



Treasury Inspector General for Tax Administration Office of Audit

TAX-EXEMPT USER FEE PROCESSING IMPROVED FOR DISHONORED CHECKS AND REFUND OF OVERPAYMENTS

Issued on July 13, 2010

Highlights

Highlights of Report Number: 2010-10-085 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

Charitable organizations and retirement plan administrators submit determination requests and pay user fees for the Internal Revenue Service (IRS) to determine whether they meet the requirements for tax-exempt status. After review of the determination request, the IRS issues a determination letter advising the applicant of the results of the review. The IRS has made improvements since our prior audit; however, a few determination letters were issued when dishonored checks were received, and customer overpayments of user fees totaling \$1,730 were not refunded to applicants. The IRS must ensure the Federal Government is reimbursed for the services it performs and that organizations that may need their refunds to perform charitable activities are not burdened.

WHY TIGTA DID THE AUDIT

This audit was initiated at the request of Tax Exempt and Government Entities Division management. A Fiscal Year 2001 TIGTA audit concluded that the Tax Exempt and Government Entities Division issued determination letters without receiving full payment of user fees and did not always refund overpayments of user fees to customers. Although they were unable to complete all planned corrective actions, Tax Exempt and Government Entities Division management requested that TIGTA perform a followup audit to determine whether conditions noted in our prior report still exist.

The overall objectives of this review were to determine whether controls were strengthened to identify and prevent issuance of determination letters when customer user fee checks are dishonored; and whether controls were strengthened to identify, control, and timely resolve user fee overpayment conditions.

WHAT TIGTA FOUND

Since our previous audit, Tax Exempt and Government Entities Division management has focused on employee training and alternative manual process changes to improve their handling of user fee payments. As a result, the vast majority of determination letters are issued only when the user fee has been paid, and the vast majority of user fee refunds are being identified and processed for timely issuance. However, determination letters were issued for seven determination letter applications when customer checks were dishonored, and 13 customers submitting determination letter applications overpaid their required user fees and did not receive refunds as required.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Tax Exempt and Government Entities Division, refund 13 overpayments that were identified by the audit team and improve controls to ensure all User Fee Refund Request forms are signed by field specialists and managers and input to computer systems for timely issuance of refunds.

In their response to the report, IRS management agreed with the recommendations and has already taken appropriate corrective actions.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201010085fr.pdf>.