DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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FOR TAX ADMINISTRATION

November 9, 1999

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report -- The Internal Revenue Service Improved Its Process for Screening Prospective Preparers and Transmitters of Electronic Returns for 1999 Electronic Filing

Thank you for the opportunity to respond to your draft report. Screening prospective participants is an important part of our efforts to maintain integrity in the IRS *e-file* program. We appreciate your efforts in support of our objectives to ensure that all IRS *e-file* applicants and participants receive a complete suitability review.

The IRS understands that close scrutiny of all *e-file* applicants and participants assists greatly in our revenue protection efforts. To ensure that this scrutiny is complete, consistent, and accurate, we began processing all suitability checks at one site, Andover Service Center, in 1997. This year, Andover Service Center denied *e-file* privileges to 696 practitioners after completing suitability reviews.

Responses to the two recommendations in the draft report are listed below.

IDENTITY OF RECOMMENDATION/FINDING #1
Enhance the preliminary suitability computer programming so that all *e-file* electronic return originators (EROs) are subject to the suitability screening process.

ASSESSMENT OF CAUSE
To reduce the filing of federal tax returns claiming abusive refunds the Internal Revenue Service (IRS) has a process in place to determine the "suitability" of EROs to participate in electronic filing. The preliminary computer screening program allows some EROs to bypass some suitability checks.

CORRECTIVE ACTIONS
We have made programming enhancements to ensure that all participants' social security numbers are subjected to the necessary screening. We feel these enhancements will decrease the possibility of inappropriate individuals participating in the *e-file* program.

IMPLEMENTATION DATE
Completed - December 1998

RESPONSIBLE OFFICIAL
Assistant Commissioner (Electronic Tax Administration)

IDENTITY OF RECOMMENDATION/FINDING #2
Ensure complete research on the 699 cases we identified as having a suitability exception condition and determine if the EROs should continue to participate in the IRS' *e-file* program.

ASSESSMENT OF CAUSE
To reduce the filling of federal tax returns claiming abusive refunds, the IRS has a process in place to determine the "suitability" of EROs to participate in electronic filing. Inappropriate EROs were scheduled to participate in the 1999 electronic filing program due to a programming flaw.

CORRECTIVE ACTIONS
We completed a full review of the 699 cases in November 1998 and made suitability determinations at that time. In addition, our recent programming enhancements will prevent this condition from occurring in the future.

IMPLEMENTATION DATE
Completed - November 1998

RESPONSIBLE OFFICIAL
Assistant Commissioner (Electronic Tax Administration)

We appreciate your efforts in support of our objectives to safeguard the *e-file* program. If you have any questions, please contact Terence H. Lutes, National Director, Electronic Program Operations, at (202) 283-4790 or Pat Howarth of his staff at (202) 283-0369.