



Treasury Inspector General for Tax Administration Office of Audit

THE EXTERNAL LEADS PROGRAM RESULTS IN THE RECOVERY OF ERRONEOUSLY ISSUED TAX REFUNDS; HOWEVER, IMPROVEMENTS ARE NEEDED TO ENSURE THAT LEADS ARE TIMELY VERIFIED

Issued on August 7, 2014

Highlights

Highlights of Report Number: 2014-40-057 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The External Leads Program is an IRS program that receives leads about questionable tax refunds identified by a variety of partner organizations that include financial institutions, brokerage firms, government and law enforcement agencies, State agencies, tax preparation entities, etc. The questionable tax refunds include Treasury checks, direct deposits, and prepaid debit cards. The program helps to recover erroneous tax refunds, thus saving tax dollars.

WHY TIGTA DID THE AUDIT

This audit was initiated because the External Leads Program has grown from 10 partner financial institutions returning \$233 million in Calendar Year 2010 to 258 partner financial institutions and partner organizations returning more than \$576 million in Calendar Year 2013. The overall objective of this review was to assess the effectiveness of the IRS's External Leads Program in recovering questionable tax refunds.

WHAT TIGTA FOUND

Since taking over the External Leads Program in January 2010, the Wage and Investment Division has performed outreach in an effort to continuously increase the number of organizations participating in this program. Participation and the number of questionable refunds returned and dollars associated have grown significantly. The IRS measures the External Leads Program's success by volume and dollars associated with questionable returned refunds.

However, the IRS is not always verifying leads timely, and verification time frame goals differ significantly based on the lead type. The timely verification goals do not take into consideration the burden on legitimate taxpayers whose refund is being held until the verification is completed.

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In addition, leads are inconsistently tracked in multiple inventory systems, and the inventory systems do not provide key information such as how the lead was resolved, *i.e.*, refund confirmed as erroneously issued or legitimate.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS establish more consistent time frames to verify leads based on analysis of current and historical lead verification data and, once established, communicate these verification time frames with external partners; develop a process to ensure that leads are verified within established time frames; and consolidate the current four lead inventory tracking systems into a single tracking system and ensure that key information is captured as to how each lead is resolved.

The IRS agreed with our recommendations. The IRS is evaluating the treatment streams and work processes associated with the various types of referrals received in the External Leads Program to identify appropriate time frames; completing other systemic and procedural enhancements to improve the effectiveness of existing reporting capabilities in evaluating program quality and timeliness; and evaluating the feasibility and potential benefits of consolidating the four independent inventory tracking databases into one system.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2014reports/201440057fr.pdf>.

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