

**Taxpayer Assistance Center Employees
Correctly Answered More Tax Law Questions
During November and December 2003 Than
Compared to One Year Ago**

April 2004

Reference Number: 2004-40-090

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

April 2, 2004

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 - Taxpayer Assistance Center Employees
Correctly Answered More Tax Law Questions During November
and December 2003 Than Compared to One Year Ago
(Audit # 200440029)

This report presents the results of our review of Internal Revenue Service (IRS) responses to taxpayers' tax law questions. The overall objective of this review was to determine if the IRS provides accurate and timely responses to taxpayers' tax law questions. In addition, Treasury Inspector General for Tax Administration (TIGTA) auditors that 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 (FY) 2002 proposed by Senator Byron Dorgan (Democrat - North Dakota), then Chairman of the Subcommittee on Treasury and General Government. The amendment requires us 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 12th in a series of bi-monthly reports that we are issuing in response to the amendment to the Treasury spending bill.

¹ Field Assistance office 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 lines or have their questions submitted via the Internet (called "R-mail") for assistance.

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

During November and December 2003, TIGTA auditors made 69 anonymous visits to 36 TACs. The auditors asked 138 tax law questions and determined that IRS employees provided incorrect answers to some of them. For example, IRS employees:³

- Correctly answered 98 (71 percent) of 138 questions.
- Incorrectly answered 24 (17 percent) of 138 questions.
- Referred the auditor to IRS publications and generally advised the auditor to do his or her own research to find the answer to 2 (1 percent) of 138 questions.
- Denied service⁴ to the auditor for 7 (5 percent) of 138 questions.
- Correctly offered to prepare a written referral or call the IRS toll-free telephone line⁵ for 7 (5 percent) of 138 questions.

We commend the IRS for the corrective actions it has taken in response to our previously issued semiannual and bi-monthly reports. We believe the increase in accuracy rates as compared to those in the same period in Calendar Year 2002 can be directly attributed to these actions. For example, during November and December 2002, IRS employees correctly answered 54 percent and referred 18 percent of questions to publications, compared to correctly answering 71 percent and referring only 1 percent to publications during November and December 2003.

In January 2003, we 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, our auditors completed visits to five other TACs. The auditors asked 20 "out of scope" questions and determined that employees did not follow referral procedures for 5 (25 percent) of these questions.

Auditors also observed that improvement had been made in providing accurate addresses and office hours to taxpayers, IRS employees were professional and courteous to the TIGTA auditors in 64 (97 percent) of the 66⁶ visits, and wait time for service was 1 hour or less for 65 (98 percent) of the 66 visits.

This report is to advise IRS management of the results of our review. We do not make recommendations to the IRS in the bi-monthly reports. However, we will issue a trend report during FY 2004 that will include appropriate recommendations to help ensure taxpayers are referred to employees that can provide accurate responses to their tax

³ Percentages do not total 100 due to rounding.

⁴ One auditor asked one question within the scope of services for which the IRS employee did not provide an answer, offer to prepare a written referral, or refer the auditor to another IRS employee or the toll-free telephone lines to obtain an answer to the question. Also, when one auditor tried to visit the Lima, Ohio, TAC and two auditors tried to visit the Lake Havasu, Arizona, TAC, both TACs were closed. Therefore, we counted those seven questions as service denied, i.e., (1 auditor x 1 question per auditor) + (3 auditors x 2 questions per auditor).

⁵ No answer was provided, but in each instance the IRS employee offered to refer the auditor to the IRS toll-free tax law telephone number to obtain an answer to the question or prepare an electronic or written referral.

⁶ Percentage based on 66 instead of 69 visits because 3 TACs were closed when auditors visited them.

law questions. Auditors will continue making visits to the TACs during the 2004 Filing Season.⁷

IRS management reviewed the draft report and provided their concurrence with its contents via email. Since no formal response was required, the IRS has agreed that the report will be issued without one.

Copies of this report are also being sent to the IRS managers 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.

⁷ The period from January through mid-April when most individual income tax returns are filed.

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Taxpayer Assistance Center Employees Correctly Answered More Tax Law Questions During November and December 2003 Than Compared to One Year Ago

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 our 2001 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 us to conduct visits to all the 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 the 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 that choose to seek help from the IRS in person. IRS employees that 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 approximately 400 TACs located throughout the United States (U.S.), including Washington, D.C. According to the IRS, the TACs served approximately 8.4 million taxpayers between January and December 2003.³ Approximately 1.7 million of these taxpayers visited the TACs for assistance with the tax law.

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

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In addition to the anonymous visits being performed by TIGTA auditors, the IRS FA Quality Review Staff began visiting the 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. Examples of additional actions taken by the FA office to improve accuracy include:

- Certifying employee readiness.
- Requiring Area Offices to take actions to address employees answering out of scope questions.
- Conducting weekly monitoring of office hours on its Internet and Intranet sites to ensure accuracy.

The IRS established an accuracy goal of 80 percent for FY 2003. However, the actual accuracy rate was 69 percent. The IRS used our Calendar Year (CY) 2002 results as baseline figures to measure improvement during FY 2003. (See Appendix V for overall accuracy rates from January 2002 through December 2003 and Appendix VI for accuracy rates by month.)

Our questions relate to 21 tax law topics that are within the scope of services that employees should have been trained to answer. The questions were designed to cover a wide range of tax law topics to provide an overall assessment of whether taxpayers are receiving correct answers to questions that an individual taxpayer⁴ might ask when he or she visits a TAC. In May 2003, auditors changed the scope of the questions or added additional scenarios that are more applicable to the types of questions taxpayers ask subsequent to the filing season.⁵

Beginning in January 2003, we also began evaluating whether employees adhered to operating procedures to refer to the IRS toll-free telephone lines or Internet (R-mail) those taxpayer questions that were outside the scope of services

⁴ Individual taxpayers are nonbusiness taxpayers who file U.S. Individual Income Tax Returns (Form 1040, 1040A, or 1040EZ).

⁵ The period from January through mid-April when most individual income tax returns are filed.

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that employees should have been trained to answer. FA office guidelines clearly define the scope of employee expertise (tax law topics for which employees receive training) and specific services offered within the TACs. Taxpayers that ask questions outside the level of employee training should be referred to the IRS toll-free telephone lines or have their questions submitted via the Internet for assistance.

This report is the 12th in a series of bi-monthly reports we are issuing on the results of the visits to the TACs. (See Appendix VII for a comparison of bi-monthly accuracy rates from January 2002 through December 2003.) The review was performed in the IRS Customer Assistance, Relationships, and Education office in the W&I Division during November and December 2003. TIGTA auditors anonymously visited 36 TACs in 8 states. Another five TACs in three states and the District of Columbia 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 trend report during FY 2004, incorporating the results from our 12 CY 2002 and 2003 bi-monthly reports and the results of our FY 2004 audits, that will include appropriate recommendations to help ensure taxpayers are referred to employees that can provide accurate responses to their tax law questions.

Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

During November and December 2003, IRS employees correctly answered 71 percent and referred only 1 percent of questions to publications, compared to correctly answering 54 percent and referring 18 percent to publications during November and December 2002. We commend the IRS for the corrective actions it has taken in response to our previous semiannual and bi-monthly reports. We believe the increase in accuracy rates as compared to those in the

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

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same period in CY 2002 can be directly attributed to these actions.

Our auditors made 69 anonymous visits to 36 TACs and asked 138 tax law questions during November and December 2003. The results were as follows:⁶

- Ninety-eight (71 percent) of the 138 questions were correctly answered. However, the IRS employees provided correct answers to 10 of the 98 questions without asking all of the required questions outlined in the tax law instructions and publications. For example, for 2 of the 10 questions, the IRS employees stated that the auditor's Social Security income was not taxable. However, the employees did not ask if the auditor had a child and how much of the income went to the child. A taxpayer may receive an incorrect answer if the IRS employee assumes the taxpayer received all the Social Security income.
- Twenty-four (17 percent) of the 138 questions were incorrectly answered. For example, for three questions, the IRS employees incorrectly advised auditors that they would have to pay taxes on the interest from their insurance dividends. The correct answer to the scenario presented by the auditors was the interest on insurance dividends left on deposit with an insurance company is taxable to you in the year it is credited to your account. However, if you can withdraw it only on the anniversary date of the policy, the interest is taxable in the year that date occurs.
- Two (1 percent) of the 138 questions resulted in the IRS employees referring the auditors to publications and generally advising the auditors to do their own research to find the answers to the questions. For example, an auditor asked if his or her parent had to pay taxes on the Social Security benefits. The IRS employee did not provide an answer but referred the auditor to a publication. The employee told the auditor to fill out the worksheet.

⁶ Percentages do not total 100 due to rounding.

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- Seven (5 percent) of the 138 questions resulted in the auditors being denied service.⁷ For example, an auditor wanted to know if Social Security income was taxable. The IRS employee stated that this could not be answered without verifying the auditor's income as recorded on the IRS' management information system. The IRS employee did not ask additional probing questions even though the auditor stated the amount of the income and was prepared to answer all the possible questions outlined in the IRS publications and instructions.

According to IRS guidelines, employees should use publications and instructions as tools when assisting taxpayers with tax law questions. By not using available resources to ask all required questions, IRS employees in the above examples made assumptions and provided answers without considering relevant facts to ensure the answers given were correct.

- Seven (5 percent) of the 138 questions resulted in the IRS employees correctly offering to refer the auditors to the IRS toll-free tax law telephone number or prepare an electronic or written referral.⁸ For example, an auditor asked if he and his spouse could claim the gain from the sale of both of their homes since they married and purchased a home together. The IRS employee asked probing questions but stated he or she was not sure about the answer. Therefore, the IRS employee correctly offered to call the toll-free tax law telephone number.

Table 1 provides a breakdown of the accuracy of the answers to our questions.

⁷ One auditor asked one question within the scope of services for which the IRS employee did not provide an answer, offer to prepare a written referral, or refer the auditor to another IRS employee or the toll-free telephone lines to obtain the answers to the question. Also, when one auditor tried to visit the Lima, Ohio, TAC and two auditors tried to visit the Lake Havasu, Arizona, TAC, both TACs were closed. Therefore, we counted the seven questions as service denied, i.e., (1 auditor x 1 question per auditor) + (3 auditors x 2 questions per auditor).

⁸ No answer was provided, but in each instance the IRS employee offered to refer the auditor to the IRS toll-free tax law telephone number to obtain an answer to the question or prepare an electronic or written referral.

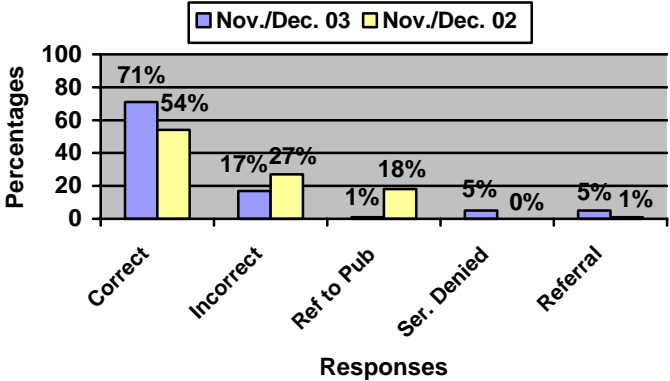
Taxpayer Assistance Center Employees Correctly Answered More Tax Law Questions During November and December 2003 Than Compared to One Year Ago

| Table 1: Tax Law Questions (138 questions asked) | | | | | | |
|---|---------|------------------------|-----------|--------------|----------------|----------------------------|
| | Correct | Correct but Incomplete | Incorrect | Ref. to Pub. | Service Denied | Correct Toll-Free Referral |
| Responses | 88 | 10 | 24 | 2 | 7 | 7 |
| Percentages⁹ | 64% | 7% | 17% | 1% | 5% | 5% |

Source: Anonymous visits performed by TIGTA auditors.

Chart 1 shows a comparison of CY 2002 to CY 2003 accuracy rates.

Chart 1: Comparison of November and December 2002 and 2003 Bi-Monthly Accuracy Rates¹⁰



Source: TIGTA reviews conducted during November and December 2002 and 2003.

Taxpayers Received Answers to Some 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 in November and December 2003, TIGTA auditors completed visits to five additional TACs. The auditors asked 20 “out of scope” questions and determined that employees did not follow referral procedures in providing answers to 5 (25 percent) of the questions asked.

IRS operating guidelines require IRS employees that receive a question beyond their level of training to offer to call the

⁹ Percentages do not total 100 due to rounding.

¹⁰ The “Correct” rates presented in the chart include “Correct” and “Correct but Incomplete” responses.

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correct IRS toll-free telephone line on behalf of the taxpayer or to submit the question in writing to a subject-matter expert(s) via the Internet (R-mail).¹¹ Table 2 provides a breakdown of IRS employees' answers to tax law questions beyond their level of training.

| Table 2: Out of Scope Questions (20 questions asked) | | | | |
|---|--------------------|--------------------------------------|-----------|--------------|
| | Correctly Referred | Questions Answered (5) ¹² | | |
| | | Correct | Incorrect | Ref. to Pub. |
| Responses | 15 | 3 | 2 | 0 |
| Percentages | 75% | 60% | 40% | 0% |

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 the employees were professional and courteous, the wait time for service, and whether employees' names were given or visible. Auditors generally had positive experiences. Table 3 shows a breakdown of the quality of assistance results.

¹¹ Each question 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.

¹² The IRS employee should have referred the out of scope question to the toll-free telephone lines or R-mail, but instead the IRS employee answered the question.

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| Table 3: Quality of Assistance (36 TACs visited, 2 auditors per site) | | |
|--|-------------|---------------------------|
| | Occurrences | Percentages ¹³ |
| Employee Professional/Courteous | 64 | 97% |
| Wait Time 0-15 Minutes | 48 | 73% |
| Wait Time 16-30 Minutes | 9 | 14% |
| Wait Time 31-45 Minutes | 7 | 11% |
| Wait Time 46-60 Minutes | 1 | 2% |
| Wait Time Greater Than 1 Hour | 1 | 2% |
| Employee Name Given or Visible | 46 | 70% |

Source: Anonymous visits performed by TIGTA auditors.

Improvements Were Made to Provide Accurate Taxpayer Assistance Center Office Hours and Addresses to Taxpayers

TIGTA auditors found that improvements were made to ensure TAC addresses and office hours made available to taxpayers matched the information posted at the TACs. Taxpayers can access the IRS Internet web site 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 call the IRS toll-free telephone numbers or automated telephone messaging system to obtain this information.

In our first semiannual report, we made no recommendations pertaining to TAC addresses and office hours because of the IRS' response to one of our bi-monthly reports.¹⁴ However, while progress was made, we continued to identify concerns in this area from July through December 2002. Specifically, 2 percent of TAC addresses and 43 percent of TAC office hours posted at the TACs did not match those on the Internet. As a result, our second semiannual trend report included a recommendation to ensure TAC addresses and office hours made available to

¹³ Percentage is based on 66 visits instead of 72 because only 1 auditor made a visit to the Hobbs, New Mexico; Harlem, New York; and Lubbock, Texas, TACs. Also, when 1 auditor tried to visit the Lima, Ohio, TAC and 2 auditors tried to visit the Lake Havasu, Arizona, TAC, they were closed. (36 TACs x 2 auditors less 6 visits = 66 visits.) Wait time percentages do not total 100 due to rounding.

¹⁴ *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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taxpayers are accurate. In response, the FA office issued guidance that required managers to certify the accuracy of addresses and office hours on the various systems. The FA office also provided employee training on how to update addresses and office hours and began monitoring to ensure the accuracy of information made available to taxpayers.

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

Improvement has been made to ensure addresses and office hours made available to taxpayers match the addresses¹⁵ and office hours posted at the TACs

- Addresses posted at 29 (88 percent) of 33 TACs matched the addresses listed on the Internet, toll-free telephone numbers, and automated telephone messaging system.
- Office hours for 32 (89 percent) of the 36 TACs with office hours posted on the Internet and toll-free telephone numbers matched the hours posted at the TAC.
- Office hours for 31 (86 percent) of the 36 TACs with office hours posted on the automated telephone messaging system matched the hours posted at the TAC.

The IRS informed us that the addresses and office hours available to taxpayers from the Internet 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 Internet matched those on the IRS toll-free telephone numbers and automated telephone messaging system.

¹⁵ Percentage based on 33 instead of 36 TACs because the address was not posted at 3 TACs.

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Improvement has been made to ensure addresses and office hours provided to taxpayers that accessed the IRS Internet site matched the information provided by the IRS toll-free telephone numbers and automated telephone messaging system

Tables 4 and 5 show the results of our comparison of addresses and office hours made available to taxpayers that access the Internet to the information made available to taxpayers that call the IRS toll-free telephone numbers or automated telephone messaging system.

| Table 4: Comparison of Accuracy of Information Provided via Internet to Toll-Free Telephone Numbers | | |
|--|--------------------|----------------|
| | Occurrences | Percent |
| Address Correct | 36 | 100% |
| Office Hours Correct | 36 | 100% |

Source: Anonymous visits performed by TIGTA auditors.

| Table 5: Comparison of Accuracy of Information Provided via Internet to Automated Telephone Messaging System | | |
|---|--------------------|----------------|
| | Occurrences | Percent |
| Address Correct | 36 | 100% |
| Office Hours Correct | 35 | 97% |

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 that 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 36 TACs visited. Auditors asked 138 tax law questions that an individual taxpayer¹ might ask. Auditors developed questions based on the training provided to IRS employees during the fall of 2002 and the scope of services for tax law assistance prescribed in the Fiscal Years 2002 and 2003 Field Assistance (FA) Operating Procedures.
- II. Determined if IRS employees 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 5 additional TACs and asked 20 questions that were beyond the IRS employees' level of training.
- III. Determined the quality of service provided by the IRS employees.
- IV. Determined if TAC addresses and office hours provided to taxpayers via the Internet, the toll-free telephone numbers, and the (3709) automated telephone messaging system matched information posted in the TACs. We determined if TAC addresses and office hours provided to taxpayers from the toll-free telephone numbers matched the Internet and (3709) automated telephone messaging system.

¹ Individual taxpayers are nonbusiness taxpayers who file United States Individual Income Tax Returns (Form 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)
Randee Cook, Director
Frank Jones, Audit Manager
Russell Martin, Audit Manager
Tanya Boone, Senior Auditor
Deborah Drain, Senior Auditor
Jerome Antoine, Auditor
Robert Baker, Auditor
Jean Bell, Auditor
Jerry Douglas, Auditor
Roberta Fuller, Auditor
Andrea Hayes, Auditor
Kathy Henderson, Auditor
Mary Keyes, Auditor

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Appendix III

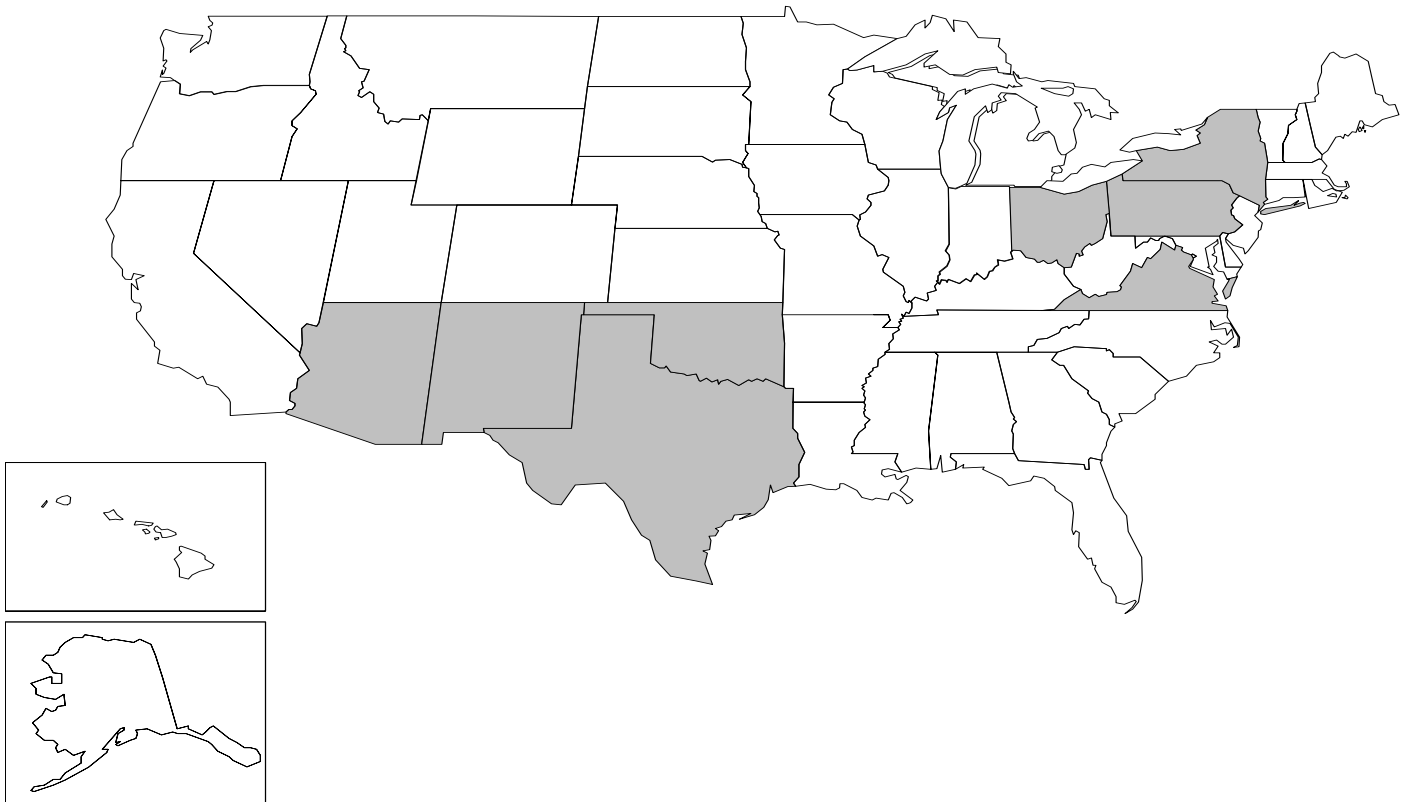
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Appendix IV

States Visited During November and December 2003



The eight states visited in which auditors asked questions within the scope of services include Arizona, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, Texas, and Virginia.

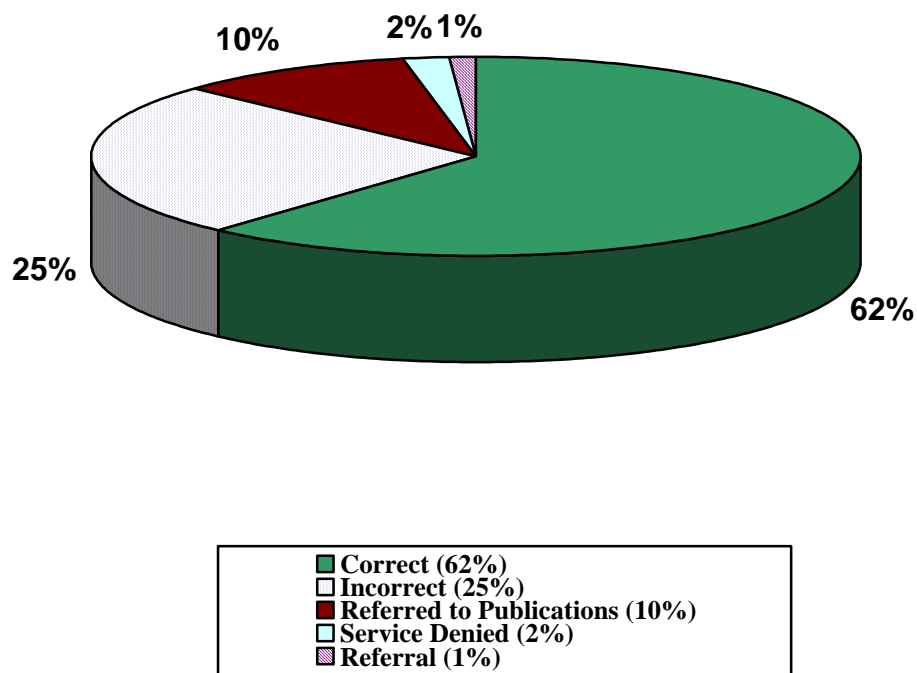
The three states visited in which auditors asked questions outside the scope of services include Arizona, Pennsylvania, and Virginia. Auditors also visited the District of Columbia.

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Appendix V

Accuracy Rates¹
January 2002 Through December 2003

During the period January 2002 through December 2003, Treasury Inspector General for Tax Administration auditors visited 408 Taxpayer Assistance Centers and asked 1,619 tax law questions. The chart below shows the accuracy rates for those questions.



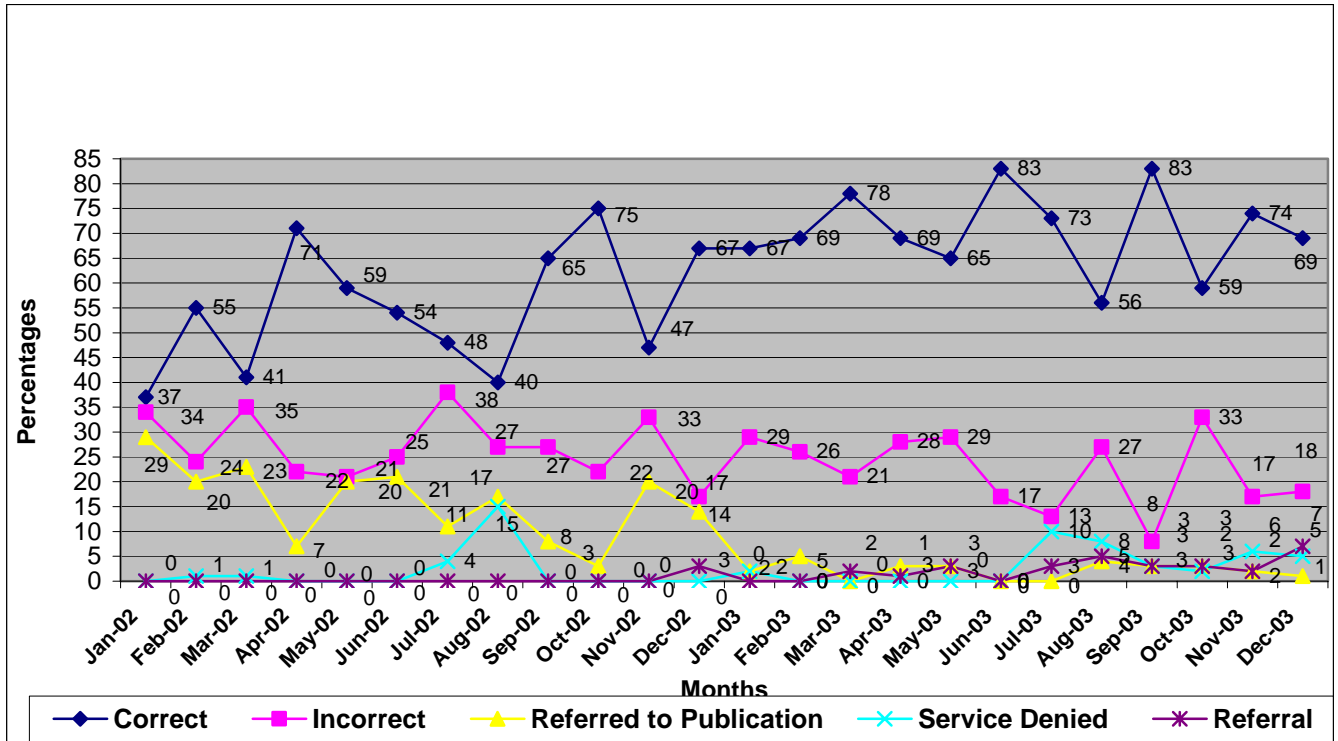
¹ **Correct includes Correct but Incomplete:** The correct answer was given, but the Internal Revenue Service (IRS) employee did not ask all required probing questions.

Referred to Publications: The IRS employee did not answer the question but instead referred the auditor to a publication and advised the auditor to do his or her own research to find the answer to the question.

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Appendix VI

**Accuracy Rates by Month
January 2002 Through December 2003**



Taxpayer Assistance Center Employees Correctly Answered More Tax Law Questions During November and December 2003 Than Compared to One Year Ago

Appendix VII

Bi-Monthly Accuracy Rates
Calendar Years 2002 and 2003

