



Treasury Inspector General for Tax Administration Office of Audit

INCREASED AUTOMATED CONTROLS COULD FURTHER IMPROVE ACCOUNTABILITY OVER MANUAL REFUNDS

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Highlights

Highlights of Report Number: 2009-40-131 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

During Calendar Year 2007, the Internal Revenue Service (IRS) issued approximately 184,000 manual refunds totaling over \$1.5 billion to individual taxpayers and approximately 70,000 manual refunds totaling almost \$32 billion to business taxpayers. Due to inaccurate and incomplete data, and data that are not always maintained by the IRS, neither the IRS nor its oversight organizations are able to perform systemic analyses to identify erroneous manual refunds. Given the large dollar amounts involved, this could result in a significant loss of Federal Government revenues.

WHY TIGTA DID THE AUDIT

This audit was initiated at the request of the Commissioner, Wage and Investment Division. The manual refund process presents a high risk because these refunds are not processed through the IRS' normal systemic process (i.e., refunds issued based on the filing and processing of tax returns). Manual refunds can be issued to any person and to any address. The name and address do not have to match the name and address on the taxpayer account from which the manual refund was generated. The objective of this review was to determine if controls over manual refunds are effective in minimizing the risk of issuing erroneous refunds.

WHAT TIGTA FOUND

The IRS had implemented controls in an effort to minimize the risk of issuing erroneous manual refunds; however, increased automated controls could further improve accountability.

TIGTA's review identified over 58,000 manual refund transactions for which the electronic data files did not accurately identify which employee requested the manual refund, either because the employee identification number had been overridden with a unit number or because the Requestor identification number was never input to the electronic record. Additionally,

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some data files were not consistently formatted, so electronic analysis of the data was very difficult. For certain manual refund transactions input through the (non-IRS) Secure Payment System, the IRS relied on the Financial Management Service (a separate Government agency) to maintain an electronic record. Consequently, historic transactions were not readily available for examination by the IRS or TIGTA.

Furthermore, the managerial approval of all manual refunds is a manual, resource-intensive process which is not recorded electronically. Although a prepared request form is required to initiate a manual refund, and is the only document which provides proof of managerial approval, 39 percent of the manual refund supporting documents that TIGTA requested were not readily available for examination.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure the identification number of the manual refund Requestor is not overridden on the electronic data file and that the Requestor's employee identification number is captured in electronic data files for all manual refund transactions. Also, the IRS should establish a standardized computer record that includes key information on manual refunds processed through the Secure Payment System and establish a process to regularly obtain the electronic data file for use in monitoring the program. To increase accountability, the IRS should also develop a process to provide for a systemic managerial approval. In the interim, the IRS should capture the identification number of the managerial Approving Official in the electronic data files.

In their response, IRS officials agreed with all of TIGTA's recommendations and plan to take appropriate corrective actions, contingent on funding availability.

IRS officials commented that they subsequently accounted for documents not received during the audit, and that transition issues in Files operations during the audit period contributed to delays. Because of the nature of the risks associated with manual refunds, TIGTA wanted to reduce the potential for manipulation of the case files. Therefore, TIGTA auditors requested the case files using the IRS' own procedures—the same process used by IRS employees. The IRS' subsequent retrieval of the case files was by a special process outside of the process IRS employees would follow. TIGTA remains concerned that, using its normal procedures, a significant number of case files were not received.

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/200940131fr.pdf>.

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