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Return To Sender: **A Review of Undeliverable Refund Checks**



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STATE DOCUMENTS

Project Return To Sender: A Review of Undeliverable Refund Checks

Question: How can the contact center reduce the amount of time spent dealing with the returned refund checks to better utilize the resources of employee time?

If we can improve the process would this allow the employees to better serve the customer? We generally refer to our customers as taxpayers. The one that this project particularly concerns is the specific individual taxpayer that has filed their return but has not received their refund. The second is the taxpayer who is trying to get specific information from the department through the contact center whom could be served if these employees were not spending their time dealing with returned refund checks.

Introduction/ Problem Statement

The problem: Every year there are a large number of refund checks returned to the South Carolina Department of Revenue as undeliverable by the post office. During the year 2003 ten thousand nine hundred and sixty four individual income tax refund checks were returned to the Department of Revenue as undeliverable by the Post office. During the year 2003 1% of all mailed checks were returned as undeliverable.

2002 Checks issued 1,101,772
2002 Direct Deposits 305,263
2002 Total refunds 1,407,035
2002 Checks canceled 5,027

2003 Checks issued 1,035,907
2003 Direct deposits 375,108
2003 Total refunds 1,411,015
2003 Checks Returned 10964
2003 Checks re-mailed 4619
2003 Checks canceled 5,037

There is a certain amount of overlap at the end of the year to account for the difference in timing between those received back, resent, and the total number canceled during each calendar year.

Current Situation

The contact center of the Department of Revenue has many tasks. The predominant assignment is to offer customer service by answering incoming questions from the public. The center is staffed with thirteen full time employees. Nine of these employees work in the main office and four work as telecommuters from their homes. The majority of these inquiries come in the form of telephone calls. These calls range from mundane to technical and cover the tax areas of Business Personal Property, Individual Income, Sales, and Withholding taxes. The center also acts as the general information line and directory assistance to specific employees.

The center answered over one hundred seventy nine thousand calls during the year 2003. Of those calls sixty eight thousand three hundred twenty seven were individual income tax calls. That equates to roughly thirty eight percent of the total calls. Many of these are calls requesting information on the status on the individuals refund check. Some of these are individual who do not allow enough time for their refund to arrive, while others are the individuals we need to talk to since their check has been returned by the post office.

There are several reasons why a refund check would be returned as undeliverable; the mailing address could be incorrect; the address on the return was illegible, the address on the return was keyed incorrectly in data processing, the individual may have moved since the return was filed, on an electronic filed return the address is not entered correctly by the individual or the preparer, the individual might not have a proper receptacle (mailbox missing or damaged), the PO box has been closed, or the taxpayer has a temporary away order at the post office. In any of these cases the post office will not deliver the mail but will return the checks to the Department of Revenue.

The returned checks are included with the main mail coming into the agency. They are then sorted out in the mailroom and delivered to the contact center. When these checks are received by the contact center from the mail room they are sorted into two alphabetical groups by the first letter of the last name (A-K, L-Z). These groups are then assigned to the respective employee who is assigned that section. The employee then counts the number of checks returned to them that day. First they check the return label from the post office to see if there is a new address. If there is, they update the system, making notes in the record, type an envelope, and mail the check again. If there is no corrected address on the check they then look up each check on the mainframe system to see if a better address is available. Sometimes a taxpayer will call after the return has been processed and a new address can already be available in the system. If there is a better address a note is made, a new envelope is typed, and the check is mailed again. If there is no better address available the check is placed into "to be posted" status in the system. This indicates to all users that the check has been returned and is in our

possession. The employee also has to enter a batch number which indicates to us which folder the check is in for retrieval later from the file cabinet. The checks are then stored in a file cabinet in the area. This process averages one minute five seconds to complete each check.

When a taxpayer notifies us either by phone or mail of an updated address the same two employees have the responsibility to verify and enter the new address on the system, change the status on the system from “to be posted” to “reissued”, create notes indicating the new address, and that the check is being resent on that date, create a new envelope, and resend the check. This process averages approximately two minutes twenty five seconds per check. Even then some of these checks are again returned to us and the process starts over. In the course of the year these employees average almost two hours a day on these duties. During the peak season when the volume is high both in terms of calls and returned checks they can spend almost the entire day working on these checks.

By law (§12-6-5560) we are mandated to post a list of the unclaimed refund checks in the county courthouse of the last known address. To complete this process the employees get a printout of all the checks that are in the “to be posted” status. The list is then broken out by county. They then verify that all checks are still in batch in the cabinet. They also must verify that the addresses are indeed in the correct county. Once all the corrections have been made a new printout is requested and mailed with a cover letter to all the county courthouses. At this point the status of the checks is systematically changed to “posted”.

After a period of at least ninety days all checks in the "posted" status may be canceled. In this step of the process another printout is generated of all checks in the "posted status". The folders in the cabinet are pulled one by one. The checks are torn open, put in numerical order, and verified against the printout. Once they are all verified each check must be stamped "void" and batched in groups of fifty. These are sent with a tape to the Treasurers office. This step in the process can take up to three weeks to complete. The checks are then canceled and our system reflects that those individual checks have been canceled. Once a check is so canceled the statute of limitations of the original return goes back into effect for the taxpayer to notify us to claim the refund. If the taxpayer notifies SCDOR before the time limitation is up the address is updated in the system and the return is reworked and a new check is mailed. All users have this capability. The system generates and mails the check with no other tasks preformed by the section.

The data regarding returned checks has been collected throughout the year. The two employees responsible for the process would count each day the total number of checks returned to them. They would also count how many checks they mailed back out each day. Additionally, they were to maintain how much time was spent on the process. Time estimates were calculated from these totals as well as random observation samples.

What do others do?

I had conversations with representatives from the Internal Revenue Service as well as from the State Departments of Revenue from both Georgia and North Carolina.

At the Internal Revenue Service when they receive a returned refund check the amount is credited back to the return and the check is destroyed. The taxpayer then has to contact the Internal Revenue Service to report a good address. At that point a new check is produced and mailed to the taxpayer at the new address.

In the state of Georgia the Department of Revenue there just changed last year how they handle returned refund checks. Previously they handled their returns similar to the process currently in place at SCDOR. They would collect the returned refunds and input into the system that they had been returned. Then they would store all checks until they were claimed. This year they implemented a process where when a check is returned they check their system for an updated address if none is available they void the check on the system and destroy the check. The supervisor stated that the new process was a vast improvement since they no longer had to keep track of the stored checks. Her staff was now able to focus on other projects such as trying to track down the individual instead of the time it took maintaining the check files. She was very happy with their results and glad they had made the change.

In the State of North Carolina they have a different strategy. They go through a similar process to begin with when a returned check is received. They check their system for a

better address. They then store the returned checks for a year. Once a fiscal year they send a notice to the last know address to all the taxpayers whose checks were returned. They hope that this notice gets delivered directly to or forwarded to the taxpayer and that the taxpayer then claims their refund. If not the checks are returned to their state treasurers office for destruction.

What solutions can be made to reduce the time spent on returned refund checks???

Direct Deposit:

If there are ways to increase the use of direct deposit by taxpayers this would eliminate those individuals from being returned. This would further reduce costs by eliminating checks printing, postage, or handling costs from those taxpayers. The faster service would also decrease calls. When taxpayers utilize direct deposit they get their refund generally in two weeks. This is better than the average five to six weeks it takes to get a paper refund. However a majority of this time savings comes from the fact that currently direct deposits are only an option on electronically filed returns which are easier to process than paper returns.

Problems with this include the fact that currently there is no additional space on our forms to allow for entering the banking information. Also there is the problem of increasing the number of keystrokes in data entry. There is also the risk of error in incorrectly keyed accounts. This is the major obstacle in that if an account is entered incorrectly and the money is deposited into an actual account it is very difficult to get that deposit back. With the current set up for direct deposit the taxpayer enters their own

banking information. Additionally the increase in time and verification needed to ensure accuracy at the data entry step would outweigh the benefits. Most importantly it is seen as a bonus incentive to get taxpayers to file electronically which is much cheaper and more efficient for the department. Therefore it has been decided by management that adding direct deposits to the income tax paper returns is not an option at this time.

Immediate Cancellation:

The next option to reduce the amount of time spent on the returned refund check issue is to eliminate the physical check. To accomplish this when a refund is received I would suggest that the system be noted and the amount credited back to the return. The system would recognize that amount as being available until the Statue of Limitation runs out. The check could then be immediately destroyed. This would eliminate the time spent on batching and filing the checks. It would further eliminate all the year end time spent on verifying pulling, stamping the posted checks. Additionally there would be the cost savings of all the envelopes that the section would no longer have to type. Also there would no longer be any time spent on pulling the refunds to be remailed. Lastly any member of the contact center team could reissue the returned refund checks by simply reworking the return on our system. This would allow the telecommuters to also easily perform this function. Finally it would decrease the risk exposure since there will no longer be a large volume of checks available in the section.

The only issue would be a possible language adjustment in code section §12-6-5560. This process change would not preclude us from posting a list of the individuals whose checks were returned in their county courthouses.

Summary

It is therefore my recommendation that the Department of Revenue change the procedures the contact center follows regarding returned undeliverable refund checks. If no better address is available the system should be noted that the check was returned due to a bad address. The refund amount credited back to the return for future claim. The checks should then be immediately destroyed. This would reduce the handling time by a significant amount allowing the employees to concentrate on their main job function which is answering tax related telephone inquiries. The verification of success or failure of this project could be calculated through the use of the Centrevu call resource system. The efficiency of these employees will be tracked. The number of calls and time spent on calls will be compared to verify that indeed the time they previously spent on maintaining the returned check files is now productive in direct customer service. This would save the state the need to hire additional employees to handle incoming calls as it would make available resources that are currently being overwhelmed in a process that is outdated.

Appendices

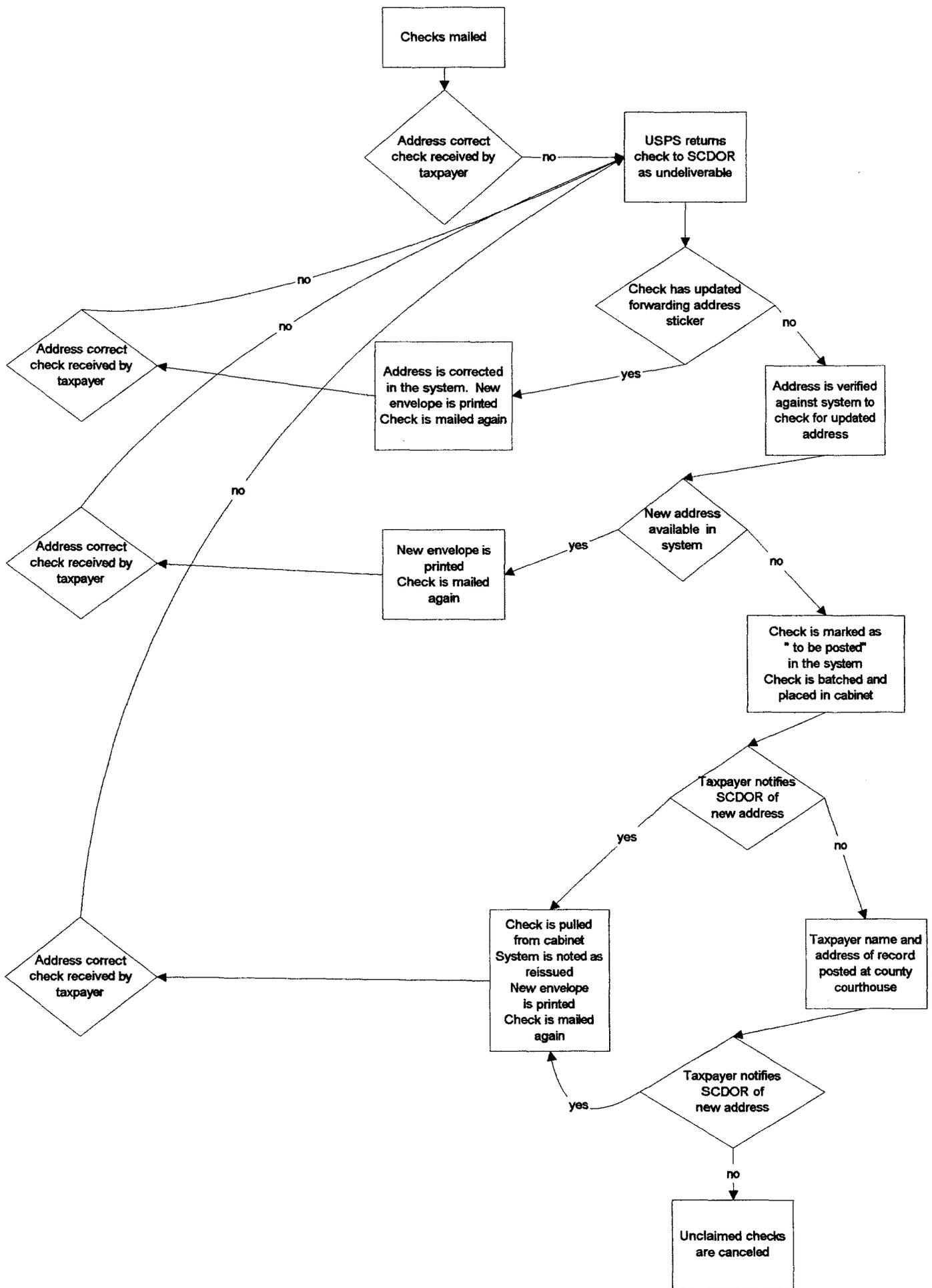
A) Process Flow Chart

B) Returned Check Data and Chart

C) Code Section

D) Project Release Form

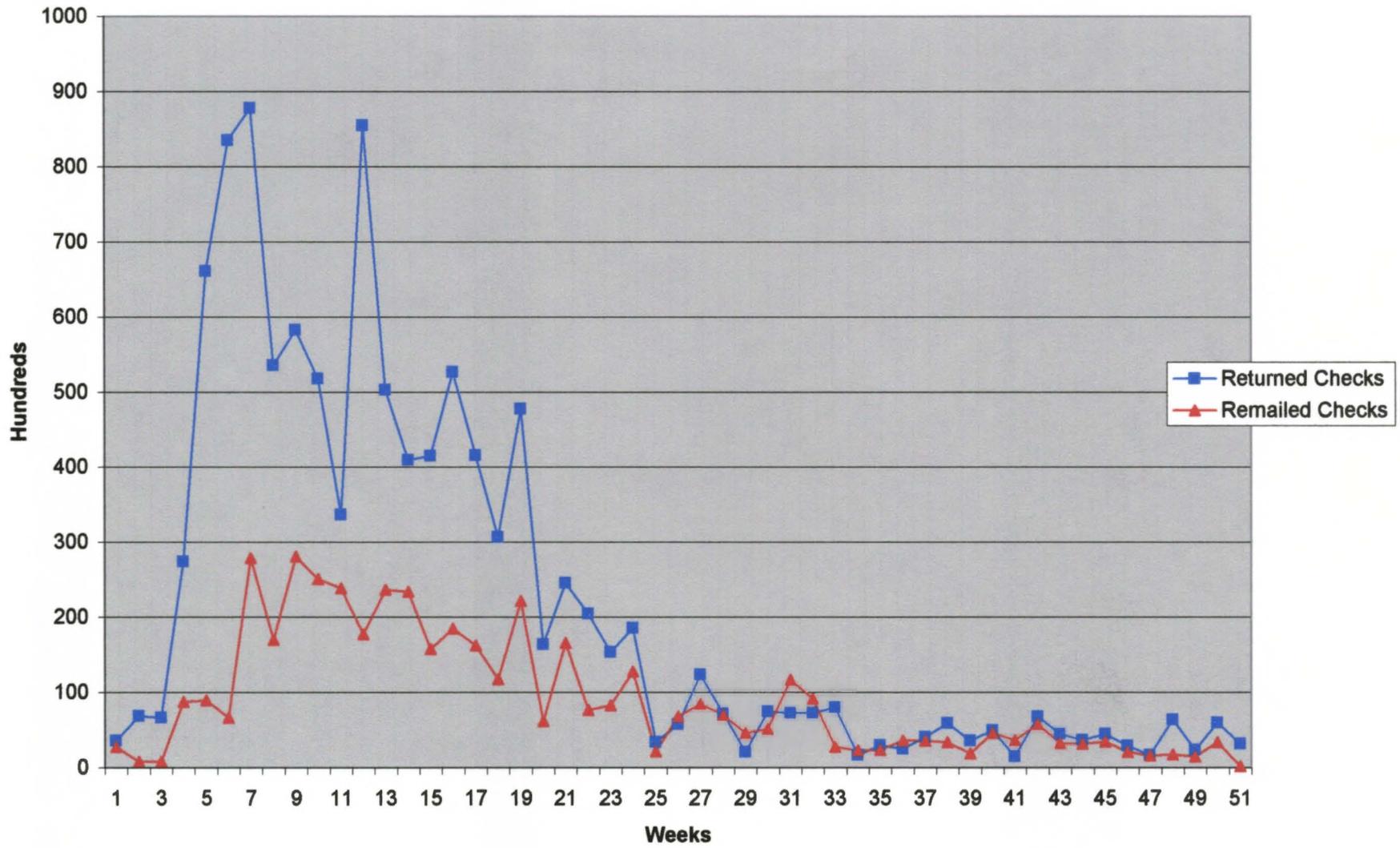
Appendix A Process Flow Chart



Appendix B Returned Check Data and Chart

Week	Checks Returned	Checks Remailed
1	36	28
2	69	8
3	67	8
4	274	88
5	661	90
6	835	67
7	878	279
8	536	170
9	583	281
10	518	251
11	337	239
12	855	178
13	503	237
14	410	234
15	415	158
16	527	185
17	416	163
18	307	118
19	478	222
20	164	62
21	246	166
22	205	77
23	154	83
24	186	128
25	34	22
26	58	68
27	124	85
28	72	70
29	21	46
30	75	52
31	73	117
32	73	92
33	80	28
34	17	23
35	30	24
36	25	36
37	41	36
38	59	34
39	36	19
40	50	46
41	15	37
42	68	58
43	45	33
44	37	32
45	45	35
46	29	21
47	17	16
48	64	18
49	24	15
50	60	34
51	32	2
	10964	4619

Returned Checks



Appendix C Code Section

§12-6-5560 TITLE 12. TAXATION

CHAPTER 6. SOUTH CAROLINA INCOME TAX ACT

SECTION 12-6-5560. Returned and unclaimed refund checks; public inspection of lists; cancellation and reissuance of checks. [SC ST SEC 12-6-5560]

(A) The department shall prepare a list for each county that contains the name and last known address of each person in each county whose income tax refund check has been returned for the reason of unknown or insufficient address. Each county list must be sent to the corresponding courthouse with a request that it be posted or otherwise be made available for public inspection.

(B) A refund check may be voided if it remains unclaimed for at least three months from the date of mailing the county list. A refund check so voided must be reissued upon application by the taxpayer before the expiration of the statute of limitation on claims for refunds.

(C) The action taken pursuant to the authority contained in this section is not a violation of Section 12-54-240.