



## Treasury Inspector General for Tax Administration Office of Audit

### THE SCREENING AND MONITORING OF *E-FILE* PROVIDERS HAS IMPROVED, BUT MORE WORK IS NEEDED TO ENSURE THE INTEGRITY OF THE *E-FILE* PROGRAM

Issued on March 31, 2010

## Highlights

Highlights of Report Number: 2010-40-042 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division and the Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The primary means by which the Internal Revenue Service (IRS) regulates electronic filing (*e-file*) Providers are the application screening process and the monitoring program. The application screening process does not ensure the integrity of the individuals applying for participation in the *e-file* Program, and the monitoring program does not ensure *e-file* Providers are compliant with *e-file* Program requirements. Inadequate screening and monitoring increases the risk to both the taxpaying public and the Federal Government for potential losses associated with unscrupulous *e-file* Providers.

### WHY TIGTA DID THE AUDIT

The overall objective of this review was to determine whether the IRS' screening and monitoring of *e-file* Providers is effective. This review was a followup to TIGTA's report *Better Screening and Monitoring of E-File Providers Is Needed to Minimize the Risk of Unscrupulous Providers Participating in the E-File Program* (Reference Number 2007-40-176, dated September 19, 2007). The application screening process is used to ensure individuals applying for entry into the *e-file* Program have met required screening and verification checks before they are authorized to participate in the *e-file* Program. Monitoring visits are the primary means to verify the *e-file* Providers' compliance with many of the *e-file* Program requirements.

### WHAT TIGTA FOUND

The screening and monitoring of *e-file* Providers has improved, but more work is needed to ensure the integrity of the *e-file* Program. The IRS is now validating existing *e-file* Providers as Not-for-Profit organizations and verifying that existing *e-file* Providers and new applicants are either United States citizens or legal

aliens with authorization to work. However, not all Not-for-Profit organizations were validated and not all citizenship statuses of *e-file* Providers have been verified.

Monitoring procedures are not always being followed. Tests of three out of the seven Area Offices showed that the Monitoring Coordinators are not contacting the IRS' Criminal Investigation Division to discuss any trends or problems it is finding with *e-file* Providers. In addition, the IRS does not always target visits based on the set criteria, and the required followup visits are not always performed. Year-end reconciliations of the case files to the monitoring logs and the reports are not conducted. In addition, the results of the Monitoring Program are not being used to improve the *e-file* Program.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure the citizenship and Not-for-Profit statuses are verified for all *e-file* Program applicants and that both applicants and current *e-file* Providers who are identified with a blank or unknown citizenship status in the Data Master-1 file are verified as being a United States citizen or a legal alien. The IRS should implement controls to ensure that the monitoring visit procedures are being followed, the information reported to Small Business/Self-Employed Division Headquarters is accurate, and the results of the monitoring visits are used to improve and measure the effectiveness of the *e-file* Program.

The IRS agreed with five of six recommendations. It plans to improve verification procedures for Not-for-Profit entities and implement automated suitability program criteria to include "alien, student, restricted work authorization." The IRS has already implemented enhanced Electronic Filing Identification Number deactivation practices for Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites and plans to continue to improve *e-file* Provider monitoring visit management controls and reporting.

The IRS did not agree to verify the citizenship status of all *e-file* Providers because it would create *e-file* Program eligibility conflicts with impending legislation mandating *e-file* for most return preparers. However, even if *e-file* is mandated, any United States based *e-file* Provider will have a Social Security Number and can be verified for citizenship status. Any foreign-based preparers will have an Individual Taxpayer Identification Number that is distinguishable from a Social Security Number.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201040042fr.pdf>

Email Address: [inquiries@tigta.treas.gov](mailto:inquiries@tigta.treas.gov)  
Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500