

**Taxpayers That Visited Taxpayer Assistance
Centers in November and December 2002
Received Incorrect Answers to
Some Tax Law Questions**

March 2003

Reference Number: 2003-40-072

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

March 6, 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 - Taxpayers That Visited Taxpayer Assistance Centers in November and December 2002 Received Incorrect Answers to Some Tax Law Questions (Audit # 200340014)

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 were professional and courteous and if the correct office hours were posted in the TACs.

This review was conducted as a result of an amendment to the Treasury spending bill¹ for Fiscal Year (FY) 2002 proposed by Senator Byron Dorgan (Democrat-North Dakota), 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. The TIGTA is conducting anonymous visits to all TACs over a 2-year period. This is the sixth in a series of bi-monthly reports that the TIGTA is issuing in response to the amendment to the Treasury spending bill.

During November and December 2002, TIGTA auditors made 50 anonymous visits to 25 TACs. The auditors asked 100 tax law questions and determined that IRS employees provided incorrect answers to some tax law questions. For example, IRS employees:

- Correctly answered 54 (54 percent) of 100 questions.
- Incorrectly answered 27 (27 percent) of 100 questions.

¹ Treasury and General Government Appropriations Act, 2002, Pub. L. No. 107-67, 115 Stat. 514 (2001).

- Referred the auditor to IRS publications and generally advised the auditor to do his or her own research to find the answer to 18 (18 percent) of 100 questions.
- Offered to prepare a written referral for 1 (1 percent) of 100 questions.

In addition, auditors observed the following during visits to the TACs:

- Office hours for 12 (48 percent) of the 25 TACs that had office hours posted on the Internet were the same as the hours posted at the TAC.
- The addresses posted at 24 (96 percent) of 25 TACs matched the addresses listed on the Internet.
- IRS employees were professional and courteous to the TIGTA auditors in 50 (100 percent) of the 50 visits.
- Wait time for service was 1 hour or less for 48 (96 percent) of the 50 visits.

This report is to advise IRS management of the results of our review. Formal recommendations are not made to the IRS in the bi-monthly reports. However, the TIGTA plans to issue a second semiannual trend report during the third quarter of FY 2003 that will include appropriate recommendations to help ensure taxpayers are provided accurate responses to their tax law questions. Auditors will continue making visits to the TACs throughout Calendar Year 2003. The TIGTA 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 agrees that the IRS has significant room 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 anonymous managerial visits, error trend reports, and employee counseling. 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.

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Taxpayers That Visited Taxpayer Assistance Centers in November and December 2002 Received Incorrect Answers to Some Tax Law Questions

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), 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 on 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 (U.S.) including Washington, D.C. According to the IRS, the TACs served approximately 2.8 million

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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taxpayers 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 hired an outside contractor to anonymously visit its TACs and conduct tax law accuracy visits during FY 2002. However, in May 2002, the IRS decided to terminate the contract because of concerns identified by TIGTA auditors with the method of reporting results. This action left the IRS without reliable data to measure the quality of assistance provided in its TACs.

In October 2002, the FA Quality Review Staff began visiting TACs 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 plans to use the TIGTA's Calendar Year (CY) 2002 results as baseline figures to measure improvement during FY 2003.

The TIGTA questions relate to 22 tax law topics that are 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 2002, auditors changed the scope of the questions or added additional scenarios that were more applicable to the types of questions taxpayers ask subsequent to the filing season.⁶

This report is the sixth in a series of bi-monthly reports that the TIGTA is issuing on the results of the visits to the TACs, in response to the amendment to the Treasury spending bill. The review was performed at the IRS'

⁴ We did not validate the accuracy of the statistics provided by the IRS on the number of taxpayers that visited the TACs.

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

⁶ In general, the IRS defines the filing season as the first half of each calendar year when individuals file their tax returns.

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Customer Assistance, Relationships, and Education office in the W&I Division during the period November through December 2002. TIGTA auditors anonymously visited 25 TACs in 6 states (see Appendix IV for 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 not make formal recommendations in the bi-monthly reports. We plan to issue a semiannual trend report during the third quarter of FY 2003 that will contain these elements. Detailed information on our objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Taxpayers Received Incorrect Answers to Some Tax Law Questions

From January through June 2002, the TIGTA auditors received incorrect answers to 126 (27 percent) of the 470 questions that were asked. The IRS has taken actions to improve the quality of service in the TACs based on detailed results of our monthly visits and the results reported in the semiannual trend⁷ and previous bi-monthly reviews.

However, the November and December 2002 results indicate that taxpayers that visited TACs continued to receive incorrect answers to some tax law questions. The TIGTA auditors made 50 anonymous visits to 25 TACs and asked 100 tax law questions during November and December 2002. The results were as follows:

- Fifty-four (54 percent) of the 100 questions were correctly answered. In 14 of the 54 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, the IRS employee told the auditor he could file a joint return for himself and his deceased spouse. However, the IRS employee did not ask the auditor's marital status on the last day of the year. In order to file a joint return with

⁷ *Final Report: Trends in Customer Service in the Taxpayer Assistance Centers Show Procedural and Training Causes for Inaccurate Answers to Tax Law Questions* (Reference Number 2003-40-023, dated November 2002).

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the deceased spouse, the living spouse must not have remarried before the end of the year.

- Twenty-seven (27 percent) of the 100 questions were incorrectly answered. For example, the IRS employee stated that the taxpayer could claim a niece and her son as dependents. However, the son could not be claimed as a dependent because he did not meet the residency test of staying in the home for the entire year. The IRS employee did not ask how long the niece and her son lived in the home.
- Eighteen (18 percent) of the 100 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.
- One (1 percent) of the 100 questions resulted in the IRS employee offering the auditor a written referral. IRS employees may submit in writing to subject matter experts those questions that are outside their scope of services or level of training. For example, the auditor asked if his nephew qualified him for the Earned Income Tax Credit (EITC). The IRS employee stated that the EITC was a complicated area, and he needed to obtain the publication specifically related to the EITC that was not available. The employee obtained the 2001 Tax Guide for Individuals but could not find the section related to the EITC. Since the IRS informed us that all employees have been trained to answer questions in basic tax law topics such as the EITC and the answer to this question could be found in this publication, the IRS employee should have provided an answer instead of offering to prepare a written referral.

IRS employees used the Publication Method but did not provide an answer to taxpayer questions

During the fall of 2002, IRS employees were trained to use the Publication Method when assisting taxpayers. This method requires IRS employees to obtain the appropriate publication, discuss specific information related to the topic, ask appropriate questions to obtain facts when assisting taxpayers, and respond to the

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taxpayer’s issue or question. On 7 of the 18 occasions, IRS employees used the Publication Method when assisting TIGTA auditors but did not provide an answer to the question. For example, a TIGTA auditor asked where on the tax return she could deduct tuition used to obtain a Master’s degree. The IRS employee obtained the appropriate publication and discussed the section related to the question. However, the IRS employee did not answer the auditor’s question.

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

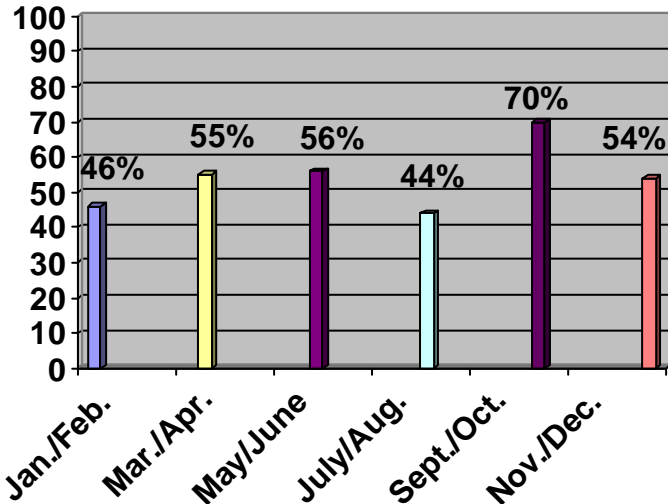
Tax Law Questions (100 questions asked)						
	Correct	Correct but Incomplete	Incorrect	Ref. to Pub.	Service Denied	Written Referral
Responses	40	14	27	18	---	1
Percentages	40%	14%	27%	18%	---	1%

Source: Anonymous visits performed by TIGTA auditors.

The following chart shows the bi-monthly accuracy rates for CY 2002.

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**Bi-Monthly Accuracy Rates to TIGTA Questions
January through December 2002⁸**



Source: TIGTA reviews conducted during January - December 2002.

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 (25 TACs visited, 2 auditors per site)		
	Occurrences	Percent
Employee Professional/Courteous	50	100
Wait Time for Service Less Than 1 Hour	48	96
Employee Name Given or Visible⁹	26	52

Source: Anonymous visits performed by TIGTA auditors.

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

⁹ One employee refused to provide his or her name when asked.

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Taxpayer Assistance Center Office Hours and Addresses Did Not Always Match Information on the Internet

Taxpayers can access the IRS' Internet and follow the appropriate links to obtain the address and office hours of the TACs located in their state. During visits, TIGTA auditors determined if the TAC address and office hours obtained from the Internet matched the information at the TAC. Auditors found the following:

- Office hours and addresses for all 25 TACs were listed on the Internet.
- Office hours for 12 (48 percent) of the 25 TACs that had office hours posted on the Internet were the same as the hours posted at the TAC. However, office hours for the other 13 (52 percent) TACs were not the same as the hours posted at the TAC. For example, auditors arrived at 1 TAC and had to wait 45 minutes for the TAC to open because a note posted on the door stated the office was closed for lunch. The Internet did not show the TAC would be closed for lunch.
- The addresses posted at 24 (96 percent) of 25 TACs matched the addresses listed on the Internet.

In our first semiannual trend report, we did not make any formal recommendations regarding TAC addresses and office hours because of the IRS' response to one of our prior bi-monthly reports.¹⁰ However, we have continued to identify concerns in this area and anticipate including recommendations in our second semiannual trend report to ensure taxpayers do not experience difficulties visiting TACs during office hours.

¹⁰ *Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions* (Reference Number 2002-40-113, dated June 2002).

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Appendix I

Detailed Objectives, 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 were professional and courteous and if the correct office hours were posted in the TACs. We did not determine the cause and effect for the findings and will not make formal recommendations in the bi-monthly reports.

To achieve these objectives, auditors performed the following tests:

- I. Determined if the IRS provided quality service and accurate responses to tax law inquiries at the 25 TACs visited. Auditors asked 100 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 Operating Procedures.
- II. 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)

Kerry Kilpatrick, Director

Deborah Glover, Audit Manager

Russell Martin, Audit Manager

Tanya Boone, Senior Auditor

Pamela DeSimone, Senior Auditor

Deborah Drain, Senior Auditor

Carola Gaylord, Senior Auditor

Robert Howes, Senior Auditor

Frank Jones, Senior Auditor

Eddie Lemire, Senior Auditor

Steven Stephens, Senior Auditor

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Andrea Hayes, Auditor

Kathy Henderson, Auditor

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Appendix III

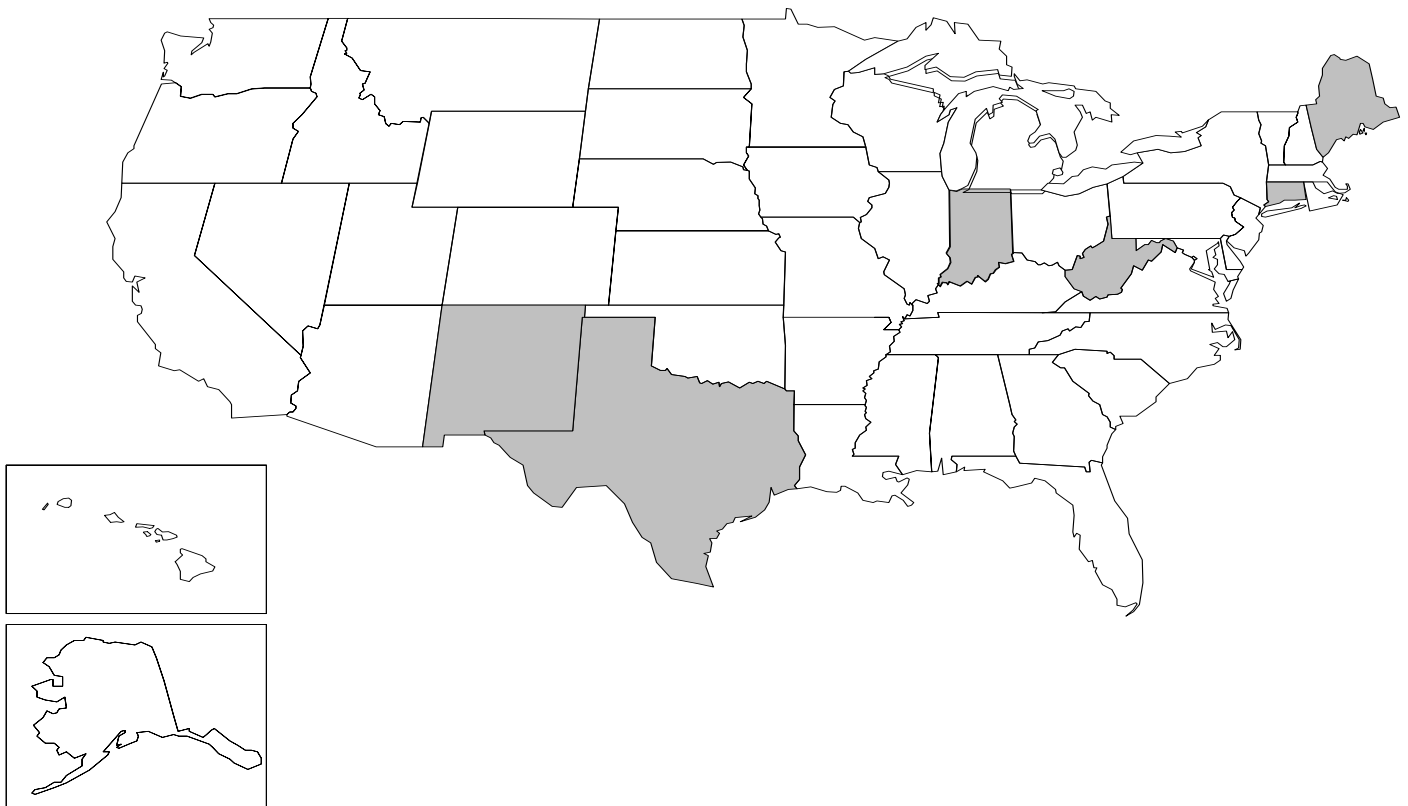
Report Distribution List

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

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Appendix IV

States Visited During November and December 2002



The six states visited include: Connecticut, Indiana, Maine, New Mexico, Texas, and West Virginia.

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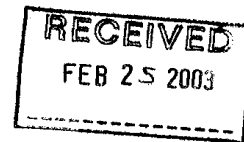
Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

February 25, 2003



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Report – Taxpayers that Visited Taxpayer Assistance Centers in November and December 2002 Received Incorrect Answers to Some Tax Law Questions (Audit # 200340014)

I appreciate your feedback on the results of November and December visits to Taxpayer Assistance Centers (TAC) and want to update you on additional efforts we are taking to increase the accuracy rate of responses to tax law questions. I reported on some initiatives in prior responses; however, refinements to our efforts make them noteworthy again.

As I noted previously, I 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, the accuracy rates are 59 percent for November and 80 percent for December. Our cumulative rate for November and December is 67 percent instead of the 54 percent you reported.

Of course we recognize that, even using what we believe are the correct figures, the IRS has significant room for improvement. In fact, we are committed to increasing our accuracy rates as much as possible.

Additional efforts Field Assistance initiated to improve tax law accuracy are:

- Anonymous managerial visits: The sample plan requires 30 anonymous visits monthly per area. Results of the visits are provided to the employee's manager within one business day.
- Error trend reports: Issued by Headquarters Quality Assurance when we identify errors.

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- Employee counseling: Provided when we identify an improper referral to a publication. We follow up with education and role-playing to demonstrate proper use of the publication method.
- Monthly comparison of TIGTA results to the results of managerial visits: Every level of Area management is actively involved in analyzing data, identifying causes, and reporting on actions taken to modify employee behavior.
- Directed learning: Field Assistance collaborated with Learning and Education to develop 20 minute self-study modules on each tax law topic within the scope of services. We are loading the modules onto the Learning Management System, which will track learning progress.
- Managerial certification process: Each employee must successfully answer three questions on each required topic before responding to taxpayer questions on that topic. We will begin this process in March 2003 for tax law topics within the scope of services for TACs. The projected completion date is October 2003.
- Peer reviews: We designed the reviews, in part, to ensure processes are in place and procedures are followed to monitor and improve tax law accuracy. A team consisting of Field Assistance Territory Managers and Headquarters personnel conducts the reviews. The team reviews actions taken by the local TACs to address and correct issues related to tax law accuracy.
- Interim Internal Revenue Manual (IRM): We issued an interim IRM that includes new procedures to address TIGTA and our in-house tax law accuracy results. The procedures outline actions that should be taken by Field Assistance Headquarters, Area, Territory, and Group Managers over a four-day period after receiving in-house and TIGTA accuracy results. We designed these procedures to facilitate the improvement of the quality of responses to tax law questions to an average accuracy rate of 80 percent or greater.

Updating office hours

Our Field Assistance office addressed problems related to updating hours of operation on the IRS Internet Site (*irs.gov*). We will automatically update all systems as needed to change office hours.

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.