



## Treasury Inspector General for Tax Administration Office of Audit

### **MORE PROGRESS IS NEEDED TO REDUCE THE MILLIONS OF DOLLARS PAID IN INTEREST ON IMPROPERLY FROZEN REFUNDS**

Issued on August 18, 2009

## Highlights

Highlights of Report Number: 2009-30-106 to the IRS Deputy Commissioner for Services and Enforcement.

### **IMPACT ON TAXPAYERS**

The Internal Revenue Service (IRS) issues millions of refunds worth billions of dollars to taxpayers each year through its automated and manual systems. The IRS' inability to promptly resolve some accounts with a large dollar refund freeze can adversely affect taxpayers who may need the refunds to help meet their financial obligations. These delayed actions may also negatively impact the IRS' mission of providing top-quality customer service, in addition to costing the Federal Government millions of dollars in additional interest.

### **WHY TIGTA DID THE AUDIT**

This audit was initiated because TIGTA reported in September 1999 and again in March 2002 that the IRS was experiencing problems with the process of freezing large dollar refunds. In those reports, TIGTA recommended that computer programming changes be made to periodically alert employees to review accounts with large dollar frozen refunds and systemically release these refunds if the credit amount went below the large dollar refund freeze threshold. In addition, TIGTA recommended that the IRS create processing procedures and provide training for employees responsible for large dollar frozen refunds. This review was part of our Fiscal Year 2009 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments. The overall objective of the review was to determine whether the IRS has made progress in strengthening the controls over taxpayer accounts containing the automatic large dollar refund freeze.

### **WHAT TIGTA FOUND**

In this followup review, TIGTA found fewer accounts with the large dollar refund freeze. Nevertheless, the amount of interest the IRS continues to owe taxpayers with improperly frozen refunds is substantial because it has yet to implement our

recommendations from the prior reviews. Overall, TIGTA found 152 taxpayer accounts on the IRS Master Files with the large dollar refund freeze, of which 75 (49 percent) were improperly frozen. The 75 improperly frozen accounts included 49 accounts for which refunds totaling \$620 million were not timely issued and resulted in the Government incurring \$62.9 million in additional interest.

To their credit, IRS officials were already taking steps to release the freezes for 12 of the 49 accounts by issuing refunds to the taxpayers before TIGTA brought the improperly frozen accounts to their attention. The officials also initiated actions to release the refunds associated with the remaining 37 accounts once TIGTA brought the accounts to their attention. Taking these actions is important because TIGTA estimates that if the 37 taxpayer accounts had continued to go undiscovered, an additional \$5.94 million of interest would have been owed to the taxpayers each year, or \$29.7 million over 5 years.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended the Deputy Commissioner for Services and Enforcement coordinate with the appropriate functional areas and follow through with implementing our prior recommendations to: 1) properly implement computer system modifications to provide alerts to review large dollar frozen taxpayer accounts for credits that can be released and to systemically release the freeze on accounts when credits fall below the large dollar refund freeze threshold; 2) ensure procedures for processing large dollar frozen refunds adequately address common issues that arise and delineate responsibilities of the various functions that are most involved with the processing and monitoring of these taxpayer accounts; and 3) ensure training materials cover the procedures for processing large dollar frozen refunds.

In their response to the report, IRS officials agreed with the recommendations and have taken or plan to take appropriate corrective actions. Specifically, computer programming requests have been submitted to systemically release the refund freeze when credits fall below the IRS' threshold and to establish a report of all taxpayer accounts containing a refund freeze. In addition, procedures for processing large dollar refunds have been updated, and training materials created for and used by the Wage and Investment Division Accounts Management function will be sent to other business organizations responsible for large dollar refunds for use in their upcoming training.

### **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/200930106fr.pdf>

Email Address: [inquiries@tigta.treas.gov](mailto:inquiries@tigta.treas.gov)  
Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500