar days for individual taxpayers and an average of 66 calendar days for business taxpayers to receive their refunds.

Unnecessary notices are being sent and receipt of refund checks is being delayed because the IRS has not properly programmed its computer system to reissue undelivered refund checks when it has new addresses on record for the affected taxpayers. This issue was brought to the attention of the IRS in a prior Treasury Inspector General for Tax Administration report,<sup>8</sup> and the IRS implemented computer programming changes to correct the situation.

However, the programming changes did not fully correct the problem. A taxpayer can change his or her address with the IRS in a variety of ways, each of which is recorded on the taxpayer's

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<sup>7</sup> See Appendix IV for details.

<sup>8</sup> *Advance Refunds Were Accurately Calculated and Issued to Eligible Taxpayers, But Some Undelivered Refunds Were Unnecessarily Delayed* (Reference Number 2002-40-116, dated June 2002).



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account with a specific transaction code.<sup>9</sup> For example, an address change resulting from the filing of a tax return with a new address is recorded on a taxpayer's account with a Transaction Code 152. Several such transaction codes (including Transaction Code 152) were not included in the programming changes made by the IRS to correct the problem when it was originally reported. In addition, the IRS implemented no programming corrections for business accounts.

The Internal Revenue Manual states that taxpayers should receive interest in cases in which a refund check is undeliverable through the fault of the Government. In the cases we identified, the IRS was not notified of the address changes until after the initial refunds were processed, and was therefore not at fault for the undelivered refund checks. However, the IRS was at fault for the delay in reissuing the refunds caused by unnecessarily corresponding with taxpayers for new addresses. If the IRS revised its computer programs to automatically reissue these undelivered refund checks when an address change is reflected on a taxpayer's account, the taxpayers would realize the earnings benefit of having received their refunds from 45 to 66 days sooner. Based on the number of cases identified from our computer extract and the published risk-free rates of return for 2007,<sup>10</sup> we estimate that these benefits total almost \$79,000 for the individual taxpayers experiencing delays and approximately \$262,000 for the business taxpayers experiencing delays in 2007.<sup>11</sup> Foregoing these benefits further adds to the burden on the 14,759 taxpayers identified by our computer extracts.

## ***Recommendation***

**Recommendation 1:** The Commissioner, Wage and Investment Division, should revise computer programming to automatically reissue an undelivered refund check when an address change is reflected on a taxpayer's account between the date on which the refund check was issued and the date on which it was returned as undeliverable. The programming should be implemented on both individual and business accounts.

**Management's Response:** IRS management agreed with this recommendation. A programming change to implement the recommendation was submitted on June 27, 2008, with a requested operational date of January 15, 2010.

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<sup>9</sup> Transaction code is a three-digit code used to identify actions being taken on the taxpayer's account.

<sup>10</sup> The risk-free rate of return is defined as the rate of return an individual could realize on investments in 3-month United States Treasury bonds.

<sup>11</sup> Interest was computed from the date on which the IRS generated the notices to the taxpayers to the date on which the refund checks were reissued.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine the frequency of occurrence and the reasons why tax refund checks returned as undeliverable were later reissued to the same addresses to which notices were delivered to taxpayers asking for updated address information.<sup>1</sup> To accomplish our objective, we:

- I. Determined the procedures used by the IRS for reissuing undelivered refund checks by reviewing applicable Internal Revenue Manual guidelines and procedures and by interviewing IRS personnel associated with processing the undelivered checks.
- II. Determined whether undelivered refund checks were being reissued to taxpayers whose addresses had not changed.
  - A. Obtained a sample of actual Business and Individual Undelivered Refund Check notices that were being worked at the IRS campuses starting in January 2007. We obtained<sup>2</sup> a judgmental sample of 485 Business Undelivered Refund Check notices (CP 231) from the Ogden, Utah, and Cincinnati, Ohio, IRS Campuses.<sup>3</sup> We also obtained<sup>4</sup> a judgmental sample of 400 Individual Undelivered Refund Check notices (CP 31) from the Cincinnati and Brookhaven, New York, Campuses. The judgmental samples represented approximately 1 month of Business and Individual Undelivered Refund notices worked by the Campuses at the time we selected our sample.
  - B. Analyzed the notices to identify each taxpayer account for which the undelivered refund check was reissued to the address on the notice.

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<sup>1</sup> Our original objective was to determine how often and why undelivered refund checks were reissued to the same addresses as the ones to which the original checks were sent. Based on initial findings, our objective changed slightly.

<sup>2</sup> The sample of business notice cases was selected from notices worked by Ogden, Utah, IRS employees during January 2007 and Cincinnati, Ohio, IRS employees during March 2007.

<sup>3</sup> We selected judgmental samples for business and individual computer paragraph (CP) notices because statistical samples would have required that all items in the population have an equal chance of being selected. The notice cases from our sample are worked by IRS Campus employees on an ongoing basis throughout the year. After a case is worked, it is destroyed. At the time our samples were taken, the populations of cases were unknown, and some cases were unavailable for sample selection. 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.

<sup>4</sup> The sample of individual notice cases was selected from notices worked by Cincinnati and Brookhaven IRS employees during May 2007.



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- C. Provided the IRS with results from our analyses. Based on results from the IRS analysis, we also analyzed the sample cases to identify those accounts on which an address change had occurred between the date of the original refund check and the date on which the check was returned as undeliverable.
- III. Determined the significance of taxpayer addresses being changed between the date of the original refund check and the date on which the check was returned as undeliverable.
- A. Used computer programs to identify all individual and business accounts on the IRS Master File<sup>5</sup> for which an address change occurred between the date of the original refund check and the date on which the check was returned as undeliverable (refunds issued in Calendar Year 2007).
  - B. Validated, verified, and assessed the reliability of computer-processed data received in the Step III.A. by comparing the relevant data (refund dates and amounts, undelivered check dates and amounts, and address change dates and transactions) from the computer request to information on the IRS Master File.
  - C. From the accounts identified by our computer programs, determined the number of individual and business accounts affected, the average refund amounts, and the average time required to reissue the refunds for the accounts.
  - D. Determined the cost to send notices to the affected taxpayers.
  - E. Determined the cost to taxpayers resulting from having their refunds delayed.

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<sup>5</sup> The Master File is the IRS database that stores various types of taxpayer account information. This database contains individual, business, and employee plans and exempt organizations data.



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**Appendix II**

*Major Contributors to This Report*

Margaret E. Begg, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs)

Kyle R. Andersen, Director

Larry Madsen, Audit Manager

Annette Bates, Lead Auditor

L. Jeff Anderson, Senior Auditor

Judith Harrald, Information Technology Specialist

Richard Hilleson, Information Technology Specialist



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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
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, Customer Account Services, Wage and Investment Division SE:W:CAS  
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM  
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP  
Director, Office of Legislative Affairs CL:LA  
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:  
    Commissioner, Small Business/Self-Employed Division SE:S  
    Commissioner, Wage and Investment Division SE:W



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## **Appendix IV**

### *Outcome Measures*

This appendix presents detailed information on the measurable impact our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

#### **Type and Value of Outcome Measure:**

- Cost Savings – Potential; \$36,160 (over 5 years) in undelivered refund check notices for 14,759 taxpayer accounts (see page 3).

#### **Methodology Used to Measure the Reported Benefit:**

The IRS currently sends a notice to each taxpayer whose refund check has been returned by the USPS as undeliverable. The notice asks the taxpayer to furnish the IRS with a current address. We identified 14,759 taxpayer accounts (8,134 individual and 6,625 business) for which the IRS already had updated address information prior to issuance of the notice. These addresses had been changed between the date on which the original refund check was issued and the date on which the check was returned as undeliverable.

Because the IRS already had current addresses for the 14,759 taxpayers, notices were sent to these taxpayers unnecessarily. Based on IRS figures, we found that the estimated cost to send each notice was \$.49. The total cost to send the 14,759 notices was \$7,232 (14,759 x \$.49). We projected this amount over 5 years.

#### **Type and Value of Outcome Measure:**

- Taxpayer Burden – Potential; 73,795 taxpayers (over 5 years) (see page 3).

#### **Methodology Used to Measure the Reported Benefit:**

As discussed above, the IRS unnecessarily sent 8,134 individual and 6,625 business notices to taxpayers, delaying the refunds of individual taxpayers an average of 45 calendar days and business taxpayers an average of 66 calendar days.





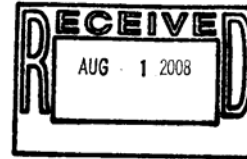
*Computer Programming Changes Are Needed to  
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**Appendix V**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308



JUL 25 2008

MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr.   
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Computer Programming Changes  
Are Needed to Reduce Delays in Reissuing Some  
Undelivered Refund Checks (Audit # 200730002)

I reviewed the subject draft report and appreciate your review regarding undeliverable refund checks. We agree with the issues identified in the report and your recommendation to revise computer programming so that reissued undelivered refund checks are not delayed further when a corrected address is already on file. A programming change request to correct the problem has been submitted for both business and individual accounts. As noted in your report, the changes should provide monetary benefits for both the IRS and taxpayers, and reduce any associated taxpayer burden.

We also appreciate the opportunities the audit team provided to discuss the issues developed during the audit, as well as the opportunity to review an earlier version of the report.

Our comments to your recommendation are attached. We agree with the outcome measures as stated in the report. If you have any questions regarding this response, please call me at (404) 338-7060, or a member of your staff may contact Peter J. Stipek, Director, Customer Account Services, at (404) 338-8910.

Attachment



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Attachment

**RECOMMENDATION**

The Commissioner, Wage and Investment Division, should revise computer programming to automatically reissue an undelivered refund check when an address change is reflected on a taxpayer's account between the date on which the refund check was issued and the date on which it was returned as undeliverable. The programming should be implemented on both individual and business accounts.

**CORRECTIVE ACTION**

We agree with this recommendation. A Unified Work Request (UWR) for the programming change was submitted on June 27, 2008, with a requested operational date of January 15, 2010.

**IMPLEMENTATION DATE**

January 15, 2010

**RESPONSIBLE OFFICIAL**

Director, Accounts Management, Customer Accounts Services, Wage & Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

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