

**Progress Was Made to Provide Taxpayers
With Correct Answers to Tax Law Questions,
but Improvements Are Needed to Ensure
Referral Procedures Are Followed**

May 2003

Reference Number: 2003-40-120

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.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

May 22, 2003

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Progress Was Made to Provide Taxpayers With Correct Answers to Tax Law Questions, but Improvements Are Needed to Ensure Referral Procedures Are Followed (Audit # 200340015)

This report presents the results of our review to determine if the Internal Revenue Service (IRS) provides accurate and timely responses to taxpayers' tax law questions. In addition, Treasury Inspector General for Tax Administration (TIGTA) auditors who made anonymous visits to the Taxpayer Assistance Centers (TAC) assessed whether IRS employees adhered to operating guidelines on referral procedures¹ and were professional and courteous, and whether TAC addresses and office hours made available to taxpayers were accurate.

This review was conducted as a result of an amendment to the Treasury spending bill² for Fiscal Year 2002 proposed by Senator Byron Dorgan (Democrat-North Dakota), then Chairman of the Subcommittee on Treasury and General Government. The amendment requires the TIGTA to conduct visits to all TACs and report to the Congress on whether taxpayers are provided correct and prompt answers to their questions. We are conducting anonymous visits to all TACs over a 2-year period. This is the seventh in a series of bi-monthly reports that we are issuing in response to the amendment to the Treasury spending bill.

During January and February 2003, TIGTA auditors made 73 anonymous visits to 37 TACs. The auditors asked 145 tax law questions and determined that IRS

¹ Field Assistance guidelines clearly define the scope of employee expertise (tax law topics for which employees receive training) and specific services that are offered to taxpayers within the TACs. Taxpayers that ask questions outside the level of employee training should be referred to the IRS toll-free telephone line or have their question submitted via the Internet (R-mail) for assistance.

² Treasury and General Government Appropriations Act, 2002, Pub. L. No. 107-67, 115 Stat. 514 (2001).

employees provided incorrect answers to some tax law questions. Specifically, IRS employees:

- Correctly answered 99 (68 percent) of the 145 questions.
- Incorrectly answered 39 (27 percent) of the 145 questions.
- Referred the auditor to IRS publications and generally advised the auditor to do his or her own research to find the answer to 6 (4 percent) of the 145 questions.
- Denied service to the auditor in response to 1 (1 percent) of the 145 questions.

We commend the IRS for the corrective actions that have been taken in response to our previously issued semiannual and bi-monthly reports. We believe the increase in accuracy rates compared to the same period in Calendar Year 2002 can be directly attributed to these actions. For example, during January and February 2003, IRS employees correctly answered 27 percent more questions and referred 85 percent fewer taxpayers to publications than in January and February 2002.

In January 2003, we also began assessing whether IRS employees adhered to operating procedures to refer to the IRS toll-free telephone lines or Internet those taxpayer questions that were outside the scope of services that employees should have been trained to answer. In addition to scheduled visits, TIGTA auditors completed visits to 20 additional TACs. The auditors asked 44 "out of scope" questions and determined that employees did not follow referral procedures for 35 (80 percent) of these questions.

We also evaluated if TAC addresses and office hours provided to taxpayers via the Internet, toll-free telephone numbers, and automated telephone messages at the TACs matched the information posted at the TACs. Auditors observed the following:

- Office hours for 25 (68 percent) of the 37 TACs that had office hours posted on the Internet and the toll-free telephone numbers matched the hours posted at the TAC.
- Office hours for 20 (54 percent) of the 37 TACs that had office hours posted on the automated telephone messaging system matched the hours posted at the TAC.
- Addresses posted at 33 (89 percent) of 37 TACs matched the addresses listed on the Internet, toll-free telephone numbers, and automated telephone messages at the TACs.

The IRS informed us that the data available to taxpayers from the toll-free telephone numbers were the most reliable. Therefore, we used these data as a baseline to expand our analysis to determine if addresses and office hours provided to taxpayers from the IRS toll-free telephone numbers matched the addresses and office hours made available to taxpayers via the Internet and automated telephone messages at the TACs. The results were as follows:

- Addresses listed on the toll-free telephone numbers matched the addresses on the Internet and automated telephone messages for all 37 TACs.

- Office hours listed on the toll-free telephone numbers matched those on the Internet for 35 (95 percent) of 37 TACs.
- Office hours listed on the toll-free telephone numbers matched those on the automated messages at the TACs for 30 (81 percent) of 37 TACs.

Finally, auditors observed the following during visits to the TACs:

- IRS employees were professional and courteous to the TIGTA auditors in 72 (99 percent) of the 73 visits.
- Wait time for service was 1 hour or less for 70 (96 percent) of the 73 visits.

This report is to advise the IRS of the results of our review. Recommendations are not made to the IRS in the bi-monthly reports. However, we plan to issue a semiannual trend report during the third quarter of Fiscal Year 2003 that will include appropriate recommendations to help ensure taxpayers are provided accurate responses, or referred to employees who can provide accurate responses, to their tax law questions. Auditors will continue making visits to the TACs throughout Calendar Year 2003. We will also continue to issue bi-monthly reports on the results to the IRS and the Congress.

Management's Response: The IRS continues to disagree with our method of reporting referrals to publications and service denied when computing the accuracy rate, but the IRS continues to take steps for improvement. Management is committed to increasing the accuracy rates as much as possible and is continuing various efforts to do so. Specific actions include monitoring employee performance, assessing training needs, and making efforts to eliminate improper handling of out of scope questions. Management's complete response to the draft report is included as Appendix V.

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

**Progress Was Made to Provide Taxpayers With Correct Answers to Tax Law Questions,
but Improvements Are Needed to Ensure Referral Procedures Are Followed**

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Background

The Senate Committee on Appropriations was deeply concerned about the findings in a Treasury Inspector General for Tax Administration (TIGTA) audit report on the Internal Revenue Service's (IRS) Taxpayer Assistance Centers (TAC).¹ That report showed auditors did not receive accurate or sufficient answers to 73 percent of their tax law questions posed during anonymous visits to the TACs during January and February 2001. Based on the results of that review, Senator Byron Dorgan (Democrat-North Dakota), then Chairman of the Subcommittee on Treasury and General Government, proposed an amendment to the Treasury spending bill² for Fiscal Year (FY) 2002. The amendment requires the TIGTA to conduct visits to all TACs and report to the Congress as to whether taxpayers are provided correct and prompt answers to their questions. Auditors are conducting anonymous visits to all TACs over a 2-year period.

The IRS' Field Assistance (FA) office in the Wage and Investment (W&I) Division has overall responsibility for the TACs. The TACs exist primarily to serve taxpayers who choose to seek help from the IRS in person. The IRS employees³ who work in the TACs provide assistance in interpreting tax laws and regulations, preparing some tax returns, resolving inquiries on taxpayer accounts, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations.

There are currently no statistics on the percent of time spent by employees in the TACs on the services detailed above. The FA office is using FY 2002 as a baseline to establish standards and other management information in this area.

There are approximately 400 TACs located throughout the United States including Washington, D.C. According to the IRS, the TACs served approximately 2.8 million taxpayers

¹ *Letter Report: The Internal Revenue Service Continues to Give Incorrect Tax Law Information in Taxpayer Assistance Centers* (Reference Number 2001-40-077, dated May 2001).

² Treasury and General Government Appropriations Act, 2002, Pub. L. No. 107-67, 115 Stat. 514 (2001).

³ IRS employees who work in the TACs are called Tax Resolution Representatives.

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between July and December 2002.⁴ Approximately 500,000 of these taxpayers visited the TACs for assistance with the tax law.

In addition to the anonymous visits being performed by TIGTA auditors, the IRS FA Quality Review Staff began visiting TACs in October 2002 to anonymously ask tax law questions within the scope of services that TAC employees should have been trained to answer. The results of these reviews will provide each employee's manager specific feedback on the quality of service provided in the TAC. The IRS has established an accuracy goal of 80 percent for FY 2003. The IRS also plans to use the TIGTA's Calendar Year (CY) 2002 results as baseline figures to measure improvement during FY 2003.

The TIGTA questions related to 21 tax law topics that were within the scope of services. The TIGTA questions were designed to cover a wide range of tax law topics in order to provide an overall assessment of whether taxpayers are receiving correct answers to questions that an individual taxpayer⁵ might ask when he or she visits a TAC. In May 2003, auditors plan to change the scope of the questions or add additional scenarios that are more applicable to the types of questions taxpayers ask subsequent to the filing season.⁶

Beginning in January 2003, we also began evaluating if employees adhered to operating procedures⁷ to refer to the IRS toll-free telephone lines or Internet (R-mail system) those taxpayer questions that were outside the scope of services that employees should have been trained to answer.

This report is the seventh in a series of bi-monthly reports that the TIGTA is issuing on the results of the visits to the

⁴ These are the IRS' most current statistics available on the number of taxpayers that visited the TACs. We did not validate their accuracy.

⁵ Individual taxpayers are non-business taxpayers who file U.S. Individual Income Tax Returns (Forms 1040, 1040A, or 1040EZ).

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

⁷ FA guidelines clearly define the scope of employee expertise and specific services offered within the TACs. Taxpayers that ask questions outside the level of employee training should be referred.

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TACs, in response to the amendment to the Treasury spending bill. The review was performed in the IRS' Customer Assistance, Relationships, and Education office in the W&I Division in January and February 2003. TIGTA auditors anonymously visited 37 TACs in 11 states. Another 20 TACs in 9 states were visited as part of our referral assessment. (See Appendix IV for specific states visited.)

This review was conducted in accordance with *Government Auditing Standards*. However, we did not determine the cause and effect for the findings and will make no recommendations in the bi-monthly reports. We will issue a semiannual trend report during the third quarter of FY 2003 that will contain these elements. Detailed information on the objective, scope, and methodology of this review is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Taxpayers Received Correct Answers to More Tax Law Questions When Compared to the Same Period Last Year

During January and February 2003, IRS employees correctly answered 27 percent more questions and referred 85 percent fewer taxpayers to publications than in January and February 2002. We commend the IRS for the corrective actions that have been taken in response to our previously issued semiannual and bi-monthly reports. We believe the increase in accuracy rates compared to the same period in CY 2002 can be directly attributed to these actions. Specific results for the 145 tax law questions asked during January and February 2003 were as follows:

- Ninety-nine (68 percent) of the 145 questions were correctly answered. In 10 of the 99 questions, the IRS employee provided a correct answer without asking all of the required questions outlined in the tax law instructions and publications. For example, in 2 of the 10 questions auditors asked if they qualified to receive the Earned Income Tax Credit (EITC). However, in both instances the IRS employee did not ask the auditor if he or she or the qualifying child had a valid Social Security Number (SSN). In order to receive the EITC, taxpayers and the qualifying child must have a valid SSN.

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- Thirty-nine (27 percent) of the 145 questions were incorrectly answered. For example, the IRS employee stated that the auditor could claim the education credit. However, the employee did not ask the auditor how much income he or she earned in 2002. In order for the education credit to be allowed, the maximum amount of income that could be earned for a taxpayer filing head of household cannot exceed \$51,000.
- Six (4 percent) of the 145 questions resulted in the IRS employee referring the auditors to a publication and generally advising the auditors to do their own research to find the answer to the question. For example, the auditor asked if her husband had to pay taxes on a retirement plan distribution if he rolled it over to an Individual Retirement Arrangement. The IRS employee provided the instruction booklet and form but did not answer the auditor’s question.
- One (1 percent) of the 145 questions resulted in the IRS employee denying the auditor service. In this instance, the auditor asked if her parents qualified for the elderly credit. The IRS employee stated that no one was available to answer the question and that she should come back tomorrow.

The table below provides a breakdown of the accuracy of questions answered.

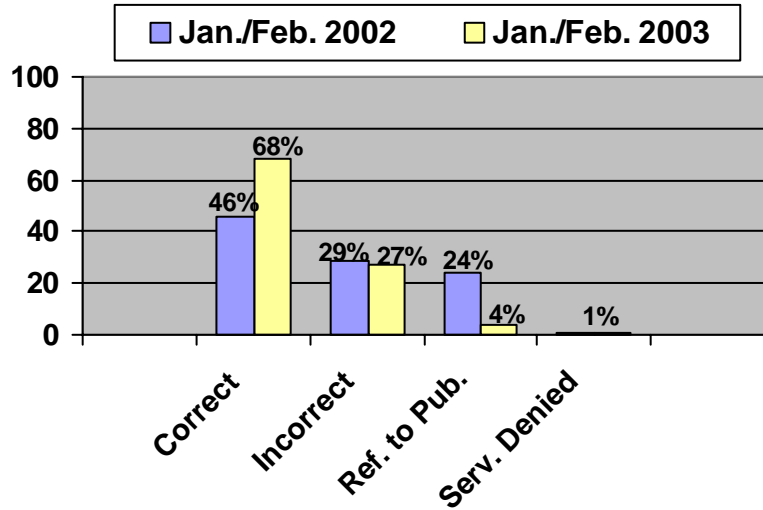
Tax Law Questions (145 questions asked)					
	Correct	Correct but Incomplete	Incorrect	Ref. to Pub.	Service Denied
Responses	89	10	39	6	1
Percentages	61%	7%	27%	4%	1%

Source: Anonymous visits performed by TIGTA auditors.

The chart below shows a comparison of CY 2002 to CY 2003 accuracy rates.

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Comparison of January and February 2002 and 2003 Bi-Monthly Accuracy Rates⁸



Source: TIGTA reviews conducted during January and February 2002 and 2003.

Taxpayers Received Answers to Tax Law Questions Employees Were Not Trained to Answer

In January 2003, we began our assessment of whether IRS employees adhered to operating guidelines that require the referral of tax law questions outside the scope of services they have been trained to answer. In addition to scheduled visits, TIGTA auditors completed visits to 20 additional TACs. The auditors asked 44 “out of scope” questions and determined that employees did not follow referral procedures in providing answers to 35 (80 percent) of the questions asked.

IRS operating guidelines require IRS employees that receive questions beyond their level of training to offer to call the IRS toll-free telephone lines on behalf of the taxpayer or to submit the question in writing to subject matter experts via the Internet (R-mail system).⁹ The table below provides a breakdown of IRS employees’ answers to tax law questions beyond their level of training.

⁸ The accuracy rates presented in the chart include correct and correct but incomplete responses.

⁹ Questions submitted to the IRS R-mail system will be assigned to a designated employee who will provide an answer to the question within 15 business days.

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Out of Scope Questions (44 questions asked)				
	Correctly Referred	Questions Answered (35)		
		Correct	Incorrect	Ref. to Pub.
Responses	9	15	6	14
Percentages	20%	43%	17%	40%

Source: Anonymous visits performed by TIGTA auditors.

Auditors Generally Had Positive Experiences When They Visited Taxpayer Assistance Centers

Auditors also assessed the quality of assistance provided by IRS employees, including whether they were professional and courteous, the wait time for service, and whether employees' names were given or visible. Auditors generally had positive experiences. The table below shows a breakdown of the quality of assistance results.

Quality of Assistance (37 TACs visited, 2 auditors per site)		
	Occurrences	Percent ¹⁰
Employee Professional/Courteous	72	99%
Wait time 0-15 minutes	53	73%
Wait time 16-30 minutes	12	16%
Wait time 31-45 minutes	4	5%
Wait time 46-60 minutes	1	1%
Wait time greater than 1 hour	3	4%
Employee Name Given or Visible	44	60%

Source: Anonymous visits performed by TIGTA auditors.

Taxpayer Assistance Center Office Hours and Addresses Made Available to Taxpayers Were Not Always Accurate

TIGTA auditors found that TAC addresses and office hours made available to taxpayers did not always match the information posted at the TAC. Taxpayers can access the IRS' Internet and follow the appropriate links to obtain the addresses and office hours of the TACs located in their state. Taxpayers that do not have access to the Internet may

¹⁰ The percentages in this table are based on 73 visits because at 1 TAC we completed only 1 visit. Percentages related to wait times do not add up to 100 due to rounding.

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call toll-free telephone numbers or the TACs' automated telephone messages to obtain this information.

In our first semiannual report, we made no recommendations that addressed TAC addresses and office hours because of the IRS' response to one of our bi-monthly reports.¹¹ However, we continued to identify concerns in this area and anticipate including recommendations in our second semiannual trend report to ensure TAC addresses and office hours made available to taxpayers are accurate.

Beginning in January 2003, we evaluated if TAC addresses and office hours provided to taxpayers via the Internet, toll-free telephone numbers, and TACs' automated telephone messages matched the information posted in the TACs. Auditors found the following.

Addresses¹² and office hours¹³ made available to taxpayers did not always match the addresses and office hours posted at the TAC

- Office hours for 25 (68 percent) of the 37 TACs with office hours posted on the Internet and the toll-free telephone numbers matched the hours posted at the TAC.
- Office hours for 20 (54 percent) of the 37 TACs listed on the automated telephone messaging system matched the hours posted at the TAC. For example, auditors called a TAC the morning of the visit, and the recording said the office was closed for training. However, the TAC was open.
- Addresses posted at 33 (89 percent) of 37 TACs matched the addresses listed on the Internet, toll-free telephone numbers, and TACs' automated telephone messages.

¹¹ *Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions* (Reference Number 2002-40-113, dated June 2002).

¹² For one TAC, a street address was not listed. The Internet listed only the intersecting streets where the TAC could be located. For the remaining TAC, the Internet did not list the building name.

¹³ Differences in office hours related to TAC filing season extended hours (i.e., Saturday and hours open beyond 4:30 PM) and lunch hours.

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The IRS informed us that the addresses and office hours provided to taxpayers that call the toll-free telephone numbers were the most reliable. As a result, we used these data as a baseline to expand our analysis to determine if addresses and office hours provided to taxpayers from the IRS toll-free telephone numbers matched those available via the Internet and the TACs’ automated telephone messages.

Addresses but not office hours provided to taxpayers that called the IRS’ toll-free telephone numbers matched the information posted on the Internet and the TACs’ automated telephone messages

The tables below show the results of our comparison of addresses and office hours made available to taxpayers that call the IRS toll-free telephone numbers to the information made available to taxpayers that access the Internet or call the TACs’ automated telephone messages.

Comparison of Accuracy of Information Provided via Toll-Free to Internet		
	Occurrences	Percent
Address Correct	37	100
Office Hours Correct	35	95

Source: Anonymous visits performed by TIGTA auditors.

Comparison of Accuracy of Information Provided via Toll-Free to TAC Automated Telephone Messages		
	Occurrences	Percent
Address Correct	37	100
Office Hours Correct	30	81

Source: Anonymous visits performed by TIGTA auditors.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of the review was to determine if the Internal Revenue Service (IRS) provides accurate and timely responses to taxpayers' tax law questions. In addition, Treasury Inspector General for Tax Administration auditors who made anonymous visits to the Taxpayer Assistance Centers (TAC) assessed whether IRS employees adhered to operating guidelines on referral procedures and were professional and courteous, and whether the TAC addresses and office hours made available to taxpayers were accurate. We did not determine the cause and effect for the findings, so we are making no recommendations in the bi-monthly reports.

To achieve this objective, auditors performed the following tests:

- I. Determined if the IRS provided quality service and accurate responses to tax law inquiries at the 37 TACs visited. Auditors asked 145 tax law questions that an individual taxpayer¹ might ask. Auditors developed questions based on the training provided to Tax Resolution Representatives (TRR) during the fall of 2001 and the scope of services for tax law assistance prescribed in the Fiscal Year 2002 Field Assistance (FA) Operating Procedures.
- II. Determined if TRRs followed FA Operating Procedures to refer questions that were outside the scope of services they should have been trained to answer. In addition to scheduled visits, auditors completed visits to 20 additional TACs and asked 44 questions that were beyond the TRRs' level of training.
- III. Determined the quality of service provided by the TRRs.

¹ Individual taxpayers are non-business taxpayers who file United States Individual Income Tax Returns (Forms 1040, 1040A, or 1040EZ).

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Appendix II

Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)
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Russell Martin, Audit Manager
Tanya Boone, Senior Auditor
Pamela DeSimone, Senior Auditor
Deborah Drain, Senior Auditor
Robert Howes, Senior Auditor
Edith Lemire, Senior Auditor
Steven Stephens, Senior Auditor
Grace Terranova, Senior Auditor
Robert Baker, Auditor
Roberta Fuller, Auditor
Andrea Hayes, Auditor
Kathy Henderson, Auditor
Mary Keyes, Auditor

**Progress Was Made to Provide Taxpayers With Correct Answers to Tax Law Questions,
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Appendix III

Report Distribution List

Commissioner N:C

Deputy Commissioner N:DC

Director, Customer Assistance, Relationships, and Education W:CAR

Director, Strategy and Finance W:S

Director, Field Assistance W:CAR:FA

Chief Counsel CC

National Taxpayer Advocate TA

Director, Legislative Affairs CL:LA

Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O

Office of Management Controls N:CFO:AR:M

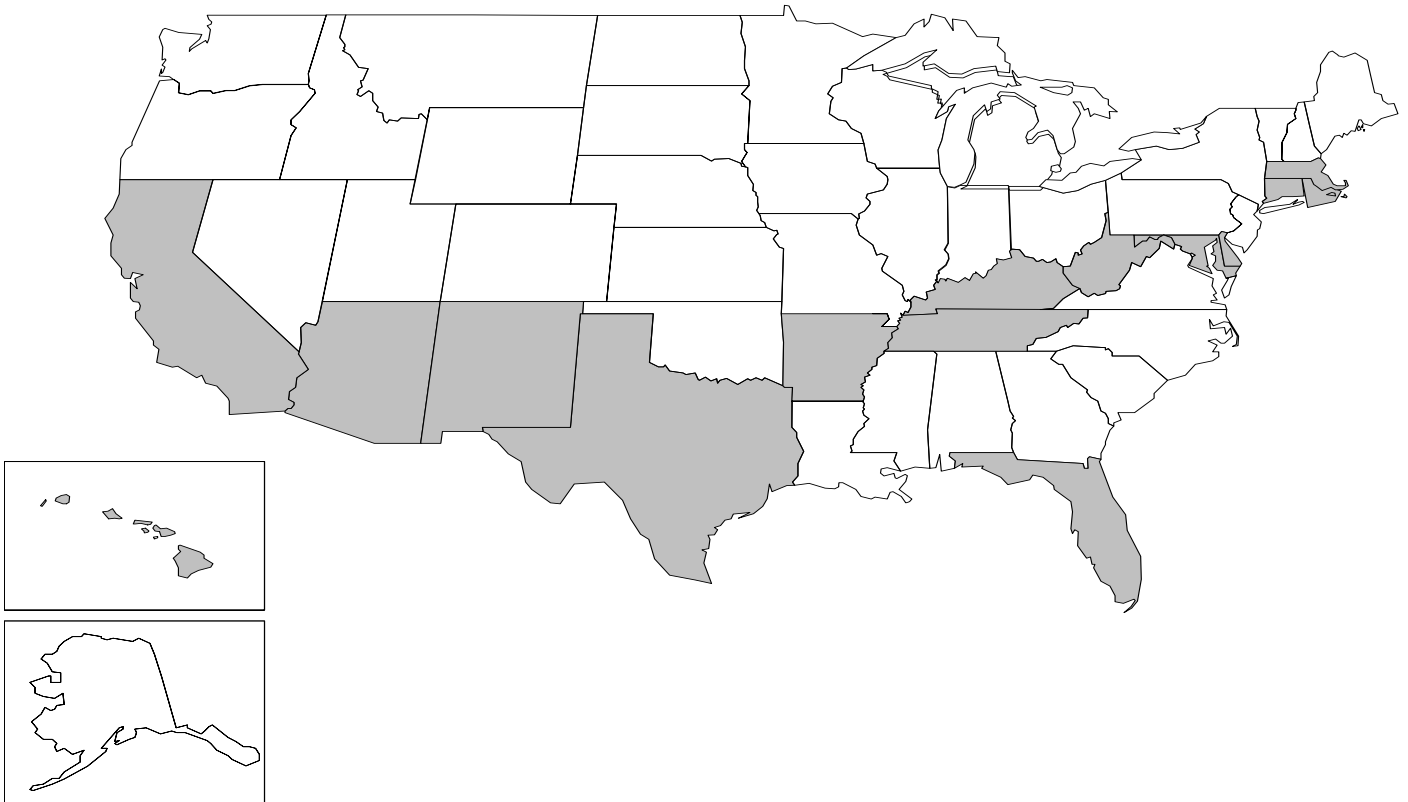
Audit Liaison

Program/Process Assistant Coordinator, Wage and Investment Division W:HR

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Appendix IV

States Visited During January and February 2003



The 11 states visited where auditors asked questions within the scope of services include: Arkansas, California, Delaware, Florida, Hawaii, Kentucky, Maryland, Massachusetts, New Mexico, Texas, and West Virginia.

The nine states visited where auditors asked questions outside the scope of services include: Arizona, Connecticut, Florida, Hawaii, Kentucky, Maryland, Massachusetts, Rhode Island, and Tennessee.

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Appendix V

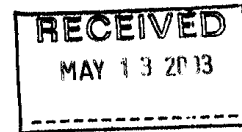
Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

MAY - 9 2003



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Report – Progress Was Made to Provide Taxpayers
With Correct Answers to Tax Law Questions, but
Improvements Are Needed to Ensure Referral
Procedures Are Followed (Audit # 200340015)

I reviewed your draft report for January and February. The report indicates an improvement in our accuracy rate of responses to tax law questions in the Taxpayer Assistance Centers (TAC). I appreciate your recognition of the actions we have taken in response to your previous semiannual and bimonthly reports. We are continuing to take steps to improve quality and accuracy in our TACs.

I continue to disagree with including referrals to publications and service denied when computing the accuracy rate. When recomputed to reflect only answers to tax law questions that were technically correct or incorrect, our accuracy rates are 70 percent for January and 73 percent for February. Our cumulative rate for the first 5 months of fiscal year 2003 is 72 percent.

Steps underway to improve TAC operations include:

Training and Feedback

- Monitor employee performance: TAC managers are monitoring 12 tax law counter contacts for each technical employee during the year. At least six of the contacts will be monitored during the filing season.
- Training Assessment Battery (TAB): TAB will be administered to all employees and managers to identify skill levels and training needs. The TAB includes four modules that align directly with the four-stage training curriculum for Tax Resolution Representatives.

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- Employee Certification process: We have completed the first round of employee certifications. The certification process requires employees to correctly answer three questions on four tax law topics (social security benefits, education credit, earned income tax credit, and dependents). Employees will only be allowed to answer taxpayers' questions on topics for which they have been certified.

Improper Handling of Out of Scope Issues

We are working to eliminate improper responses to taxpayer questions that are outside the scope of services that our employees have been trained to answer. Based on the results of your referral assessment, we:

- Shared the TIGTA results regarding out of scope issues with all TAC employees. Moreover, Field Assistance Areas were required to respond to the TIGTA finding by indicating the action taken by management to engage employees and address the improper handling of out of scope issues.
- Instructed Headquarters Quality Assurance Reviewers and Field Management to include out of scope issues in their monthly reviews of the TACs.
- Advised TAC employees that the improper handling of out of scope issues would be considered a conduct issue.

Updating Office Hours

Field Assistance addressed problems related to updating hours of operation on the *Digital Daily*. We will automatically update all systems when a change in office hours occurs.

If you have any questions or need additional information about this response, please contact Jerry Heschel, Director, Field Assistance, W&I Customer Assistance, Relationships, and Education, at (404) 338-7141.