



*Suspended E-File Providers Were Not  
Adequately Assisted With Reinstatement of  
Electronic Filing Privileges*

**July 10, 2007**

**Reference Number: 2007-40-114**

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.

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TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

July 10, 2007

**MEMORANDUM FOR** COMMISSIONER, WAGE AND INVESTMENT DIVISION

**FROM:**   
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report –Suspended E-File Providers Were Not Adequately Assisted With Reinstatement of Electronic Filing Privileges (Audit #200740038)

This report presents the results of our review to determine why the Internal Revenue Service (IRS) experienced a backlog of suspended electronic-file Providers (hereafter referred to as *e-file* Providers or Providers) prior to the start of the 2007 Filing Season.<sup>1</sup> The audit was initiated because of a complaint received by the Treasury Inspector General for Tax Administration regarding the timeliness of IRS assistance in reinstating *e-file* Providers that had been suspended because of noncompliance with the U.S. Individual Income Tax Declaration for an IRS *e-file* Return (Form 8453) submission requirements.<sup>2</sup>

*Impact on the Taxpayer*

*E-file* Providers originate the electronic submission of income tax returns to the IRS. In October 2006, the IRS suspended 12,588 Providers for not submitting required Forms 8453. The suspensions created a significant backlog of Providers, and the IRS was not adequately prepared to assist them with the reinstatement of their electronic filing privileges. This could have prevented Providers from submitting electronic tax returns and required them and/or taxpayers to file paper tax returns.

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<sup>1</sup> The filing season is the period from January through mid-April when most individual income tax returns are filed.

<sup>2</sup> To ensure electronic tax returns comply with the law, the IRS created Form 8453 and a Personal Identification Number; the IRS allows individual taxpayers to sign their electronic tax returns via a Form 8453 or a Personal Identification Number.



## *Suspended E-File Providers Were Not Adequately Assisted With Reinstatement of Electronic Filing Privileges*

### Synopsis

On October 30, 2006, the IRS suspended 12,588 *e-file* Providers for not submitting the required Forms 8453. The suspensions created a significant backlog of Providers who needed IRS assistance to be reinstated before January 12, 2007 (the date the IRS began accepting electronic tax returns). This backlog resulted when Warning Letters (Letter 2750) and Suspension Letters (Letter 2752) were issued late and the IRS was not adequately prepared to assist Providers with reinstatement.

The IRS had not successfully issued Suspension Letters or suspended *e-file* Providers that had not submitted Forms 8453 since Calendar Year 2002. Once the Letters were issued and Providers were suspended, IRS assistors were often unable to access the primary computer system (the Employee User Portal) needed to reinstate suspended

***Problems with the letter generation program delayed the mailings of the Warning and Suspension Letters.***

***The primary computer system necessary to reinstate suspended e-file Providers was often not available.***

Providers because the system was unavailable. *E-file* Providers that contacted the IRS for assistance with reinstatement experienced longer calls and longer hold times than during the same period last year.<sup>3</sup> The total impact of the unavailability of the Employee User Portal during October 2006 through February 2007 was a loss of more than 18,000 hours of productivity.

In addition, IRS assistors noted that a number of *e-file* Providers stated they had not received Warning and/or Suspension Letters, and procedures for working undelivered Warning and Suspension Letters were not consistent. The *e-file* Units in the Andover, Massachusetts, and Austin, Texas, Campuses<sup>4</sup> did not follow the same process when Letters were returned as undeliverable, and guidelines for working undeliverable correspondence from Providers were not consistent with guidelines for handling undelivered Warning and Suspension Letters. Although the Andover Campus *e-file* Unit attempted to contact Providers to obtain updated addresses, the Austin Campus Unit did not.

Further, the Austin Campus was closed for 2 business days because of weather at the beginning of the 2007 Filing Season when it was answering inquiries and working appeals from the suspended *e-file* Providers. As of February 20, 2007, the majority of the over 9,900 appeals for reinstatement had been worked by the Andover and Austin Campus *e-file* Units. The Austin Campus Unit continued to receive appeals after February 20, 2007, and worked these as received.

<sup>3</sup> October 2005 through January 2006.

<sup>4</sup> Campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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Issues relating to Form 8453 filing requirements (including processing the Forms, generating Warning letters to *e-file* Providers, suspending Providers, and processing appeals) would be addressed if, as we had recommended in a September 2006 report,<sup>5</sup> the IRS mandated the use of a Personal Identification Number. Implementation of this recommendation would have eliminated the required use of the Form 8453. We had calculated the IRS could save \$1.83 million in processing costs (cost savings calculation did not include mailouts, assistance with answering questions, and/or working appeals) if Form 8453 was eliminated.

### Recommendations

We recommended the Commissioner, Wage and Investment Division, reconsider eliminating the use of Form 8453 as a signature document and mandate the use of a Personal Identification Number. At a minimum, this should be required for returns prepared at Volunteer Income Tax Assistance sites.<sup>6</sup> If the Commissioner, Wage and Investment Division, disagreed with eliminating the Form 8453, we recommended the Commissioner:

- Ensure Warning and Suspension Letters are issued timely.
- Continue to monitor the availability of the Employee User Portal and continue raising concerns about system availability to representatives from the Modernization and Information Technology Services organization.
- Revise guidelines for handling undeliverable Warning and Suspension Letters to require assistors to attempt to contact *e-file* Providers by telephone to obtain new addresses.

### Response

IRS management agreed with our recommendation to eliminate the use of Form 8453 as a signature document and mandate the use of a Personal Identification Number. They will initially develop a comprehensive action plan to pursue mandating the use of Personal Identification Numbers by Electronic Return Originators for the 2008 Filing Season. They will also evaluate mandating Personal Identification Number usage by online filers in the 2009 Filing Season. The other recommendations were contingent upon whether the IRS agreed to Recommendation 1. They are no longer applicable because management has agreed to eliminate the use of Form 8453 as a signature document. Management's complete response to the draft report is included as Appendix V.

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<sup>5</sup> *Requiring Personal Identification Numbers for Electronically Filed Returns Could Improve Tax Administration and Reduce Costs* (Reference Number 2006-30-160, dated September 20, 2006).

<sup>6</sup> The IRS Volunteer Income Tax Assistance Program originated in 1969 and provides no-cost Federal tax return preparation and electronic filing to specific underserved segments of individual taxpayers.



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Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



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*Abbreviations*

*e-file* Provider;  
Provider

Electronic-file Provider

IRS

Internal Revenue Service

PIN

Personal Identification Number



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## *Background*

The Internal Revenue Service (IRS) introduced electronic filing in 1986. In Fiscal Year 2006, more than 73 million tax returns were electronically filed. Individual taxpayers may file their tax returns electronically but must still provide a signature on the tax returns.<sup>1</sup> The Internal Revenue Code<sup>2</sup> and IRS tax publications clearly state that a tax return is not considered authentic or complete until a signature is received. To ensure electronic tax returns comply with the law, the IRS created the U.S. Individual Income Tax Declaration for an IRS *e-file* Return (Form 8453)<sup>3</sup> and a Personal Identification Number (PIN). The IRS allows individual taxpayers to sign their electronic tax returns via a Form 8453 or a PIN.

As of October 2006, there were 176,373 active electronic-file Providers (hereafter referred to as *e-file* Providers or Providers) that originate the electronic submission of income tax returns to the IRS by submitting income tax returns that are either prepared by the Providers or collected from taxpayers. Providers are required to submit signed Forms 8453 to the IRS within 3 business days of the returns' acceptance by the IRS. Depending on where the taxpayers reside, the Forms 8453 are sent to the Submission Processing Campuses<sup>4</sup> in Andover, Massachusetts, or Austin, Texas.

***Electronic-file Providers are required to send a signature form to the IRS within 3 business days of an electronic tax return's acceptance by the IRS.***

Upon receipt of Forms 8453, IRS employees input the information to a database that matches the Forms 8453 to the related electronic tax returns. The IRS tracks *e-file* Providers that have not timely submitted their Forms 8453 and issues reminder letters to those that have 2 or more percent missing Forms 8453. Providers that are not compliant in filing Forms 8453 will be suspended for 2 years (i.e., they are unable to file electronic tax returns) and have the right to appeal the suspensions.

In January 2007, the Treasury Inspector General for Tax Administration received a complaint regarding the timeliness of IRS assistance in reinstating *e-file* Providers that had been suspended because of noncompliance with Form 8453 submission

***The Treasury Inspector General for Tax Administration received a complaint alleging that the IRS was not timely assisting suspended e-file Providers.***

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<sup>1</sup> Individual taxpayers file a U.S. Individual Income Tax Return (Form 1040).

<sup>2</sup> Internal Revenue Code Section 6061.

<sup>3</sup> See Appendix IV for a copy of Form 8453.

<sup>4</sup> Campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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requirements. The complainant was concerned about how this might affect both the IRS and the Providers during the 2007 Filing Season.<sup>5</sup>

This review was performed at the Customer Account Services office and the Customer Assistance, Relationships, and Education office in Atlanta, Georgia; the Electronic Tax Administration function and the Modernization and Information Technology Services organization in Washington, D.C.; and the *e-file* Units in the Andover and Austin Submission Processing Campuses during the period January to March 2007. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology are presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>5</sup> The filing season is the period from January through mid-April when most individual income tax returns are filed.



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## *Results of Review*

### ***The Internal Revenue Service Suspended E-File Providers and Was Not Adequately Prepared to Assist With Reinstatement***

On October 30, 2006, the IRS suspended 12,588 *e-file* Providers for not submitting the required Forms 8453. The IRS had not successfully issued Suspension Letters or suspended the Providers who had not submitted Forms 8453 since Calendar Year 2002. The October 2006 suspensions created a significant backlog of Providers who needed IRS assistance to be reinstated before

***The backlog resulted when Letters were issued late and the IRS was not adequately prepared to assist e-file Providers with reinstatement.***

January 12, 2007 (the date the IRS began accepting electronic tax returns). This backlog resulted when Warning Letters (Letter 2750)<sup>6</sup> and Suspension Letters (Letter 2752) were issued late and the IRS was not adequately prepared to assist Providers with reinstatement.

Also, the Austin Campus was closed for 2 business days because of weather at the beginning of the 2007 Filing Season. This was when the IRS was answering inquiries and working appeals from the suspended *e-file* Providers. As of February 20, 2007, the majority of the over 9,900 appeals for reinstatement had been worked by the *e-file* Units in the Andover and Austin Campuses. The Austin Campus *e-file* Unit continued to receive appeals after February 20, 2007, and worked these as received.

Had the IRS been unable to reinstate the *e-file* Providers, they would have been unable to submit electronic tax returns. This could have required them and/or taxpayers to file paper tax returns. Not only would this be a burden to the Providers and the taxpayers, but the IRS would have had to process more paper tax returns at an additional cost.

### ***Delays in notifying e-file Providers they were about to be and/or had been suspended caused a backlog of Providers asking for reinstatement***

IRS guidelines require that *e-file* Providers receive a Warning Letter if 2 or more percent of their Forms 8453 are missing. These Letters are to be sent between July 15 and July 31 of each year. If a reply to the Warning Letter is not received and the number of Forms 8453 missing or unsigned is 2 or more percent, the guidelines require that a Suspension Letter be issued to the Provider between September 15 and September 30.

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<sup>6</sup> In total, 46 percent of the 28,649 Warning Letters were issued late.



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In Calendar Year 2006, the Andover Campus mailed the Warning Letters late because there were formatting problems with the file used to generate the Letters. In addition, a second mailing of the Warning Letters was necessary because the IRS identified *e-file* Providers whose addresses were missing from the data extract used to create the first mailing. Figure 1 provides the volume and actual dates the Warning and Suspension Letters were sent to Providers.

**Figure 1: Volumes and Dates of Warning and Suspension Letters Sent During Calendar Year 2006**

Campus	Warning Letter	Date Mailed	Warning Letter	Date Mailed	Suspension Letter	Date Mailed
Andover	8,645	7/21/06	758	9/5/06	4,561	10/30/06
Austin	15,546	7/31/06	3,700	9/5/06	8,458	10/30/06
<b>Totals</b>	<b>24,191</b>		<b>4,458</b>		<b>13,019<sup>7</sup></b>	

*Source: IRS Submission Processing function, E-Submissions office. The data included in Figure 1 were provided by the IRS; the data are presented for perspective only and were not audited.*

IRS representatives responsible for testing the Letter Generation Program stated they completed testing 2 weeks before the Warning Letters were to be generated. The testing included verifying that the address data file contained the required data fields, Letters were created and matched layout requirements, and Letter return address headers were accurately spaced and correctly formatted. The verification also ensured the Program was compatible with formatting and printing processes.

However, testing did not identify all the problems causing the delays in issuing the Warning Letters. For example, when the Letter Generation Program was tested, programmers assumed Warning Letters might need 10 pages to 20 pages of missing Forms 8453 to be attached. Yet some *e-file* Providers had over 100 pages of missing Forms 8453. When there were more pages than the Program was set up to handle, the Program would not function properly and subsequent Letters were not generating properly.

In addition, when the IRS began receiving responses to its Warning Letter mailout, it had to delay the mailing of the Suspension Letters until October 30, 2006, to process incoming Forms 8453. The IRS appropriately wanted to process the Forms 8453 to ensure Suspension Letters were not sent to *e-file* Providers that were now compliant. Processing the Forms 8453

<sup>7</sup> A total of 12,588 *e-file* Providers were suspended, with 431 *e-file* Providers being suspended by both the Andover and Austin Campuses. The 431 *e-file* Providers were authorized to electronically file tax returns at both Campuses; therefore, they were suspended by both Campuses.



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involves inputting the information to IRS computers to match the Forms 8453 to the related electronic tax returns.

Of the 12,588 *e-file* Providers suspended, 1,140 (9 percent) were associated with a Volunteer Income Tax Assistance site.<sup>8</sup> Oversight of the Volunteer Income Tax Assistance Program is the responsibility of the IRS Stakeholder Partnerships, Education, and Communication function,

***Nine percent of the suspended e-file Providers were associated with Volunteer Income Tax Assistance sites. Considerable resources were expended to obtain missing Forms 8453 and reinstate these Providers.***

which worked with the Submission Processing function to determine the process for volunteer Provider reinstatement. There were specific concerns regarding the impact on filing season readiness, the burden on E-Help Desk staff, and the burden on volunteers. The Stakeholder Partnerships, Education, and Communication function agreed to assist the Submission Processing function with the collection and submission of the missing Forms 8453.

In return, the Submission Processing function would initiate a batch processing to reactivate the compliant volunteer Providers. Of the original 1,140 volunteer Providers suspended, 1,119 (98 percent) were submitted for reinstatement. These Providers were reinstated on December 28, 2006, which required the expending of additional resources by the Stakeholder Partnerships, Education, and Communication and the Submission Processing functions.

### ***IRS assistors were often unable to access the primary computer system needed to reinstate suspended e-file Providers***

The Employee User Portal is an internal computer portal that allows IRS employees to access business applications and data. IRS assistors were often unable to access the Employee User Portal, which is needed to reinstate suspended *e-file* Providers, because the system was unavailable.

The Wage and Investment Division Submission Processing function reported its concern about the unavailability of the Employee User Portal to the Modernization and Information Technology Services organization. In January 2007, the Submission Processing function was unable to certify that it was ready for the upcoming filing season. In the Filing Season Readiness Plan, Submission Processing function officials stated they had taken appropriate actions to ensure a successful 2007 Filing Season, but uncertainty regarding the Employee User Portal availability posed “huge concerns for a successful filing season.”

The IRS also reported in the Wage and Investment Division Business Performance Review report<sup>9</sup> (dated February 28, 2007) that during December 2006 the Employee User Portal had an

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<sup>8</sup> The IRS Volunteer Income Tax Assistance Program originated in 1969 and provides no-cost Federal tax return preparation and electronic filing to specific underserved segments of individual taxpayers.

<sup>9</sup> The Business Performance Review report shows the collection and use of measurement information and details on performance measures.



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availability rate of only 62 percent. The total impact of the unavailability of this Portal during October 2006 through February 2007 was a loss of more than 18,000 hours of productivity. Figure 2 presents a breakdown of productivity loss by Campus.

**Figure 2: Productivity (Hours) Lost Due to the Unavailability of the Employee User Portal**

<b>Month/Year</b>	<b>Andover Impact</b>	<b>Austin Impact</b>	<b>Total Impact<sup>10</sup></b>
October 2006	1,110	459	1,569
November 2006	3,135	2,033	5,168
December 2006	2,440	3,499	5,939
January 2007	2,428	1,943	4,371
February 2007	214	1,450	1,664
<b>Total Impact</b>			<b>18,711</b>

*Source: IRS Business Strategy and Business Architect office. The data included in Figure 2 were provided by the IRS; the data are presented for perspective only and were not audited.*

IRS employees use the Employee User Portal to access *e-file* Providers' information and to reinstate suspended Providers. The E-Help Desk Program assists Providers with electronic services (e.g., filing), which includes taking calls from Providers that are suspended and assisting them with reinstatement. Providers that contacted the E-Help Desk for assistance with reinstatement experienced longer calls and longer hold times than during the same period last year<sup>11</sup> because the employees could not access the Employee User Portal.

During the period October 2006 through January 2007, the IRS answered 126,874 calls at all 4 E-Help Desk call sites,<sup>12</sup> yet the number of calls that came into the E-Help Desks totaled 225,481; thus, over 98,000 calls went unanswered. Figure 3 compares key measures for the E-Help Desk Program at the Andover and Austin Campuses for the months of October through January in Fiscal Years 2006 and 2007.

<sup>10</sup> Total impact is the hours of lost productivity. In Figure 2, hours multiplied by the number of employees do not equal Total Impact because the Total Impact is calculated daily based on the total hours the Employee User Portal is unavailable multiplied by the number of employees affected.

<sup>11</sup> October 2005 through January 2006.

<sup>12</sup> A comparison of calls received versus calls answered cannot be made for specific E-Help Desk sites because the IRS routes calls nationwide to one of the four sites.



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**Figure 3: E-Help Desk Program Key Measures Comparison  
(for October through January)**

E-Help Desk Measures	Andover Campus			Austin Campus		
	Fiscal Year 2006	Fiscal Year 2007	Percentage Change	Fiscal Year 2006	Fiscal Year 2007	Percentage Change
Services Provided <sup>13</sup>	77,127	56,504	-27%	59,435	45,078	-24%
Average Handle Time (minutes) <sup>14</sup>	6.85	11.29	+65%	7.50	9.47	+26%
Average Talk Time (minutes) <sup>15</sup>	3.96	5.73	+45%	4.73	6.05	+28%
Average Hold Time (minutes) <sup>16</sup>	.29	.44	+52%	.33	.46	+39%
Average Wrap Time (minutes) <sup>17</sup>	2.60	5.12	+97%	2.44	2.96	+21%

Source: IRS Business Strategy and Business Architect office. The data included in Figure 3 were provided by the IRS; the data are presented for perspective only and were not audited.

**Procedures for working undelivered Warning and Suspension Letters are not consistent**

Assistors who answered calls from suspended *e-file* Providers noted that a number of Providers stated they had not received their Warning and/or Suspension Letters. The *e-file* Units in the Andover and Austin Campuses did not follow the same process when Warning and Suspension Letters were returned as undeliverable. When undelivered Warning and Suspension Letters were received by the Andover Campus *e-file* Unit, employees attempted to contact the Providers by telephone to obtain updated addresses. The Austin Campus *e-file* Unit did not attempt to contact the Providers to obtain updated addresses. Instead, the Unit just filed the undeliverable Letters in the respective Providers' case folders maintained in the Unit.

The Andover Campus *e-file* Unit does not track the number of undelivered Letters. However, the Austin Campus Unit reported 2,043 Warning and Suspension Letters were returned as undeliverable.

<sup>13</sup> Services Provided represents the number of calls answered by the E-Help Desk for which a service was provided.

<sup>14</sup> Average Handle Time is equal to Talk Time plus Hold Time plus Wrap Time.

<sup>15</sup> Average Talk Time is the average amount of time the caller spent on the telephone with the assistor.

<sup>16</sup> Average Hold Time is the average amount of time the caller was on hold after getting through to an assistor.

<sup>17</sup> Average Wrap Time is the average amount of time the assistor took to document the call after the call ended.



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*IRS e-file Application and Participation* (Publication 3112) states that *e-file* Providers must revise their Applications to Participate in the IRS *e-file* Program (Form 8633) within 30 calendar days of a change to any information on their current applications. Publication 3112 also states that, if the IRS does not have current addresses for Providers, the Providers may not receive important letters.

Guidelines for handling undelivered correspondence to *e-file* Providers require *e-file* Unit employees to call the Providers to try to obtain more current addresses. If assistors are able to reach the Providers, they are to update IRS files with the new addresses and reissue the correspondence. If assistors are unable to reach the Providers, they are to place the Providers in an inactive status.

***When Warning and/or  
Suspension Letters were  
returned to the IRS as  
undeliverable, assistors did not  
always try to contact the e-file  
Providers to obtain new  
addresses.***

However, guidelines relating to undeliverable Warning and Suspension Letters do not require assistors to attempt to contact the *e-file* Providers. The guidelines instruct assistors to issue a Suspension Letter to Providers that have 2 or more percent missing or unsigned Forms 8453 and have not replied to Warning Letters. For Suspension Letters returned as undeliverable, assistors are instructed to file the undelivered Suspension Letters in the Providers' folders maintained in the *e-file* Unit.

### **Eliminating the use of Form 8453 by requiring a PIN would save the IRS significant resources**

Issues relating to Form 8453 filing requirements (including processing the Forms, generating Warning Letters to *e-file* Providers, suspending Providers, and processing appeals) would be addressed if, as we had recommended in a September 2006 report,<sup>18</sup> the IRS mandated the use of a PIN. Implementation of this recommendation would have eliminated the required use of the Form 8453. We had calculated the IRS could save \$1.83 million in processing costs (cost savings calculation did not include mailouts, assistance with answering questions, and/or working appeals) if Form 8453 was eliminated.

In making the recommendation, we noted that it was consistent with the proposals of IRS management in the Electronic Tax Administration function. Their proposals included ideas to reduce the number of missing Forms 8453 and included the following:

- Enable the taxpayer to create a PIN signature through the IRS web site (IRS.gov).
- Create a telephone line for the sole purpose of providing the information a taxpayer would need to create a PIN.

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<sup>18</sup> *Requiring Personal Identification Numbers for Electronically Filed Returns Could Improve Tax Administration and Reduce Costs* (Reference Number 2006-30-160, dated September 20, 2006).



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- Mandate the use of PINs on tax returns prepared on IRS computers.
- Mandate the use of PINs by consortiums.<sup>19</sup>
- Mandate the use of PINs by *e-file* Providers.

However, the Commissioner, Wage and Investment Division, disagreed with our recommendation (and associated outcome measure) to eliminate the use of Form 8453 as a signature document and mandate the use of PINs, whenever possible, for the following reasons:

- Mandating the use of PINs could result in a larger volume of paper returns that would cost more to process than the savings generated from not processing the Forms 8453.
- The 1040 Modernized e-File Program will be implemented over a 3-year period starting in 2009. This Program will allow for new methods of electronic signatures and the attachment of Portable Document Format (i.e., PDF) files for third-party signatures. With full implementation, the Form 8453 should become obsolete.

The Commissioner, Wage and Investment Division, stated that the IRS would continue to improve the current Form 8453 process. For example, the IRS is exploring earlier processing of Forms 8453, more efficient letter sequencing to request missing Forms 8453, and use of the Tax Return Database<sup>20</sup> for timelier letter mailouts. The IRS will also send taxpayers and *e-file* Providers multiple signature compliance letters.

However, the IRS provided no empirical data to support its contention that mandating the use of PINs could result in larger volumes of paper returns. With the advent of automated teller machines, debit cards, and online banking, the use of PINs has become commonplace. It seems unlikely that taxpayers who have experienced the advantages of filing electronically would return to filing paper returns because they were required to use a PIN. In our opinion, the steps discussed by the IRS to improve the current Form 8453 process may help but will not eliminate the problems associated with requiring Forms 8453, including burden to taxpayers (particularly when the IRS loses the Forms) and the inequitable treatment of taxpayers. Also, the steps will not reduce the increased costs associated with processing Forms 8453.

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<sup>19</sup> Consortiums are members of the Free File Alliance that provide free electronic filing services to taxpayers that meet certain criteria.

<sup>20</sup> The Tax Return Database contains tax return source information for all electronically filed tax returns. It also contains electronically filed tax forms. It is the legal repository for all electronically filed returns for Tax Year 1998 and beyond. Beginning with Tax Year 2002, it also contains transcribed portions of paper returns.



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## **Recommendations**

The Commissioner, Wage and Investment Division, should:

**Recommendation 1:** Reconsider eliminating the use of Form 8453 as a signature document and mandate the use of a PIN. At a minimum, this should be required for Volunteer Income Tax Assistance sites.

**Management's Response:** IRS management agreed with this recommendation. Initially, management will develop a comprehensive action plan to pursue mandating the use of PINs by Electronic Return Originators for the 2008 Filing Season. Management will also evaluate mandating PIN usage by online filers in the 2009 Filing Season.

Recommendations 2 through 4 were contingent upon whether the Wage and Investment Division agreed with Recommendation 1. They are no longer applicable because IRS management has agreed to eliminate the use of Form 8453 as a signature document.

**Recommendation 2:** Ensure the Warning and Suspension Letters are issued timely.

**Recommendation 3:** Continue to monitor the availability of the Employee User Portal and continue raising concerns about system availability to representatives from the Modernization and Information Technology Services organization.

**Recommendation 4:** Revise guidelines for handling undeliverable Warning and Suspension Letters to require assistors to attempt to contact *e-file* Providers by telephone to obtain new addresses.



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## Appendix I

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine why the IRS experienced a backlog of suspended electronic-file Providers prior to the start of the 2007 Filing Season.<sup>1</sup> The audit was initiated because of a complaint received by the Treasury Inspector General for Tax Administration regarding the timeliness of IRS assistance in reinstating *e-file* Providers that had been suspended because of noncompliance with U.S. Individual Income Tax Declaration for an IRS *e-file* Return (Form 8453) submission requirements. To accomplish our objective, we:

- I. Determined if the IRS experienced a significant backlog of suspended *e-file* Providers just prior to the 2007 Filing Season by interviewing appropriate IRS management and obtaining and analyzing statistical reports for the Form 8453 program.
- II. Determined what factors contributed to the backlog.
  - A. Identified factors that resulted in the untimely issuance of Warning Letters (Letter 2750) and Suspension Letters (Letter 2752) to *e-file* Providers with missing Forms 8453.
  - B. Identified Employee User Portal<sup>2</sup> problems (instability and downtime).
  - C. Identified how inaccurate Provider addresses contributed to the backlog.
- III. Determined if the IRS adequately planned resources to address *e-file* Providers that were suspended as a result of noncompliance with the Form 8453 requirements.
  - A. Obtained and reviewed the Submission Processing function workplans for the *e-file* Units in the Andover, Massachusetts, and Austin, Texas, Campuses<sup>3</sup> for Fiscal Year 2006 and Calendar Year 2007.
  - B. Obtained and reviewed workplans for the E-Help Desk for Fiscal Years 2006 and 2007 to determine if the Business Architect and Business Strategist office planned additional resources to handle the increase in telephone calls from the issuance of Warning and Suspension Letters for missing Forms 8453.

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<sup>1</sup> The filing season is the period from January through mid-April when most individual income tax returns are filed.

<sup>2</sup> The Employee User Portal is the primary computer system used by IRS employees to access an *e-file* Provider's information and to reinstate a suspended Provider.

<sup>3</sup> Campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



*Suspended E-File Providers Were Not Adequately Assisted  
With Reinstatement of Electronic Filing Privileges*

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- C. Determined if additional resources were scheduled and the impact on providing quality customer service to suspended Providers.



*Suspended E-File Providers Were Not Adequately Assisted  
With Reinstatement of Electronic Filing Privileges*

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**Appendix II**

*Major Contributors to This Report*

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Pamela DeSimone, Lead Auditor

Jerry Douglas, Auditor



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**Appendix III**

*Report Distribution List*

Acting Commissioner C  
Office of the Commissioner - Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Wage and Investment Division SE:W  
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Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



Suspended E-File Providers Were Not Adequately Assisted With Reinstatement of Electronic Filing Privileges

Appendix IV

U.S. Individual Income Tax Declaration for an IRS e-file Return (Form 8453)

Form 8453 U.S. Individual Income Tax Declaration for an IRS e-file Return. Includes sections for Declaration Control Number (DCN), Tax Return or Request for Refund Information (Part I), Declaration of Taxpayer (Part II), and Declaration of Electronic Return Originator (ERO) and Paid Preparer (Part III).



*Suspended E-File Providers Were Not Adequately Assisted  
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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

RECEIVED  
JUN 15 2007

JUN 15 2007

MEMORANDUM FOR MICHAEL R. PHILLIPS,  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard J. Morgante   
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Suspended E-File Providers Were Not  
Adequately Assisted with Reinstatement of Electronic Filing  
Privileges (Audit # 200740038)

I reviewed the draft report and appreciate your audit regarding the assistance provided by IRS with the reinstatement of e-file providers suspended due to non-compliance with Form 8453 (U.S. Individual Income Tax Declaration for an IRS e-file Return) submissions. We acknowledge that despite extensive planning, coordination, and communication efforts, we did experience a backlog of e-file providers needing reinstatement. The late issuance of warning and suspension letters to Electronic Return Originators (EROs) may have contributed to this situation; however, the backlog primarily resulted from unexpected computer system problems with the Employee User Portal (EUP) and weather-related call site closures.

We have been very aggressive in addressing the areas within our control to ensure this situation does not recur this year. I personally elevated the problems with the EUP access/response time to the attention of top executives in our Modernization and Information Technology Services (MITS) organization. System adjustments have been made and the EUP response time and system availability have improved significantly since January. We continue to monitor system performance closely.

We have also reconsidered our previous position on mandating the use of Personal Identification Numbers (PINs) for EROs. We expected the 1040 Modernized e-File (MeF) application to eliminate the need for Forms 8453. While current plans call for 1040 MeF to be phased-in beginning in 2009, full implementation is not planned until 2011. As a result, we agree that mandating use of PINs for both practitioners and taxpayers will resolve problems associated with non-receipt of Forms 8453 pending full implementation of 1040 MeF.

In addition, as an interim measure until we can implement Recommendation 1, we have completed a comprehensive review of the entire Form 8453 process and will be implementing changes that should result in immediate improvements for our customers



*Suspended E-File Providers Were Not Adequately Assisted  
With Reinstatement of Electronic Filing Privileges*

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and reduce the number of EROs that will need reinstatement. For example, in response to industry feedback the ERO warning and suspension letters will now be addressed to a responsible official identified by the company instead of the primary contact. We also clarified processing instructions for our Submission Processing centers.

Attached are our specific comments to your recommendations. If you have any questions, please contact me at (404) 338-7060, or members of your staff may contact Pete Stipek, Director, Customer Account Services, at (404) 338-8910.

Attachment



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Attachment

The Commissioner, Wage and Investment Division, should:

**RECOMMENDATION 1**

Reconsider eliminating the use of Form 8453 as a signature document and mandate the use of a PIN. At a minimum, this should be required for Volunteer Income Tax Assistance (VITA) sites.

**CORRECTIVE ACTION**

We agree with this recommendation. Initially, we will develop a comprehensive action plan to pursue mandating the use of PINs by Electronic Return Originators (EROs) for the 2008 filing season. We will also evaluate mandating PIN usage by on-line filers in the 2009 filing season.

**IMPLEMENTATION DATE**

July 15, 2007 - ERO action plan  
April 15, 2008 - On-line filers analysis

**RESPONSIBLE OFFICIAL**

Director, Electronic Tax Administration, Wage & Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control system.

If the Commissioner, Wage and Investment Division, continues to disagree with eliminating the use of Form 8453, the following recommendations apply:

**RECOMMENDATION 2**

Ensure the Warning and Suspension Letters are issued timely.

**RECOMMENDATION 3**

Continue to monitor the availability of the Employee User Portal and continue raising concerns about it to representatives from the MITS organization.

**RECOMMENDATION 4**

Revise guidelines for handling undeliverable Warning and Suspension Letters to require assistors to attempt to contact e-file Providers by telephone to obtain new addresses.

Since we agree with recommendation 1 and will be taking appropriate corrective actions as stated above to address this recommendation, these additional recommendations do not apply.