



Office of Missouri State Auditor
Nicole Galloway, CPA

Department of Revenue
**Undeliverable Individual Income
Tax Refunds**



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Department of Revenue Undeliverable Individual Income Tax Refunds

Background

Undeliverable individual income tax refund checks returned to the Department of Revenue (DOR) by the United States Postal Service are reviewed by DOR personnel to ensure the mailing addresses were accurately entered into the DOR system. The DOR publishes monthly information online of returned undeliverable refund checks. One year after the original issue date, an uncashed check is considered void and can no longer be cashed. The State Treasurer's Office (STO) General Services Division attempts to find payees of voided checks through an online database. If the General Services Division is unable to locate the taxpayer and the taxpayer does not contact the state to claim the refund within 3 years of the initial check date, the STO General Services Division transfers the refund to the STO Unclaimed Property Division, which publishes lists of all unclaimed monies, including undeliverable refunds.

Publication of Undeliverable Refund Checks

Current procedures result in undeliverable individual income tax refund checks being taken off of the DOR's published list 2 years before being placed on the STO unclaimed property system. As a result, the state held an estimated \$3 million in undeliverable income tax refunds at June 30, 2016, not included in a public list. Publicizing the voided undeliverable refund checks until they are turned over to unclaimed property would increase the visibility of checks being held by the state, and would increase the likelihood of taxpayers claiming refunds owed to them.

Because of the limited objectives of this audit, no overall rating is provided.

Department of Revenue

Undeliverable Individual Income Tax Refunds

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NICOLE GALLOWAY, CPA

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
John Mollenkamp, Acting Director
Department of Revenue
Jefferson City, Missouri

We have audited certain operations of the Department of Revenue related to undeliverable individual income tax refunds in fulfillment of our duties under Chapter 29, RSMo. The scope of the audit included, but was not necessarily limited to, the year ended June 30, 2016. The objectives of our audit were to:

1. Evaluate the internal controls over significant management and financial functions for undeliverable individual income tax refunds.
2. Evaluate compliance with certain legal provisions for undeliverable individual income tax refunds.
3. Evaluate the economy and efficiency of certain management practices and operations for undeliverable individual income tax refunds.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

For the areas audited, we identified (1) no significant deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) a deficiency in management practices and operations. The accompanying Management Advisory Report presents our finding arising from our audit of Undeliverable Individual Income Tax Refunds.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Robert Showers, CPA, CGAP
Audit Manager:	Susan J. Beeler, CPA, CIA
In-Charge Auditor:	Joshua Shope, M.Acct., CPA

Department of Revenue

Undeliverable Individual Income Tax Refunds

Introduction

Background

The Department of Revenue (DOR) was created by Article IV, Section 12, Missouri Constitution as the central collection agency for state revenues. The DOR Taxation Division administers and collects personal taxes, including individual income taxes, and initiates refunds for overpayments. According to DOR records, during the year ended June 30, 2016, the DOR collected approximately \$7.2 billion in individual income tax revenues and paid individual income tax refunds totaling approximately \$998 million to taxpayers, consisting of approximately \$639 million in ACH (direct deposit) transactions and approximately \$359 million in check payments.

Undeliverable refund checks returned to the DOR by the United States Postal Service (USPS) are reviewed by DOR personnel to ensure the mailing addresses were accurately entered into the DOR system. Personnel also review National Change of Address (NCOA) reports to determine if a taxpayer had a change of address after the submission of the tax return. Based on these reviews, checks are re-mailed, as applicable. Any ACH refund transaction rejected by a bank due to erroneous banking information is also reviewed by DOR personnel to ensure the banking information in the DOR system agrees to the income tax return. If no errors are found, DOR personnel attempt to call the taxpayer. If the DOR is unable to contact a taxpayer, a refund check is printed and mailed to the address listed on the tax return.

As allowed by Section 32.057.2(2)(b), RSMo, the DOR publishes monthly information online of undeliverable refund checks returned to the DOR by the USPS. During the year ended June 30, 2016, the DOR received 7,443 undeliverable refund checks back from the USPS totaling approximately \$2.2 million.

One year after the original issue date, an uncashed check is considered void pursuant to Section 30.200, RSMo, and can no longer be cashed. This includes any checks returned to the DOR by the USPS, as well as any checks delivered to a taxpayer, but not cashed. Any such checks are removed from the monthly returned refund information on the DOR's website, as applicable. During the year ended June 30, 2016, approximately \$4.5 million in uncashed checks were voided due to the check age exceeding a year. The State Treasurer's Office (STO) assumes responsibility of all uncashed checks after they have been voided.

The STO General Services Division performs efforts to find payees of voided checks, which include using an online database that derives data from various public sources. In addition, taxpayers may contact the DOR Taxation Division or the STO General Services Division to claim a refund from a voided income tax refund check. If the General Services Division is unable to locate the taxpayer and the taxpayer does not contact the state to claim the refund within 3 years of the initial check date, the STO General



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Services Division transfers the refund to the STO Unclaimed Property Division to be held in the Abandoned Fund pursuant to Section 447.532, RSMo.

The Unclaimed Property Division posts all unclaimed monies, including undeliverable refunds, on an STO webpage¹ and publishes a list of all individuals with unclaimed property over \$50 in a newspaper in the county of the individual's last known residence for 2 consecutive weeks near the end of June each year. The Unclaimed Property Division also proactively attempts to find individuals using taxpayer social security numbers. During the year ended June 30, 2016, the General Services Division transferred approximately \$2.2 million in individual income tax refunds to the Unclaimed Property Division, consisting of 22,901 checks.

Scope and Methodology

To gain an understanding of undeliverable individual income tax refunds, we reviewed written policies and procedures, financial records, and other pertinent documents; interviewed various personnel of the DOR and the STO; and tested select transactions.

We obtained an understanding of the internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We obtained an understanding of legal provisions that are significant with the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

¹ Unclaimed Property, < <https://www.treasurer.mo.gov/unclaimedproperty/main.aspx>>, accessed on November 9, 2016.

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Undeliverable Individual Income Tax Refunds

Management Advisory Report - State Auditor's Finding

Publication of Undeliverable Refund Checks

Department of Revenue (DOR) procedures related to publicizing undeliverable individual income tax refunds could be improved. Current procedures result in undeliverable refund checks being taken off of the DOR's published list for more than 2 years before being placed on the State Treasurer's Office (STO) unclaimed property system. As a result, the state held an estimated \$3 million in undeliverable income tax refunds at June 30, 2016, not included in a public list.

As allowed by Section 32.057.2(2)(b), RSMo, every month, the DOR publishes information on undeliverable income tax refund checks on a department webpage,² listing the name, address, and tax year for each check. The information lists only undeliverable refund checks that are less than a year old. Pursuant to Section 30.200, RSMo, an uncashed check is considered void a year from the original issue date and cannot be cashed. The DOR removes voided checks from the information reported on its webpage monthly and the STO General Services Division takes over responsibility for those checks. The General Services Division attempts to find the taxpayers owed this money by various means, including searching an online database. Money owed to a taxpayer who cannot be located within 3 years of the initial check date is turned over to the STO Unclaimed Property Division.

During the 2 years from the time the STO General Services Division takes over responsibility for finding the taxpayers until the checks are turned over to the STO Unclaimed Property Division, there is no publication of the refund checks being held. Publicizing the voided undeliverable refund checks until they are turned over to unclaimed property would increase the visibility of checks being held by the state, and would increase the likelihood of taxpayers claiming these monies.

Recommendation

The DOR work with the STO to ensure undeliverable individual income tax refund checks are tracked and publicized to taxpayers until they are turned over to the STO's Unclaimed Property Division.

Auditee's Response

The DOR will work with the STO and discuss our options to publicize undeliverable refund checks.

² <<http://dor.mo.gov/personal/individual/refunds/>>, accessed on November 9, 2016.

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Historical Data

The following tables provide historical data relevant to our audit of undeliverable individual income tax refunds.

The number of undeliverable checks as well as the dollar value of the checks reported on the Department of Revenue (DOR) website at June 30 are presented in Table 1.

Table 1: Undeliverable refund checks reported by DOR at June 30, by year

Year	Number of Checks	Total Amount
2016	6,641	\$ 1,360,153
2015	6,023	1,330,184
2014	4,229	987,561

Source: DOR records

The dollar value of all uncashed individual income tax refund checks voided after a year for which responsibility was turned over to the State Treasurer's Office (STO) are presented in Table 2.

Table 2: Uncashed individual income tax refund checks turned over to STO, by year

Year Ended June 30,	Number of Checks	Total Voided Refund Checks
2016	30,839	\$ 4,450,884
2015	18,497	2,528,736
2014	24,644	3,287,894

Source: STO records

The amount of uncashed individual income tax refund checks for which the STO General Services Division was able to locate the owners prior to turning the money over the STO Unclaimed Property Division during the last 3 fiscal years is presented in Table 3.

Table 3: Uncashed individual income tax refunds for which the STO located the owner, by year

Year Ended June 30,	Number of Checks	Total For Owners Located by STO
2016	315	\$ 1,278,959
2015	222	407,746
2014	20	453,728

Source: STO records

The number of checks and total amount of individual tax refunds transferred by the STO General Services Division to the STO Unclaimed Property Division during the last 3 fiscal years is presented in Table 4.

Table 4: Individual income tax refunds transferred to the STO Unclaimed Property Division, by year

Year Ended June 30,	Number of Checks	Dollar Amount
2016	22,901	\$ 2,239,422
2015	24,264	2,407,819
2014	23,132	2,485,788

Source: STO records