



*Coordination and Monitoring Are Needed  
for Continued Improvement in the  
Tax Return Preparation Process  
at the Taxpayer Assistance Centers*

**September 2005**

**Reference Number: 2005-40-147**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 9, 2005

**MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION**

**FROM:** Pamela J. Gardiner  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Coordination and Monitoring Are Needed for Continued Improvement in the Tax Return Preparation Process at the Taxpayer Assistance Centers (Audit # 200540001)

This report presents the results of our review of the Internal Revenue Service (IRS) Taxpayer Assistance Centers (TAC). The overall objective of this review was to determine whether taxpayers receive quality service, including accurate tax returns, when visiting the TACs to have their tax returns prepared and filed. This audit is a follow-up to a prior Treasury Inspector General for Tax Administration (TIGTA) review.<sup>1</sup>

*Synopsis*

The TACs provide taxpayers personal, face-to-face assistance with tax matters. IRS assistors that work in the TACs help taxpayers by interpreting tax laws and regulations, resolving inquiries on taxpayer accounts, accepting payments, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations, including preparing certain individual tax returns. Generally, TAC assistors will prepare basic individual income tax returns for taxpayers with income less than \$36,000 and that meet certain requirements and limitations.<sup>2</sup>

A prior TIGTA audit reported that taxpayers do not always receive proper and accurate customer service assistance during tax return preparation. Specifically, in 21 (72 percent) of the 29 anonymous visits conducted by TIGTA auditors, assistors at the TACs did not inform

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<sup>1</sup> *Improvements Are Needed to Ensure Tax Returns Are Correctly Prepared at Taxpayer Assistance Centers* (Reference Number 2004-40-025, dated December 2003).

<sup>2</sup> A detailed list of requirements is provided later in the report.



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auditors of tax return preparation requirements prior to preparing or scheduling an appointment to prepare the tax return. Assistors incorrectly prepared 19 (83 percent) of the 23 tax returns prepared during these visits. In addition, the Field Assistance Office did not have a quality review process for tax return preparation assistance.

Results from this review show improvements have been made in the tax return preparation process. Our observations and testing of 47 tax returns showed that in all observations assistors adequately screened taxpayers to ensure they met tax return preparation requirements. In addition, assistors either helped taxpayers with the preparation of or ensured taxpayers prepared an IRS Return Preparation Checklist, reviewed completed tax returns with taxpayers, and provided them with completed copies of the tax returns. The accuracy rate of tax returns prepared improved, with 37 of 47 (79 percent) tax returns tested correctly prepared.<sup>3</sup> Ten of 47 (21 percent) tax returns tested were either incorrectly prepared or we could not determine if the tax return was prepared correctly because the assistors did not ask sufficient questions to determine eligibility for various credits and/or deductions.

However, opportunities exist for the Field Assistance Office to continue to provide quality customer service to taxpayers needing tax return preparation assistance. Although Field Assistance Office management has continued to emphasize to assistors that the Publication Method Guide (Guide) must be used to prepare tax returns and to determine taxpayer qualifications for various deductions and credits, assistors did not consistently adhere to this requirement.<sup>4</sup> For 32 of 47 (68 percent) observations, assistors did not use the Guide. In addition, coordination does not exist between the Field Assistance and the Stakeholder Partnerships, Education, and Communication (SPEC) Offices to share best practices used in the Volunteer Income Tax Assistance (VITA) Program, such as the VITA Program's Tax Preparation Information Sheet (Form 13614) and Quality Alerts. Lastly, the Field Assistance Office is not ensuring each TAC is assigned a unique Electronic Filing Identification Number (EFIN)<sup>5</sup> as required by the IRS for any office that electronically files tax returns.

### *Recommendations*

We recommended the Commissioner, Wage and Investment Division (1) develop a partnership between the Field Assistance and SPEC Offices to share best practices to improve the tax return preparation process and (2) develop a process to ensure each TAC is assigned a unique EFIN.

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<sup>3</sup> A tax return was considered accurate when the tax law was properly applied for the filing status and all income, exemptions, deductions, and credits.

<sup>4</sup> Assistors should use the Guide to navigate through the complex maze of tax laws and computations and to walk taxpayers through the related IRS publications, highlighting the relevant sections and asking the required probes.

<sup>5</sup> An EFIN is a number assigned by the IRS to identify which electronic return originator originated the tax return.



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*Response*

IRS management agreed with our recommendations and has initiated actions to work with the SPEC Office to identify best practices to improve the tax return preparation process, including revising the Field Assistance Office intake sheet and coordinating with the SPEC Office on the issuance of Quality Alerts to Field Assistance Office employees to proactively address emerging issues. In addition, they agreed each TAC should have a unique EFIN and are working to ensure each TAC will have a unique identification number for the 2006 Filing Season.<sup>6</sup> Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Programs), at (202) 927-0597.

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<sup>6</sup> The period from January through mid-April when most individual income tax returns are filed.



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## *Background*

The Internal Revenue Service (IRS) 2005 - 2009 Strategic Plan states that the IRS is committed to helping people understand their tax obligations and to making it easier for them to participate in the tax system. To help achieve this, complimentary, need-based tax return preparation is offered to taxpayers that meet certain requirements. Generally, assistors in walk-in offices called Taxpayer Assistance Centers (TAC) will prepare basic individual income tax returns for taxpayers with income less than \$36,000 (for 2004 tax returns) and that meet certain requirements and limitations.<sup>1</sup>

The Field Assistance Office, responsible for overseeing the TAC Program, was created in the IRS Customer Assistance, Relationships, and Education organization in the Wage and Investment Division in Fiscal Year 2001. The TACs provide taxpayers personal, face-to-face assistance with tax matters. Assistors that work in the TACs help taxpayers by interpreting tax laws and regulations, resolving inquiries on taxpayer accounts, accepting payments, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations, including preparing certain individual tax returns.

***The mission of the Field Assistance Office is to provide taxpayer assistance by providing the right services at the right time in the right locations.***

To reduce reliance on Small Business/Self-Employed Division support and to redirect resources to face-to-face services that can be provided only in a TAC, beginning in Fiscal Year 2003 the TACs began to reduce the number of returns prepared in the TACs by 20 percent. This reduction continued in Fiscal Year 2005 and will continue into Fiscal Year 2006. The Field Assistance Office will continue to support and promote tax return filing alternatives, such as free online services on the IRS web site (IRS.gov) and Volunteer Income Tax Assistance (VITA)/Tax Counseling for the Elderly, when taxpayers do not qualify or tax return preparation assistance is not available at the TACs.

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<sup>1</sup> Tax return preparation is limited to specific returns in the U.S. Individual Income Tax Return series (Forms 1040, 1040A, 1040EZ, and 1040X), Child and Dependent Care Expenses (Form 2441), Additional Child Tax Credit (Form 8812), Qualified Adoption Expenses (Form 8839), Education Credits (Hope and Lifetime Learning Credits) (Form 8863), Credit for Qualified Retirement Savings Contributions (Form 8880), and specific Form 1040 series schedules (i.e., Itemized Deductions [Schedule A], Interest and Ordinary Dividends [Schedule B] (for interest only), Net Profit From Business [Schedule C-EZ], Earned Income Credit [Schedule EIC], Credit for the Elderly or the Disabled [Schedule R] or Credit for the Elderly or the Disabled for Form 1040A Filers [Schedule 3], and Self-Employment Tax [Schedule SE] (in conjunction with Schedule C-EZ only)).



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For Calendar Year 2004, the Field Assistance Office assisted in the preparation and electronic filing (*e-file*) of 215,396 Tax Year 2003 tax returns. Figure 1 provides key characteristics relating to these 215,396 tax returns.

**Figure 1: Tax Year 2003 Tax Return Characteristics**

<i>Type of Tax Return</i>	<i>Volume</i>	<i>Percentage of Total</i>
1040	86,188	40%
1040A	66,526	31%
1040EZ	62,682	29%
<b>Totals</b>	<b>215,396</b>	<b>100%</b>
<i>Filing Status</i>	<i>Volume</i>	<i>Percentage of Total</i>
Head of Household	37,271	17%
Married Filing Jointly	18,386	9%
Married Filing Separately	8,448	4%
Single	151,188	70%
Widow(er) with Dependent Child	103	Less than .1%
<b>Totals</b>	<b>215,396</b>	<b>100%</b>
<i>Credits Claimed</i>	<i>Volume</i>	<i>Amount Claimed</i>
Additional Child Tax	21,372	\$12,524,081
Qualified Adoption Expenses	7	\$5,354
Child Tax	20,619	\$11,519,050
Child and Dependent Care	3,744	\$1,714,576
Earned Income Tax	82,991	\$97,796,004
Education	7,945	\$4,008,074
Gas	3	\$174
<b>Totals</b>	<b>136,681</b>	<b>\$127,567,313</b>
<i>Refund/Tax Due</i>	<i>Volume</i>	<i>Amount Claimed</i>
Refund	186,043	\$212,505,403
Tax Due	26,670	\$16,113,703
Breakeven	2,683	\$0
<b>Total</b>	<b>215,396</b>	

*Source: Treasury Inspector General for Tax Administration (TIGTA) Data Center Warehouse.*

This audit is a follow-up to a prior TIGTA audit.<sup>2</sup> We previously reported that taxpayers do not always receive proper and accurate customer service assistance during tax return preparation.

<sup>2</sup> *Improvements Are Needed to Ensure Tax Returns Are Correctly Prepared at Taxpayer Assistance Centers* (Reference Number 2004-40-025, dated December 2003).



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Specifically, in 21 (72 percent) of the 29 anonymous visits conducted by TIGTA auditors, assistors did not inform auditors of the tax return preparation requirements prior to preparing or scheduling an appointment to prepare the tax return. Assistors incorrectly prepared 19 (83 percent) of the 23 tax returns prepared during these visits. In addition, the Field Assistance Office did not have a quality review process for tax return preparation assistance.

Assistors did not always prescreen taxpayers to ensure their tax returns met the requirements and limitations, such as the type of tax return, types and amounts of income being reported, and deductions claimed. In addition, assistors modified the facts provided by the auditors, did not use the Paid Preparer's Earned Income Credit Checklist (Form 8867) to ensure taxpayers met the requirements for claiming the Earned Income Tax Credit, and did not use tax instructions and publications to determine the taxpayers' eligibility to receive credits and deductions.

In response to the report and TIGTA recommendations, IRS management (1) issued a memorandum to all Field Assistance Office assistors requiring adherence to return preparation screening procedures, (2) issued a memorandum to remind all applicable assistors to adhere to return preparation procedures in the Internal Revenue Manual that require each assistor to use the applicable worksheets prompted by the return preparation software and the publication method or job aids to determine eligibility for deductions and credits, and (3) developed the Embedded Quality Measurement System as a Quality Assurance Program to identify ways to improve the accuracy and quality of services performed at the TACs.<sup>3</sup>

This follow-up review was performed at the IRS Wage and Investment Division Headquarters in Atlanta, Georgia, and in 28 TACs located in the 5 Field Assistance Office geographic areas<sup>4</sup> during the period December 2004 through June 2005. See Appendix IV for a listing of the TACs visited. Testing included TIGTA auditors visiting the TACs posing as software vendors to observe 42 TAC assistors prepare tax returns during the week of February 14, 2005. However, shortly after we began our visits, there were indications assistors may have been aware that we were TIGTA auditors. This may have affected the results of our observations if assistors changed their behavior and/or prepared the tax returns differently because they knew they were being observed by an auditor.

The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>3</sup> The process developed includes TAC group managers reviewing samples of completed tax returns using the Embedded Quality Measurement System. We did not include an evaluation of the Embedded Quality Measurement System's effectiveness.

<sup>4</sup> The Field Assistance Office has approximately 400 TACs nationwide located in 5 geographic areas.



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## *Results of Review*

### **Improvements Have Been Made in the Tax Return Preparation Process**

Observations and testing of 47 tax returns prepared by TAC assistors showed improvements have been made in the TAC tax return preparation process. Observations made by TIGTA auditors showed assistors:

- Adequately screened taxpayers to ensure they met tax return preparation requirements in 47 of 47 observations (100 percent). Field Assistance Office procedures require assistors to prescreen taxpayers to ensure their tax returns meet income and filing requirements. There were no instances in which taxpayers' income exceeded the limit for assistance, and no schedules or forms outside the scope of services were prepared.
- As required, either assisted taxpayers with the preparation of or ensured taxpayers prepared an IRS Return Preparation Checklist in 47 of 47 observations (100 percent). Field Assistance Office procedures require taxpayers to complete the Checklist and to bring it and other documentation with them to the appointments to prepare their tax returns. The Checklist provides the assistors with information such as the names of the taxpayers and any dependents, dates of birth, filing status, etc.
- Reviewed completed tax returns with taxpayers and provided them with completed copies of the tax returns in 47 of 47 observations (100 percent). Field Assistance Office procedures require taxpayers to be provided a paper copy of their prepared returns and related signature documents.
- Offered to prepare State tax returns in the TACs where State tax returns can be prepared and *e-filed*. Taxpayers elected to have their State tax returns prepared and *e-filed* in 22 instances. State tax returns may be prepared in conjunction with Federal tax returns using the same income and schedule limits applicable to the Federal returns. However, State tax returns will be prepared only when they are based on Federal return data and require no additional computations or input.

In addition, testing of the 47 tax returns to determine if they were prepared correctly (i.e., the tax law was properly applied for the filing status and all income, exemptions, deductions, and credits) showed:

- Thirty-seven (79 percent) were correctly prepared.



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- Ten (21 percent) were either incorrectly prepared or we could not determine if the tax returns had been prepared correctly.
  - Three tax returns were incorrectly prepared. For two of the three returns, the Advance Earned Income Credits reported on the Wage and Tax Statements (Form W-2) were not correctly reported on the taxpayers' tax returns. This resulted in overstated tax refunds of \$61 and \$360. For the remaining tax return prepared incorrectly, the assistor told the taxpayer he or she qualified for Head of Household filing status but prepared the return using the Single filing status. Since the taxpayer did not owe any tax, there was no effect on taxes owed or a tax refund due.
  - Seven tax returns were considered to be incorrectly prepared because assistors did not ask sufficient questions to determine eligibility for various credits and/or deductions. Counting these tax returns as incorrectly prepared is consistent with the scoring method the IRS uses in its Embedded Quality Measurement System.

Observing assistors while they prepared the 47 tax returns could bias the results. In a November 2004 report, the Government Accountability Office (GAO) stated that observing taxpayer/assistor interaction could yield "biased data, because assistors will know they are being observed, which could influence their behavior."<sup>5</sup> Consequently, the accuracy rates resulting from TIGTA observations may not be representative of true performance.

***Opportunities Exist for the Field Assistance Office to Continue to Provide Quality Customer Service to Taxpayers Needing Tax Return Preparation Assistance***

Coordination with another Wage and Investment Division office and improved monitoring are needed to ensure the Field Assistance Office provides enhanced quality customer service to taxpayers needing tax return preparation assistance.

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<sup>5</sup> Tax Administration: *IRS Improved Performance in the 2004 Filing Season, But Better Data on the Quality of Some Services Are Needed* (GAO-05-67, dated November 2004).



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**TAC assistors did not consistently use required tools when preparing tax returns**

Field Assistance Office management issued memoranda to assistors requiring them to use tax return preparation software worksheets when preparing income tax returns.<sup>6</sup> In addition, they should use the Publication Method Guide (Guide) and existing return preparation instructions for all other credits and deductions not listed in the tax return preparation software worksheets. Assistors should use the Guide to navigate through the complex maze of tax laws and computations and to walk taxpayers through the related IRS publications, highlighting the relevant sections and asking the required probes. The Guide contains over 1,000 pages and covers approximately 77 tax law topics. It is available in paper or electronic versions.

Field Assistance Office management has also issued memoranda to group managers asking them to reinforce the policy requiring assistors to use the Guide when preparing tax returns. Although Field Assistance Office management has continued to emphasize to assistors that the Guide must be used when preparing tax returns to determine taxpayer qualifications for various deductions and credits, assistors do not consistently adhere to this requirement. Assistors did not use the Guide for 32 of 47 observations (68 percent).

However, when the Guide was not used, assistors used worksheets included in the electronic software tax preparation package and/or asked sufficient questions of the taxpayer when determining eligibility. For example, for:

- Thirty of 32 observations (94 percent) assistors used required worksheets.
- Twenty-five of 32 observations (78 percent) assistors asked sufficient questions.

Although the majority of tax returns were accurately prepared, the risk increases that taxpayers may incorrectly receive or not receive credits and/or deductions to which they are qualified if the Guide is not used and procedures are not followed. The Guide is designed to help assistors in ensuring taxpayers meet the necessary qualifications when determining eligibility to receive certain credits and/or deductions. In addition, the process is designed to educate the taxpayers on what requirements must be met to receive certain credits and/or deductions.

Field Assistance Office management advised us they are considering nonuse of the Guide as a conduct issue for assistors. Therefore, at this time, we are making no recommendation to address this issue. Field Assistance Office management should continue pursuing this and other options to ensure procedures are followed.

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<sup>6</sup> Worksheets included in the electronic software tax preparation package are US 1040 Wkt1 (Social Security, Other Income), US 1040 Wkt2 (Student Loan, Education), US 1040 Wkt3 (Child Tax Credit, Carryovers), US Schedule EIC (Earned Income Credit), US Form 8867 Pg1 (Paid Preparer EIC Checklist Pg 1), and US Form 8867 Pg2 (Paid Preparer EIC Checklist Pg2).



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**The Field Assistance Office does not coordinate with the Stakeholder Partnerships, Education, and Communication (SPEC) Office to obtain best practices used in its VITA Program**

The SPEC Office is responsible for overseeing the VITA Program, which provides Federal tax return preparation and *e-filing* targeting underserved segments of individual taxpayers, including low-income, elderly, disabled, and limited-English-proficient taxpayers. The VITA Program plays an increasingly important role in the IRS goal of improving taxpayer service and facilitating participation in the tax system. The SPEC Office, along with the Field Assistance Office, is within the Customer Assistance, Relationships, and Education organization.

Taxpayers that visit VITA Program sites to have their tax returns prepared are frequently involved in intricate family situations that make it difficult to correctly understand and apply the complex tax law. The SPEC Office, in response to concerns raised in a prior TIGTA review, has established and implemented a number of initiatives and processes that have resulted in significant improvements in the VITA Program.<sup>7</sup>

Process improvements made by the SPEC Office could provide a best practice for the Field Assistance Office if implemented in the TACs. Examples of best practices from the VITA Program that could assist the Field Assistance Office in delivering quality customer service include the use of the Tax Preparation Information Sheet (Form 13614) and Quality Alerts.

- **Form 13614** – This “intake sheet” provides a standardized list of required intake questions to guide volunteers in asking taxpayers basic questions about the taxpayer and his or her situation and circumstances. The intake sheet is used to open dialogue between the taxpayer and the volunteer, allowing the volunteer to become acquainted with the taxpayer’s unique set of facts. The VITA Program intake sheet provides assistors with the ability to more effectively determine a taxpayer’s unique set of facts as it relates to tax law.

Figures 2 and 3 provide excerpts from the two intake sheets used by the Field Assistance Office at TACs and the SPEC Office at VITA Program sites.

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<sup>7</sup> *Improvements Are Needed to Ensure Tax Returns Are Prepared Correctly at Internal Revenue Service Volunteer Income Tax Assistance Sites* (Reference Number 2004-40-154, dated August 2004).



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**Figure 2: IRS Return Preparation Checklist**

**Taxpayer Information** (please print)

Name \_\_\_\_\_  
SSN \_\_\_\_\_

Date of Birth \_\_\_\_\_  
Occupation \_\_\_\_\_

Spouse Name \_\_\_\_\_  
SSN \_\_\_\_\_

Date of Birth \_\_\_\_\_  
Occupation \_\_\_\_\_

Street Address or P.O. Box \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
Phone Number (\_\_\_\_) \_\_\_\_\_

Filing Status (**Check one**): \_\_\_\_\_ Single \_\_\_\_\_ Married Filing Joint  
\_\_\_\_\_ Married Filing Separate \_\_\_\_\_ Head of Household  
\_\_\_\_\_ Qualifying Widow (er), year of death \_\_\_\_\_

**Dependents\***

First Name	Last Name	DOB	SSN	Relationship	Months in Home
		/ /	/ /		
		/ /	/ /		

\*Attach another sheet for additional dependents

Do you want your refund direct deposited? Yes \_\_\_\_\_ No \_\_\_\_\_

Source: IRS Field Assistance Office.

**Figure 3: VITA Program Form 13614**

**MARITAL STATUS:**  
Were you legally married as of December 31st?  YES  NO  
If so, were you living with your spouse as of December 31st?  YES  NO  
Did your spouse die within the last 2 years? If yes, date of death \_\_\_\_\_  YES  NO  
**Can someone else claim you or your spouse as a dependent on their tax return?**  YES  NO

**FAMILY / DEPENDENT INFORMATION – Do not include yourself or your spouse.**  
Please list all persons who lived in your home and anyone living outside your home that you supported during the tax year.

Name	Birth Date	Social Security Number or ITIN	Relationship	Months person lived with you in 2004	Did you provide more than 50% support for this person in 2004

Did you or your spouse have income during the tax year that was not reported on a W2?  YES  NO  
Did you receive Social Security payments during the tax year?  YES  NO  
Did you receive unemployment payments during the tax year?  YES  NO  
Did you pay for childcare during the tax year that allowed you to work?  YES  NO  
If yes, did you bring the address and tax identification number for the provider?  YES  NO  
Did you or anyone in your family attend college or vocational school during the tax year?  YES  NO

Did you or anyone in your family pay student loan interest?  YES  NO  
Did you own your own home during the tax year?  YES  NO  
Have you ever had the Earned Income Credit disallowed by the IRS?  YES  NO  
Do you want to use Direct Deposit to a savings or checking account?  YES  NO  
If so, did you bring the account number and the routing number of the financial institution?  YES  NO  
Did you bring a copy of your prior year's tax return?  YES  NO

Source: IRS SPEC Office.



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- **Quality Alerts** – Volunteer Quality Alerts are issued to proactively address emerging issues affecting the quality of tax return preparation. Throughout the 2005 Filing Season,<sup>8</sup> the SPEC Office and its partners<sup>9</sup> issued 11 Alerts. These Quality Alerts were used to enhance the quality of tax returns prepared in the VITA Program by informing volunteers of certain tax issues that may be adversely affecting the accuracy of tax returns. See Appendix V for a complete listing of these Quality Alerts.

One Quality Alert instructed volunteers to use the Form W-2 with the intake sheet and a strong interview as they prepare tax returns. It stated that every entry on the Form W-2 is critical in completing an accurate tax return. See Figure 4 for a copy of this Quality Alert.

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<sup>8</sup> The period from January through mid-April when most individual income tax returns are filed.

<sup>9</sup> The VITA Program partners include social service, nonprofit, corporate, financial, educational, and government organizations.



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**Figure 4: Volunteer Quality Alert 2005-05**

**Volunteer Quality Alert 2005-05 – Form W-2 Wage and Tax Statement**

*You may use this document as a job aid when assisting taxpayers who have certain benefits or adjustments.*

## Form W-2 - Box 1 and 2 – What's Next?

**General Rule:** Forms W-2 are full of information about the income and benefits, both taxable and non-taxable, received by taxpayers. The income statements contain a great deal more than just Box 1 – Taxable Income and Box 2 – Federal Tax Withholding.

**Challenge:** Use the income statements in combination with the intake sheet and a strong interview as you prepare returns. Every entry on Form W-2 is critical in completing an accurate return.

When preparing a tax return electronically – **KEY WHAT YOU SEE!**

When preparing a paper return – **CONSIDER EVERY W-2 ENTRY!**

a Control number 458		22222		OMB No. 1545-0006	
b Employer identification number 58-0000000		1 Wages, tips, other compensation 20,000.00	2 Federal income tax withheld \$2,150.00		
c Employer's name, address, and ZIP code ABC Mini Mart 111 Main Anytown, USA 30444		3 Social security wages \$21,522.00	4 Social security tax withheld \$1,240.00		
		5 Medicare wages and tips \$21,522.00	6 Medicare tax withheld \$290.00		
		7 Social security tips	8 Allocated tips		
d Employee's social security number 123-45-6780		9 Advance EIC payment \$730.00	10 Dependent care benefits \$1,000.00		
e Employee's first name and initial Last name Doe, Mary Jane 123 Main Anytown, USA 30444		11 Nonqualified plans		12 Code and amount	
		13 <input type="checkbox"/> Statutory employee <input checked="" type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay		12a	
		14 Other		12b	
				12c	
f Employee's address and ZIP code		15 State Employer's state ID number		16 State wages, tips, etc. \$21,522.00	17 State income tax \$385.00
		18 Local wages, tips, etc.		19 Local income tax	20 Locality name

**Advance EIC Payment:** When using e-file, this amount will automatically fill in on line 60 of Form 1040 or line 37 of Form 1040A. If preparing a paper return, remember to include the amount of the **Advance EIC Payment**.

**Dependent Care Benefits:** When using e-file, an amount in this box will automatically complete Page 2 of **Form 2441, Child and Dependent Care Expenses**. If preparing a paper return, remember to calculate.

**Box 12 Code & Amount:** When using e-file, an amount in this box with code D and G will automatically generate a **Form 8880, Credit for Qualified Retirement Savings Contributions**, if the taxpayer meets the age and income requirements. If preparing a paper return, you must calculate the **Form 8880**.

**Training refresher, Volunteers can refer to:**

- Publication 678, The Volunteer Assistor's Guide/Student Text, Lesson 3, Income, or
- Publication 1155, Instructor's Guide, Lesson 3, Income, or
- Publication 4012, Volunteer Resource Guide, or
- Publication 17, Your Federal Income Tax, Part 2, Chapter 6, or call
- The VITA Hotline at 1-800-829-8482.

Source: IRS SPEC Office.



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In two of the three incorrectly prepared tax returns tested, assistors did not enter the Advance Earned Income Credit as reported on the Form W-2 when preparing the taxpayers' tax returns. If Volunteer Quality Alert 2005-05 had been distributed to the TACs, it may have reminded the assistors of the need to ensure every entry included in the Form W-2 is critical to the accurate preparation of a tax return.

**Unique Electronic Filing Identification Numbers (EFIN) were not assigned to every TAC**

The IRS requires that participants in its *e-file* program use unique numbers called EFINs to identify who originated the tax return and the office transmitting the electronic return. The EFIN is a six-digit number assigned by the IRS; there should be only one EFIN for the same business entity and address. Therefore, each office preparing *e-filed* tax returns should have a unique EFIN, including each TAC.

The Field Assistance Office has not developed a process to identify the EFINs currently assigned to each TAC, nor is it ensuring each TAC has a unique EFIN assigned. An EFIN listing provided in December 2004 by Field Assistance Office management showed EFINs were:

- Still maintained for closed TACs.
- Not assigned to all open TACs.
- Used by multiple TACs. For example, four TACs were assigned to one EFIN.

If unique EFINs are not assigned to each TAC, the IRS will not be in conformance with its own *e-file* requirements. Further, without the proper assignment of unique EFINs to each TAC, Field Assistance Office management will be unable to assess the quality of the tax return preparation in a particular TAC. Unique EFINs will allow Field Assistance Office managers to determine by TAC the number of tax returns rejected from the *e-file* program and the reasons the tax returns were rejected.

## ***Recommendations***

The Commissioner, Wage and Investment Division, should:

**Recommendation 1:** Develop a partnership between the Field Assistance and SPEC Offices to share best practices to improve the tax return preparation process. This would include replacing the Field Assistance Office intake sheet with the one used by the VITA Program and using Quality Alerts to address emerging issues affecting TAC tax return preparation.

**Management's Response:** IRS management agreed with this recommendation and has initiated actions to work with the SPEC Office to identify best practices to improve



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the tax return preparation process, including revising the Field Assistance Office intake sheet and coordinating with the SPEC Office on the issuance of Quality Alerts to Field Assistance Office employees to proactively address emerging issues.

**Recommendation 2:** Develop a process to ensure each TAC is assigned a unique EFIN.

**Management's Response:** IRS management agreed with this recommendation and is working to ensure each TAC has a unique EFIN for the 2006 Filing Season.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether taxpayers receive quality service, including accurate tax returns, when visiting the Taxpayer Assistance Centers (TAC)<sup>1</sup> to have their tax returns prepared and filed. Specifically, we:

- I. Determined the process the Internal Revenue Service (IRS) follows to ensure tax returns prepared at the TACs are correctly prepared.
  - A. Identified key controls designed to ensure tax returns are prepared correctly.
  - B. Identified actions the IRS has taken in response to issues cited in a prior Treasury Inspector General for Tax Administration (TIGTA) report.<sup>2</sup>
- II. Determined whether key controls are functioning as intended.
  - A. TIGTA auditors posed as software vendors from a fictitious company supposedly hired by the IRS to develop tax preparation software for the TAC Tax Preparation Program. During the week of February 14, 2005, the auditors observed 42 TAC employees prepare 47 Tax Year 2004 tax returns at a sample of the TACs nationwide and assessed the accuracy of the tax returns prepared, including the customer service provided to the taxpayers.

We selected the TACs in the States visited during another current TIGTA audit.<sup>3</sup> This was done in the event a decision was made to perform comparative analysis between the two tax return preparation processes. During that audit, auditors planned to visit Volunteer Income Tax Assistance sites in Arizona, California, Florida, Georgia, Illinois, Louisiana, Maine, Massachusetts, New Hampshire, New York, North Carolina, Ohio, Pennsylvania, and Texas. In addition, at the request of Field Assistance Office management, we visited only those TACs with a group manager on site. See Appendix IV for a listing of TACs visited.

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<sup>1</sup> The TACs provide taxpayers personal, face-to-face assistance with tax matters. Assistors that work in the TACs help taxpayers by interpreting tax laws and regulations, resolving inquiries on taxpayer accounts, accepting payments, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations, including preparing certain individual tax returns.

<sup>2</sup> *Improvements Are Needed to Ensure Tax Returns Are Correctly Prepared at Taxpayer Assistance Centers* (Reference Number 2004-40-025, dated December 2003).

<sup>3</sup> Tax Return Preparation at Volunteer Income Tax Assistance Sites (Audit # 200540002).



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- B. Analyzed data from the Individual Master File<sup>4</sup> Returns Transaction File<sup>5</sup> Subset File at the TIGTA Data Center Warehouse to identify the characteristics of taxpayers that had a 2003 tax return prepared at the TACs.
- C. Performed analyses that included reviewing the information documented by auditors during the observation process, as well as reviewing documentation provided by the taxpayer to the assistors that was maintained by the IRS subsequent to the preparation, and determined whether the assistors' actions met procedural and regulatory guidelines.

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<sup>4</sup> The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.

<sup>5</sup> The Return Transaction File is the IRS database that maintains information captured on the tax return as it was filed and processed by the IRS.



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## **Appendix II**

### *Major Contributors to This Report*

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)  
Randee Cook, Director  
Paula Johnson, Audit Manager  
Frank Jones, Audit Manager  
Russell Martin, Audit Manager  
Grace Terranova, Lead Auditor  
Deborah Drain, Senior Auditor  
Lynn Faulkner, Senior Auditor  
Jack Forbus, Senior Auditor  
Sharla Robinson, Senior Auditor  
Sharon Shepherd, Senior Auditor  
Roberta Fuller, Auditor  
Joseph Butler, Information Technology Specialist



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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division  
SE:W:CAR  
Acting Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Acting Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI  
Director, Field Assistance, Wage and Investment Division SE:W:CAR:FA  
Acting Director, Stakeholder Partnerships, Education, and Communication, Wage and  
Investment Division SE:W:CAR:SPEC  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Management Controls OS:CFO:AR:M  
Audit Liaison: Acting Senior Operations Advisor, Wage and Investment Division SE:W:S



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**Appendix IV**

*Taxpayer Assistance Centers Visited*

Area 1 <sup>1</sup>	Area 2	Area 3	Area 4	Area 5
Boston, Massachusetts	Chicago, Illinois	Atlanta, Georgia	Phoenix, Arizona	Santa Ana, California
Brooklyn, New York	Downers Grove, Illinois	Augusta, Georgia	Tucson, Arizona	San Diego, California
New York, New York (Midtown)	Peoria, Illinois	Columbus, Georgia	Houston, Texas	San Marcos, California
Bethlehem, Pennsylvania	Springfield, Illinois	Miami, Florida	San Antonio, Texas	
Harrisburg, Pennsylvania		Plantation, Florida		
Philadelphia, Pennsylvania		Port St. Lucie, Florida		
		Baton Rouge, Louisiana		
		Lafayette, Louisiana		
		New Orleans, Louisiana		

*Source: Treasury Inspector General for Tax Administration Taxpayer Assistance Center Selection.*

We visited multiple Taxpayer Assistance Centers in Phoenix, Arizona, and Houston, Texas.

<sup>1</sup> The Field Assistance Office has approximately 400 Taxpayer Assistance Centers nationwide located in 5 geographic areas.



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**Appendix V**

*Volunteer Quality Alerts Issued During the  
2005 Filing Season<sup>1</sup>*

Quality Alert Number	Date of Issuance	Title	Objective of Quality Alert
2005-1	01/14/2005	<b>Grandniece/Grandnephew</b>	To ensure an accurate determination as to whether a grandniece/grandnephew is considered a qualifying person for the Head of Household filing status or a qualifying child for the Earned Income Tax Credit and/or the Child Tax Credit.
2005-2	02/27/2005	<b>Tax Treatment Cash Contributions for Tsunami Relief</b>	To ensure accurate tax treatment of Tsunami Relief contributions.
2005-3	02/04/2005	<b>Asking the Right Questions</b>	To obtain the information necessary to assist customers in preparing and filing accurate tax returns. To confirm the data received are complete. To use a strong quality review process to assure the information is accurately included and reflected on the customer's tax return. To ensure the proper use of intake information sheet information, proper use of reference guide material, and quality review of each tax return prepared.
2005-4	02/15/2005	<b>Filing &amp; Marital Status - The Tax Connection</b>	To ensure volunteers correctly determine filing status (e.g., Single, Head of Household) by not making assumptions but instead conduct a quality interview and use reference materials to guide determinations.
2005-5	03/15/2005	<b>Form W-2 Wage and Tax Statement</b>	To ensure volunteers use the income statements in combination with the intake sheet and a strong interview as tax returns are prepared, consider every entry on the Wage and Tax Statement (Form W-2) as critical in completing an accurate tax return, and consider what they see and enter what they see.

<sup>1</sup> The period from January through mid-April when most individual income tax returns are filed.



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Quality Alert Number	Date of Issuance	Title	Objective of Quality Alert
2005-6	03/14/2005	<b>Top 3 e-file Rejects</b>	To avoid the top three causes for electronically filed ( <i>e-file</i> ) tax returns to reject from Internal Revenue Service processing – ensure information from Form W-2 is accurately entered on a tax return and ensure Social Security Numbers, birth dates, and names of qualifying children are accurate on Earned Income Credit (Schedule EIC).
2005-7	03/07/2005	<b>Other Income</b>	To ensure accurate treatment of interest, dividends, and gambling income through the use of the quality review of the tax return. To ensure volunteers review intake/taxpayer information sheet to determine if other income is indicated by the taxpayer.
2005-8	03/11/2005	<b>Child &amp; Dependent Care Credit</b>	To ensure volunteers correctly determine the Child and Dependent Care Credit by ensuring they prepare a Child and Dependent Care Expenses (Form 2441), including boxes on the Main Information screen, if using the Tax Wise tax return preparation computer application.
2005-9	03/17/2005	<b>Adjustments</b>	To ensure volunteers determine whether the taxpayers are eligible for specific adjustments. Adjustments are subtractions from total income. Total income minus adjustments results in Adjusted Gross Income, an important number for tax purposes. Adjustments generally covered in the Volunteer Income Tax Assistance (VITA) Program include Educator Expenses, Individual Retirement Arrangements, Student Loan Interest, Tuition and Fees, One-Half of Self-Employment Tax, Penalty on Early Withdrawal of Savings, and Alimony.
2005-10	04/06/2005	<b>Form 1098-T [Tuition Statement]</b>	To ensure volunteers correctly determine education-related tax benefits.
2005-11	04/08/2005	<b>Post Filing Season Reminders</b>	To close the VITA Program site while maintaining taxpayer confidentiality and maximizing remaining resources.

Source: Auditor analysis of Quality Alerts issued by the Stakeholder Partnerships, Education, and Communication Office.



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**Appendix VI**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

RECEIVED  
AUG 26 2005

August 25, 2005

MEMORANDUM FOR PAMELA J. GARDINER  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard J. Morgante *Richard J. Morgante*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Coordination and Monitoring Is Needed  
for Continued Improvement in the Tax Return Preparation  
Process at the Taxpayer Assistance Centers  
(Audit #200540001)

I reviewed the subject draft report and agree with your findings and recommendations. As your report indicates, this review was conducted as a follow-up to a prior TIGTA audit in which you reported that taxpayers do not always receive proper and accurate customer service assistance during tax return preparation. I am pleased the results from this review show a 365 percent improvement in tax return preparation accuracy. Current findings reflect that 79 percent of the tax returns were correctly prepared, compared to 17 percent in your report dated December 2003. This is a significant achievement.

Your report also suggests that our employees are doing a much better job with following prescribed procedures. Your auditors observed that employees adequately screened taxpayers to ensure they met tax return preparation requirements, consistently adhered to return preparation Checklist guidelines, reviewed and discussed completed tax returns with taxpayers, and offered State tax return preparation as appropriate. We believe these improvements are commensurate with the dedicated efforts taken to reinforce expectations in all areas associated with the return preparation process. This includes requiring strict use of tax return preparation software worksheets, placing greater emphasis on the use of the Publication Method Guide (PMG), and implementing an Embedded Quality process to identify ways to improve the accuracy and quality of services performed at the Taxpayer Assistance Centers (TAC).

Although we have made tremendous progress, we agree that opportunities exist for us to continue to provide quality customer service to taxpayers needing tax return preparation assistance and are fully committed to improving our quality tools and



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processes. We also believe employee acceptance of embedded quality processes is critical to future service quality improvements. As such, we are evaluating opportunities to engage them in the development and refinement of quality programs.

You note in your report that employees were not using the PMG consistently to navigate through the complex tax laws and computations when preparing income tax returns. We agree that use of the PMG is essential to minimizing the risk of taxpayers receiving incorrectly prepared returns and have taken steps to address this issue. Efforts are currently underway to completely revamp the PMG training that includes course material containing role plays for practicing job expectations. Front-line managers will also reinforce use of the PMG during employee performance discussions. In addition, beginning with the 2006 filing season, we will implement an interview based return preparation process. This process will enhance our ability to adequately probe taxpayers to determine eligibility for various credits and deductions on the tax return. This new feature, coupled with enhancements to the PMG, should produce further improvements in tax return preparation accuracy.

Finally, we agree that coordination between our Field Assistance and Stakeholder Partnerships, Education and Communication (SPEC) offices will help improve the tax return preparation process. These offices are currently working together to implement enhancements for the 2006 filing season. We also agree that each TAC should have a unique Electronic Filing Identification Number (EFIN) for return preparation. We are working with personnel from the Electronic Tax Administration (ETA) office to identify the type of identification number to use for employees who prepare tax returns.

Our corrective actions are detailed in the attachment. If you have any questions, please call me at (404) 338-7060, or members of your staff may contact Ellen M. Cimaglia, Director, Field Assistance, Customer Assistance, Relationships and Education, at (404) 338-7141.

Attachment



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Attachment

**RECOMMENDATION 1**

The Commissioner, Wage and Investment Division, should develop a partnership between the Field Assistance and the SPEC Offices to share best practices to improve the tax return preparation process. This would include replacing the Field Assistance Office intake sheet with the one used by the Volunteer Income Tax Assistance (VITA) program and utilizing Quality Alerts to address emerging issues affecting TAC tax return preparation.

**CORRECTIVE ACTION**

We agree with this recommendation and have initiated actions to work with SPEC to identify best practices to improve the tax return preparation process. We will:

- a) Revise the Field Assistance intake sheet to incorporate information from the VITA sheet.
- b) Coordinate with SPEC on the issuance of Quality Alerts to Field Assistance employees to proactively address emerging issues related to tax law that may affect the accuracy of tax returns being prepared in the TACs.

**IMPLEMENTATION DATE**

- a) January 15, 2006
- b) January 15, 2006

**RESPONSIBLE OFFICIAL**

Director, Field Assistance, Wage and Investment Division

**CORRECTIVE ACTIONS MONITORING PLAN**

We will continue our partnership with the SPEC Office to share best practices to improve the tax return preparation process. We will also monitor the use of the intake sheet during managerial and operational reviews of the TACs.

**RECOMMENDATION 2**

The Commissioner, Wage and Investment Division, should develop a process to ensure each TAC is assigned a unique EFIN.

**CORRECTIVE ACTION**

We agree that each TAC should have a unique EFIN. We are working with personnel from the ETA Office to determine the type of identification number each



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TAC will use for return preparation. Our goal is that each TAC will have a unique identification number for the 2006 filing season.

**IMPLEMENTATION DATE**

January 15, 2006

**RESPONSIBLE OFFICIAL**

Director, Field Assistance, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

Each TAC is required to use their unique identification number to order the return preparation software for the upcoming filing season. We will verify that each TAC has a unique identification number during the software ordering process for the 2006 filing season. We will also ensure TACs are using the appropriate identification number during operational reviews of the TACs.