



*Implementation of the Return Preparer  
Visitation Project Was Successful,  
but Improvements Are Needed to  
Increase Its Effectiveness*

**June 29, 2012**

**Reference Number: 2012-30-068**

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

June 29, 2012

**MEMORANDUM FOR** DIRECTOR, RETURN PREPARER OFFICE

**FROM:** Michael E. McKenney  
Acting Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Implementation of the Return Preparer Visitation Project Was Successful, but Improvements Are Needed to Increase Its Effectiveness (Audit # 201130005)

This report presents the results of our review to evaluate the effectiveness of the Internal Revenue Service's efforts to conduct visits to paid tax return preparers<sup>1</sup> to improve the accuracy and quality of filed tax returns. This review was included in our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge area of Tax Compliance Initiatives.

Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Frank Dunleavy, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (213) 894-4470 (Ext. 128).

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<sup>1</sup> See Appendix VI for a glossary of terms.



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*Abbreviations*

|      |                                    |
|------|------------------------------------|
| FY   | Fiscal Year                        |
| IRS  | Internal Revenue Service           |
| RPVP | Return Preparer Visitation Project |



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## *Background*

In Calendar Year<sup>1</sup> 2011, the Internal Revenue Service (IRS) processed approximately 84 million individual Federal income tax returns prepared by paid tax return preparers (hereafter referred to as paid preparers). While the United States has one of the highest tax compliance rates in the world at 83.1 percent, every year more than half of all taxpayers pay someone else to prepare their income tax returns. As a result, the paid preparers' impact on voluntary tax compliance in the United States has become increasingly important. The IRS acknowledged this trend with the inclusion of the following objectives in its strategic plan for Fiscal Years (FY) 2009–2013:

- Strengthen partnerships with tax practitioners, paid preparers, and other third parties in order to ensure effective tax administration.
- Ensure that all tax practitioners, paid preparers, and other third parties in the tax system adhere to professional standards and follow the law.

Despite the significant role paid preparers play in helping taxpayers fulfill their tax obligations, little data existed regarding the quality of services they are providing to their clients. In December 2009, the IRS Commissioner published the *Return Preparer Review*,<sup>2</sup> a six-month comprehensive study of the paid preparer industry. The review process was intended to be an open and transparent discussion of the issues with the paid preparer community, the associated industry, consumer advocacy groups, and the American public. The findings and recommendations of the *Return Preparer Review* were intended to better leverage the paid preparer community with the twin goals of increasing taxpayer compliance and ensuring uniform and high ethical standards of conduct for paid preparers.

With a majority of U.S. households using a paid preparer to help prepare and file their tax returns, the IRS concluded that implementing higher standards would significantly enhance protections and service for taxpayers, increase confidence in the tax system, and result in greater taxpayer compliance with tax laws.

***The IRS concluded that implementing higher standards would significantly enhance protections and service for taxpayers, increase confidence in the tax system, and result in greater taxpayer compliance with tax laws.***

On January 7, 2010, the IRS announced the development of the Return Preparer Visitation Project (RPVP). This effort is one of the IRS's first steps to improve the accuracy and quality of filed tax returns as well as to heighten awareness of paid preparer responsibilities. The initial

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<sup>1</sup> See Appendix VI for a glossary of terms.

<sup>2</sup> IRS Pub. 4832, Catalog Number 54419P (Rev. Dec. 2009).



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rollout of the RPVP occurred during FY 2010, with the intention that the RPVPs will be conducted on an annual basis.

This review was performed at the Small Business/Self-Employed Division Headquarters in New Carrollton, Maryland,<sup>3</sup> and the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period August 2010 through November 2011. Onsite reviews were performed at the IRS Examination field offices in Decatur, Georgia; Boston, Massachusetts; and Fairfield and Springfield, New Jersey. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>3</sup> The IRS Return Preparer Office was created in FY 2010 to improve taxpayer compliance by providing comprehensive oversight and support to tax professionals. Ownership of the RPVP was transferred from the Small Business/Self-Employed Division's Examination Policy to the Return Preparer Office in October 2011.



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## *Results of Review*

### **Revenue Agents Successfully Completed Visitations to Paid Preparers**

During FY 2010, RPVP management<sup>4</sup> began to implement the recommendations the IRS Commissioner announced as part of the *Return Preparer Review*. To determine who would receive informational letters as well as revenue agent visitations, RPVP management requested that Wage and Investment Research and Analysis identify paid preparers who had prepared more than 25 tax returns during the first nine months of Processing Year 2009, with schedules on which the IRS typically sees errors (*i.e.*, Form 1040, *U.S. Individual Income Tax Return*, with a Schedule A, *Itemized Deductions*; Schedule C, *Profit or Loss From Business*; or Schedule E, *Supplemental Income and Loss*). The FY 2010 RPVP goal was to mail 10,000 informational letters<sup>5</sup> and to have revenue agents complete field visits to 2,500 of the identified paid preparers between January 25 and February 5, 2010. The letters informed the paid preparers that they may be visited by a revenue agent and detailed the consequences of filing incorrect tax returns. For example, paid preparers were advised that they could face monetary penalties, suspension, expulsion from participation in IRS electronic filing, or civil injunctions barring them from preparing tax returns.

Our results showed the RPVP mailed educational letters to more than 10,000 paid preparers and performed a majority of the field visits in a timely manner. The field visits to paid preparers were performed by revenue agents who were instructed to discuss many of the issues mentioned in the letter. Our analysis of the project closures<sup>6</sup> provided by RPVP management confirmed that during the FY 2010 RPVP, revenue agents completed 2,404 paid preparer visitations, or 96 percent of their goal.

In preparation for the FY 2011 RPVP, the IRS again issued more than 10,000 letters to paid preparers stating that they may be visited by a revenue agent during the 2011 Filing Season to further discuss their responsibilities as a paid preparer. The IRS's goal was for revenue agents to complete field visits to 2,500 of the identified paid preparers between January 1 and April 30, 2011. During these visits, revenue agents were instructed to inspect tax returns and all relevant supporting documents and records of the clients of paid preparers to ensure compliance with

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<sup>4</sup> RPVP management refers to the Small Business/Self-Employed Division's Examination Policy management.

<sup>5</sup> See Appendix IV for an example of a letter that is currently being sent to paid preparers by the RPVP.

<sup>6</sup> A closure is defined as a contact or an attempted contact with a tax preparer that has been closed.



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requirements subject to penalty under Internal Revenue Code Section 6695.<sup>7</sup> According to RPVP management, revenue agents successfully completed 2,498 visits to selected paid preparers, or nearly 100 percent of their goal.

### ***Paid Preparers Generally Had a Positive View of Return Preparer Visitations***

As part of our review, we conducted a survey<sup>8</sup> of paid preparers who were visited by revenue agents during the FY 2010 RPVP. We selected a statistically valid random sample<sup>9</sup> of 247 paid preparers from the population of 2,404 paid preparer visitations.<sup>10</sup> The purpose of the survey was to solicit the opinions of paid preparers to determine whether the IRS accomplished its goal of providing substantive information and guidance during the RPVP visits. The survey was conducted during November and December 2010.

Based on our survey results, paid preparers generally had a favorable view of the revenue agent visitations. Specifically:

- 65 percent of the respondents believed that the visits were a positive experience.
- 62 percent of the respondents believed that the visits were helpful and/or informative.

In addition, a majority of the paid preparers we surveyed believed that the revenue agents who conducted the visitations were both professional and knowledgeable about the topics discussed. Figure 1 provides the detailed survey results.

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<sup>7</sup> This code section specifically deals with other assessable penalties with respect to the preparation of tax returns for other persons.

<sup>8</sup> See Appendix V for an example of the survey that was sent to the paid preparers.

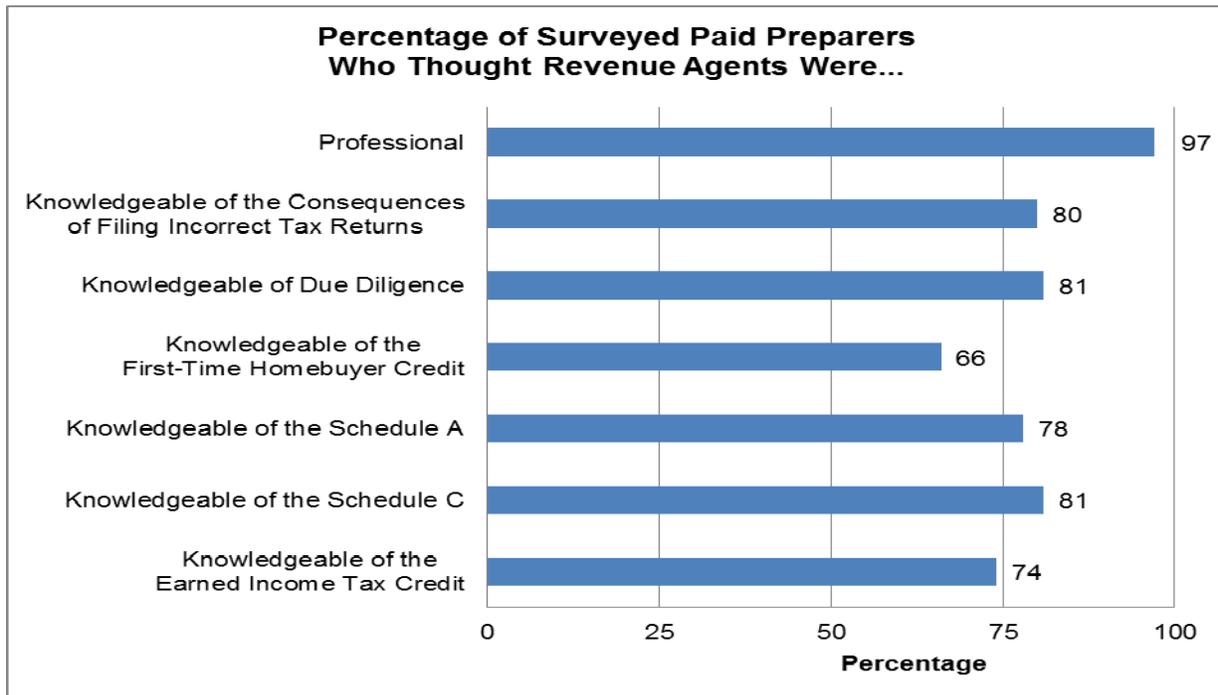
<sup>9</sup> We used the following criteria for our statistically valid random sample of paid preparers: 95 percent confidence level, 50 percent error rate, and  $\pm 6$  percent precision rate. See Appendix I for additional information.

<sup>10</sup> The survey results for all figures presented in the report may not total 247 due to paid preparers either not responding to certain questions or entering multiple responses where requested/accepted.



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**Figure 1: Paid Preparer Assessment of Revenue Agent Professionalism and Knowledge During the FY 2010 RPVP**



*Source: Results of the Treasury Inspector General for Tax Administration's survey of paid preparers visited during the FY 2010 RPVP.*

Based on the survey results, it appears that the IRS successfully provided outreach to the paid preparers selected as part of the RPVPs. However, improvements to the administration of the RPVPs are necessary to ensure that the IRS's goals of improving the quality and accuracy of filed tax returns and heightening the paid preparers' awareness of their responsibilities are met.

***Selection Methodology May Not Have Identified Paid Preparers Most in Need of Educational Visits***

We evaluated the FY 2010 RPVP methodology used to select the 10,000 paid preparers who received a letter as well as the 2,500 who were selected for a visitation by a revenue agent. Our results showed a risk-based scoring system was developed to identify noncompliant patterns in the population of all tax returns filed by paid preparers in order to target which paid preparers should receive a letter or a visit. This process ultimately produced a list of paid preparers who filed high volumes of tax returns with schedules that traditionally have high error rates, rather than paid preparers identified as filing tax returns with actual errors.

We asked Wage and Investment Research and Analysis officials why they did not use paid preparers who filed tax returns with errors as the selection criteria for the educational visits.



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They explained that the decision by RPVP management to make education the focal point of the visits was made after the paid preparers had already been selected. However, due to the limited time remaining to initiate the project, RPVP management believed it was necessary to proceed with its implementation.

Because the visitations were intended to be educational, we believe RPVP management should have considered additional criteria in their selection methodology, such as paid preparers who received error notices from the IRS. The IRS issues math error notices to inform taxpayers and paid preparers when an error on the tax return is identified during processing. For example, the IRS will send a math error notice when the taxpayer claims the Earned Income Tax Credit but fails to provide documentation supporting the credit. By not ensuring that paid preparers who filed tax returns with errors were selected, RPVP management accepted the risk that revenue agents may have unnecessarily visited and increased the burden on compliant paid preparers during the filing season.<sup>11</sup>

Additionally, paid preparers contacted through our survey indicated that they did not necessarily believe they should have been selected for a visit by a revenue agent because they already have continuing education requirements to maintain their professional certifications (*e.g.*, certified public accountant, attorney, *etc.*). Our survey results showed that 241 (98 percent) of the 247 paid preparers stated that they completed continuing education courses and/or educated themselves regarding tax law changes. Several certified public accountants remarked that the use of IRS resources to visit their office was wasteful because their continuing professional education requirements were much more extensive than the information presented by the revenue agents. Our assertion that educational visits may have been unwarranted for many of the paid preparers selected by this methodology is supported by our survey results. Of the 245 paid preparers who responded to a question regarding the effectiveness of the visits, 171 (70 percent) stated that they would not be making any changes to the way they do business or prepare tax returns as a result of being visited by a revenue agent.

***Seventy percent of paid preparers surveyed stated that they would not change the way they do business or prepare tax returns as a result of the IRS educational visits.***

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<sup>11</sup> There could have been paid preparers who filed tax returns with errors that received a letter and/or visitation even though this criterion was not included in the selection methodology.



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**Insufficient enhancements were made to the selection methodology for the  
FY 2011 RPVP**

The selection methodology was revised for the FY 2011 RPVP and included enhanced filters used for the Risk Assessment Scoring Tool and additional filters to aid in the identification of paid preparers using false or inaccurate Employer Identification Numbers. The purpose of this change was to increase the IRS's ability to address "ghost preparers" and also to respond to the practitioner community's concerns regarding paid preparers who do not sign the tax returns that they prepare. However, our review of the selection methodology determined that no enhancements were made to identify paid preparers who filed "abusive" or egregious tax returns. Instead, RPVP management continued to use the Risk Assessment Scoring Tool to identify paid preparers who filed high volumes of tax returns with schedules that traditionally have high error rates.

The National Taxpayer Advocate and representatives of the paid preparer community expressed concerns in news articles regarding the selection process. They stated that the IRS should have targeted paid preparers who filed tax returns with errors rather than those who filed a high volume of tax returns with high-risk tax law issues. For example, in their letter to the Commissioner, Small Business/Self-Employed Division, the American Institute of Certified Public Accountants stated, "As we noted in our October 29, 2010, letter on the FY 2011 Preparer Letters and Visitation Program, we believe office visits to return preparers should only be done when there is a reasonable or clear suspicion that the tax return preparer is not in compliance with his or her responsibilities as a preparer."

In addition, the Treasury Inspector General for Tax Administration's concerns regarding the overly generalized selection criteria were also supported by the IRS Office of Program Evaluation and Risk Analysis' April 2011 review<sup>12</sup> of the RPVP selection methodology. The Office of Program Evaluation and Risk Analysis was tasked with performing an independent review of the processes used to develop the RPVP filters and assign risk scores to paid preparers. This included suggesting methods for evaluating the RPVP filters in an effort to improve the final selection process. During its review, the Office of Program Evaluation and Risk Analysis determined that the Risk Assessment Scoring Tool provided "no true measure of egregiousness" in the behavior of paid preparers selected for FYs 2010 and 2011 RPVP visits.

**Insufficient enhancements were made to the selection methodology for the  
FY 2012 RPVP**

For the FY 2012 RPVP, the IRS used the same Risk Assessment Scoring Tool that focused on paid preparers who filed high volumes of tax returns that traditionally have high error rates. Although the IRS added multiple compliance visit initiatives such as ensuring paid preparers

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<sup>12</sup> IRS, *Service Wide Return Preparer Filter Review* (Apr. 2011).



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complied with the electronic filing requirements and their responsibilities regarding Preparer Tax Identification Numbers, we found no significant enhancements to the selection methodology to identify paid preparers who actually filed “abusive” or egregious tax returns. In addition, paid preparers selected for site visitations by revenue agents were based on the following criteria.

- Paid preparers who were rated as “high risk” on the Risk Assessment Scoring Tool and had received a RPVP letter in the prior two years.
- Paid preparers who were selected for a site visitation during the FY 2011 RPVP but were not visited for various reasons, such as unable to locate, misidentified, or a discontinued criminal investigation.
- Paid preparers who were using an invalid Volunteer Income Tax Assistance or Tax Counseling for the Elderly Site Identification Number.

Although some slight changes were made to improve the methodology used to select paid preparers over the past three years, it is questionable whether or not those visited by revenue agents during the RPVPs would have benefited the most from an educational visit. We believe the IRS should enhance its selection methodology and focus its limited resources to visit the most “egregious” paid preparers. Without making additional changes to its methodology to select paid preparers with a history of preparing problematic tax returns, the IRS cannot ensure the results from the RPVPs will help it meet its strategic goals of increasing the quality and accuracy of tax returns and ensuring that paid preparers adhere to professional standards.

### ***Recommendation***

***Recommendation 1:*** The Director, Return Preparer Office, should ensure that the RPVP uses data-driven selection criteria to specifically identify paid preparers who filed tax returns with errors to make certain the most egregious paid preparers are receiving educational and enforcement visitations.

***Management’s Response:*** IRS management agreed with this recommendation and stated that the Return Preparer Office is in the process of developing data-driven selection criteria for the FY 2013 visitation program.

### ***Performance Measures and Additional Controls Are Needed to Improve the Return Preparer Visitation Project***

In FYs 2010 and 2011, the principal measurable goal for the RPVPs was the number of visitations conducted. In both years, the IRS set a goal of conducting visits with approximately 2,500 paid preparers. However, the IRS had no corresponding goal for measuring the impact that these projects had on improving the accuracy and quality of tax returns filed by paid preparers.



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According to the *Standards for Internal Control in the Federal Government*<sup>13</sup> and the Government Performance and Results Act of 1993,<sup>14</sup> management should establish and review performance measures as it is critical that there is a method to measure the progress and expected outcome of goals and actions. Performance measures should assess not only relevant outputs (e.g., number of visits completed), but also program outcomes (e.g., the impact or effectiveness of the visits on tax return preparation and compliance). Further, the *Standards for Internal Control in the Federal Government* requires the establishment of procedures to ensure all transactions are accurately recorded. This helps to ensure the effectiveness and efficiency of operations and that planned objectives are being met. As a non-revenue enforcement activity that promotes compliance yet does not focus primarily on tax revenue, the IRS Strategic Plan for FYs 2009–2013 requires that these activities be tracked under the section entitled *How Will We Measure Our Performance*.

We determined that the RPVPs do not have performance measures, tracking procedures, or a quality review process to successfully evaluate the effectiveness of these projects. The FY 2010 RPVP was implemented within a limited time period and, as a result, the IRS began the project prior to developing strategies or a process to evaluate its results. However, this does not explain why the IRS still has not developed a strategy identifying how it plans to measure whether the current or future RPVPs will successfully achieve the goal of improving the accuracy and quality of tax returns filed by paid preparers.

During the RPVP visits, revenue agents recorded more than 40 information items on a paper check sheet based on paid preparer responses. Revenue agents completed a check sheet for all of the selected paid preparers, including those who refused to meet with the revenue agent or could not be located. Upon completion of the visitation, revenue agents manually inputted the information from the check sheet into a database. The following are examples of information captured by revenue agents and transcribed into the database:

- Personal information concerning the paid preparer.
- Success of the contact with the paid preparer.
- Topics discussed during the visit.
- Number of hours spent on the entire visitation process.

However, the information recorded does not provide quantifiable data that could be used to develop performance measures and evaluate how the IRS could use the results to improve the quality and accuracy of tax returns.

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<sup>13</sup> Government Accountability Office (formerly the General Accounting Office), GAO/AIMD-00-21.3.1, *Standards for Internal Control in the Federal Government* (Nov. 1999).

<sup>14</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).



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With the addition of measures and targets, the IRS would have a means to evaluate performance and monitor the long-term progress toward achieving established goals. For example, the IRS should consider completing the following steps that could be used to evaluate the RPVP:

- Develop a research methodology to assess the results of the visits. This approach includes tracking the paid preparers to determine if their behavior changed as a result of the visit.
- Track the number of referrals to Criminal Investigation when there is evidence of fraud, Program Action Cases when actions against paid preparers are warranted, and enforcement actions when there are violations of Treasury Department Circular No. 230.<sup>15</sup>
- Conduct post visitation surveys or exit interviews to analyze program performance and customer survey results. For example, we were advised by RPVP management that there was no established communications plan or process to obtain input or reaction from paid preparers who were visited that could be used to improve future RPVPs.
- Establish a process to generate management information reports that can be used for reviewing and comparing project results against established plans, goals, and objectives.

The IRS needs to demonstrate positive results to justify the continued use of resources to support the RPVPs. Without clearly defined performance measures for the RPVPs, the IRS cannot substantiate that expending limited resources to visit paid preparers is an effective tool that can be used to help the IRS meet the long-term goals of its strategic plan.

## ***Recommendation***

**Recommendation 2:** The Director, Return Preparer Office, should develop objective, quantifiable performance measures and a process to generate management information reports that can be used to assess the impact of the RPVP on the paid preparer community. This effort includes a process to monitor and track the behavior of paid preparers visited to determine whether the quality and accuracy of tax returns improved.

**Management's Response:** IRS management agreed with this recommendation and stated that the Return Preparer Office is in the process of developing a statistically valid controlled test design plan for the visitation program. This plan will include the strategic measures that will be used to assess the effectiveness of the visitation program.

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<sup>15</sup> *Regulations Governing Practice before the Internal Revenue Service* (Rev. 8-2011).



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## **Appendix I**

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

Our objective was to evaluate the effectiveness of the IRS's efforts to conduct visits to paid tax return preparers<sup>1</sup> to improve the accuracy and quality of filed tax returns. To accomplish our objective, we:

- I. Determined whether the IRS had a process in place to measure the effectiveness of the FY 2010 RPVP.
  - A. Interviewed IRS officials to determine FY 2010 RPVP goals and objectives and whether sufficient procedures and guidelines were provided to measure results.
  - B. Determined how the IRS planned to use the results from paid preparer visits to increase the education of paid preparers and improve the accuracy of tax returns.
  - C. Researched the IRS Internet and intranet for electronic documents related to the FYs 2010, 2011, and 2012 RPVPs.
  - D. Reviewed RPVP internal documents. This included notes from team meetings, standard operating procedures, desk procedures, Power Point presentations, and any guidance issued to Small Business/Self-Employed Division area champions and revenue agents.
  - E. Reviewed the RPVP briefings/reports documenting the results of the visits.
- II. Evaluated the methodology used by the RPVP management to determine how the 10,000 paid preparers were selected to receive a letter and how the subset of paid preparers were selected for visits by revenue agents.
- III. Determined whether the RPVP management had a process to collect and ensure the accuracy of results revenue agents captured during visits to paid preparers.
  - A. Reviewed procedures revenue agents used to capture the results from visits to paid preparers.
  - B. Evaluated the database to determine whether the information captured could provide the IRS with information to measure the effectiveness of the FY 2010 RPVP.

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<sup>1</sup> See Appendix VI for a glossary of terms.



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- IV. Determined whether the IRS had a process in place to capture feedback from paid preparers.
  - A. Reviewed the process or procedures to capture feedback from the paid preparer community including those paid preparers who received letters and a visit.
  - B. Evaluated the effectiveness of the FY 2010 RPVP by conducting a survey of paid preparers who were visited by revenue agents.
    - 1. Obtained the database that captured the results of paid preparers visited by revenue agents.
    - 2. Selected a statistically valid random sample<sup>2</sup> from a population of 2,404 paid preparers who were visited by revenue agents during FY 2010.
    - 3. Mailed cover letters and surveys to 400 selected paid preparers.
    - 4. Quantified the results of 247 survey responses.
- V. Evaluated the IRS's plan, process, and methodology to conduct the FYs 2010, 2011, and 2012 RPVP.
  - A. Discussed the IRS's plans to complete visits in FY 2011.
  - B. Evaluated the FY 2011 RPVP methodology used by Wage and Investment Research and Analysis to identify paid preparers who were selected to receive letters and visits.
  - C. Compared the RPVP's FYs 2010, 2011, and 2012 methodologies to identify any significant changes in goals, strategy, and objectives.

**Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: IRS procedures and processes for planning, implementing, monitoring, and measuring RPVP operations and effectiveness. We evaluated these controls by reviewing internal and external documents and policies, interviewing management, reviewing paid preparer selection methodology, researching current criteria for assessing Federal agency performance and improvement, and conducting a survey of visited paid preparers.

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<sup>2</sup> We used the following criteria for our statistically valid random sample of paid preparers: 95 percent confidence level, 50 percent error rate, and  $\pm 6$  percent precision rate.



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## **Appendix II**

### *Major Contributors to This Report*

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)  
Frank Dunleavy, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)  
Frank Jones, Director  
Bryce Kisler, Director  
L. Jeff Anderson, Audit Manager  
Tina Parmer, Audit Manager  
Nancy Van Houten, Lead Auditor  
Paul Baker, Senior Auditor  
Carol Gerkens, Senior Auditor  
Kenneth Henderson, Senior Auditor  
Joseph L. Katz, Ph.D., Contractor, Statistical Sampling Consultant



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## **Appendix III**

### *Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Commissioner, Small Business/Self-Employed Division SE:S  
Commissioner, Wage and Investment Division SE:W  
Deputy Commissioner, Small Business/Self-Employed Division SE:S  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Commissioner, Small Business/Self-Employed Division SE:S  
    Commissioner, Wage and Investment Division SE:W  
    Director, Return Preparer Office SE:RPO



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**Appendix IV**

*Example of a Fiscal Year 2012 Return  
Preparer Visitation Project Letter Sent to  
Selected Paid Preparers*



Date: November 7, 2011

Dear Tax Return Preparer,

You are receiving this letter because the returns you prepared for clients during the most recent filing season have a high percentage of attributes associated with returns typically containing inaccuracies and misinterpretations of tax law. The enclosed document addresses some income tax issues our review suggests you may have misunderstood or misinterpreted. Please review this information carefully.

Tax return preparers are expected to be knowledgeable in tax law and prepare accurate returns while exercising due diligence. In general, preparers may rely in good faith upon client-provided information but they may not ignore the implications of information known or reasonably suspected to be untrue, incomplete, inconsistent or inaccurate.

Both you and your clients may be adversely affected by incorrect returns. These consequences may include any or all of the following:

- If your clients' returns are examined and found to be incorrect, your clients may be liable for additional tax, interest, additions to tax and penalties.
- Tax return preparers who prepare a client return for which any part of an understatement of tax liability is due to an unreasonable position can be assessed a penalty of at least \$1,000 per return (IRC section 6694(a)).
- Tax return preparers who prepare a client return for which any part of an understatement of tax liability is due to reckless or intentional disregard of rules or regulations by the tax preparer, can be assessed a penalty of at least \$5,000 per return (IRC section 6694(b)).

We will visit some tax return preparers who receive this letter beginning in November to confirm compliance with return preparer requirements. If we select you for a visit, an IRS representative will contact you to schedule an appointment and to provide you with additional information about the topics we will cover.

Letter 4809 (Rev. 10-2011)  
Catalog Number 58566D



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In addition to your responsibility to exercise due diligence in preparing accurate returns for your clients, you should be aware of the IRS's tax return preparer requirements, including proper entry of a preparer tax identification number (PTIN) on all returns you prepare for compensation and adherence to electronic filing regulations. For more information on these requirements, visit our website at [www.irs.gov/taxpros](http://www.irs.gov/taxpros).

We hope this letter has heightened your awareness of your responsibilities as a tax return preparer and provided you with information on how you can meet your obligations.

Sincerely,

David R. Williams  
Director, Return Preparer Office

Enclosure:  
[Target Area of Concern A, C or E]



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**Appendix V**

*Example of Survey Sent to Paid Preparers*

**TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION  
RETURN PREPARER VISITATION QUESTIONNAIRE (Control Number: «ControlNumber»)**

We selected you to participate in this survey because Internal Revenue Service (IRS) records show you received a letter concerning the preparation of accurate tax returns, and participated in an educational visit with a Revenue Agent in January/February 2010. These visits were part of the IRS' efforts to improve the accuracy and quality of filed tax returns and to heighten awareness of preparer responsibilities. As a member of the tax return preparer community, we would appreciate your help in evaluating the effectiveness of your visit and interaction with the Revenue Agent.

Your response will be voluntary and there are no penalties for not participating in the survey. This survey is a request for your assistance in helping us to evaluate the IRS' educational outreach efforts.

**SURVEY STARTS HERE**

|   | Yes                   | No                    |
|---|-----------------------|-----------------------|
| 1. Did you receive a letter from the IRS, followed by a visit from a Revenue Agent, in the first quarter of 2010 as part of the IRS' efforts to improve the accuracy and quality of filed tax returns and to heighten awareness of preparer responsibilities? | <input type="radio"/> | <input type="radio"/> |

*If the answer to this question is "No," you have completed the survey. Please stop and return this questionnaire using the self-addressed, stamped envelope we provided. If the answer to this question is "Yes," please continue.*

|  |                             |
|--|-----------------------------|
| 2. I am a(n): Please check all that apply.<br>a. Certified Public Accountant b. Enrolled Agent c. Unenrolled Agent d. Attorney   | a. ___ b. ___ c. ___ d. ___ |
| 3. What was the total amount of time required to complete the visit?   | ___ hr(s) ___ min(s)        |
| 4. The best timeframe to conduct these visits is during which quarter of the calendar year?<br>a. 1 <sup>st</sup> quarter b. 2 <sup>nd</sup> quarter c. 3 <sup>rd</sup> quarter d. 4 <sup>th</sup> quarter | a. ___ b. ___ c. ___ d. ___ |
| 5. How would you describe the demeanor of the Revenue Agent during the visit? Please check all that apply.<br>a. Professional b. Unprofessional c. Intimidating d. Unprepared                              | a. ___ b. ___ c. ___ d. ___ |
| 6. Overall, how would you describe the visit? Please check all that apply.<br>a. Educational b. Helpful/Informative c. Inconvenient d. Inefficient use of time   | a. ___ b. ___ c. ___ d. ___ |

|   |                               |
|---|-------------------------------|
| <p>If your response to Question 5 or 6 was negative in nature, please explain:<br/>For example, what made you believe that the Revenue Agent was unprepared?<br/>Or, what made you believe that the visit was an inefficient use of time?</p> | <hr/> <hr/> <hr/> <hr/> <hr/> |
|---|-------------------------------|

|  | Yes                   | No                    | Not Sure              |
|--|-----------------------|-----------------------|-----------------------|
| 7. The Revenue Agent explained to me that I was part of a random selection process and participants were not being audited.                    | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 8. Were any of your colleagues and/or employees that were <u>also selected for a visit</u> present during <u>your</u> visitation/presentation? | <input type="radio"/> | <input type="radio"/> |                       |
| 9. Did you delegate another colleague/employee to meet with the Revenue Agent?   | <input type="radio"/> | <input type="radio"/> |                       |
| 10. I educate myself about tax law changes and complete continuing education courses.  | <input type="radio"/> | <input type="radio"/> |                       |
| 11. As a result of the visit, did you make any changes in the way you do business or prepare tax returns?                                      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 12. Did you ask and were you given the opportunity to opt out of the visit?  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |



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**SURVEY CONTINUED FROM OTHER SIDE**

| For each of the statements below, please fill in the appropriate circle. If the statement does not apply to your situation, please fill in the circle for not applicable or do not remember. | Definitely Agree      | Somewhat Agree        | Neither Agree nor Disagree | Somewhat Disagree     | Definitely Disagree   | N/A or Don't Remember |
|--|-----------------------|-----------------------|----------------------------|-----------------------|-----------------------|-----------------------|
| 13. I believe that the IRS was conducting research and collecting data to determine whether the visits would improve future compliance.  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 14. The Revenue Agent was knowledgeable on the following topics discussed:   |                       |                       |                            |                       |                       |                       |
| • Earned Income Tax Credit   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Schedule C   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Schedule A   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • First-Time Homebuyer Credit  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Due Diligence  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Consequences of filing incorrect tax returns   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 15. The Revenue Agent was able to answer all my questions or concerns regarding the visit and issues discussed.  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 16. Do you believe you should have been selected for a visit by a Revenue Agent?   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 17. The IRS will achieve its goal of educating preparers in improving the accuracy and quality of filed tax returns and to heighten awareness of preparer responsibilities.                  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 18. The Revenue Agent encouraged preparer feedback during the visits.  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 19. The Revenue Agent had adequate knowledge to discuss additional topics, and assisted me with additional issues outside the planned scope of the visit.                                    | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 20. The Revenue Agent spent an appropriate amount of time with me (neither too short nor too long).  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 21. The Revenue Agent provided me with educational material that I found helpful and would provide me with current information to improve the accuracy of filed tax returns.                 | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 22. The visits were for educational purposes only.   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 23. The IRS had a secondary reason for completing visits; to imply that the IRS would be stepping up the enforcement of preparer penalties.  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 24. The main reason many preparers file inaccurate returns is due to insufficient education or lack of training.   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 25. The visit was a positive experience and beneficial to me.  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

|   |   |
|---|---|
| <p>Please provide any suggestions/comments that you believe would improve the Paid Preparer Visitation Project.</p> <p>For example, what changes did you make as a result of the visit?</p> | <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> |
|---|---|



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## Appendix VI

### *Glossary of Terms*

**American Institute of Certified Public Accountants** – A professional organization of practicing certified public accountants. The “Institute” develops standards of practice for its members and provides technical guidance and advice to both its members and governmental agencies.

**Area Champions** – IRS employees who were responsible for selecting experienced revenue agents to participate in the FYs 2010 and 2011 RPVPs. Area champions were given the autonomy to select which paid preparers revenue agents would visit during the RPVPs from the list provided by Wage and Investment Research and Analysis.

**Calendar Year** – A 12-consecutive-month period ending on December 31.

**Criminal Investigation** – Serves the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law.

**Earned Income Tax Credit** – A refundable Federal tax credit for low-income working individuals and families.

**Employer Identification Number** – A unique nine-digit number used to identify a taxpayer’s business account.

**Enrolled Agents** – These professionals pass an IRS examination or present evidence of qualifying experience as a former IRS employee and have been issued an enrollment card. Enrolled agents are the only taxpayer representatives who receive their right to practice from the Federal Government.

**Examination** – Field examinations of individuals, partnerships, and corporations that occur either at the taxpayer’s place of business or through interviews at an IRS office.

**Filing Season** – The period from January through mid-April when most individual income tax returns are filed.

**Fiscal Year** – A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government’s fiscal year begins on October 1 and ends on September 30.

**Ghost Preparer** – A paid preparer who did not identify or correctly identify himself or herself as the individual responsible for preparing the tax return.



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**Math Error Notices** – A process in which the IRS contacts taxpayers through the mail or by telephone when it identifies mathematical errors or mismatches of taxpayer information that would result in a tax change.

**Paid Tax Return Preparers** – Paid tax return preparers include certified public accountants, attorneys, enrolled agents, enrolled actuaries, enrolled retirement plan agents, and unenrolled tax return preparers.

**Preparer Tax Identification Number** – An identification number that all paid tax return preparers must use on U.S. Federal tax returns or claims for a refund submitted to the IRS.

**Processing Year** – The calendar year in which tax returns and other tax data are processed.

**Program Action Cases** – Preparer investigations where clients of questionable paid preparers are examined to determine whether preparer penalties and/or injunctive actions against the paid preparers are warranted.

**Revenue Agent** – An employee in the Examination function who conducts face-to-face examinations of more complex tax returns such as those for businesses, partnerships, corporations, and specialty taxes.

**Risk Assessment Scoring Tool** – The practitioners included in the RPVP were selected by applying a set of filters to tax returns filed by paid preparers. These filters were created using characteristics of issues that were believed to be associated with egregious return preparation. Collectively, these filters are referred to as the Risk Assessment Scoring Tool.

**Site Identification Number** – A unique number identifying which Volunteer Income Tax Assistance or Tax Counseling for the Elderly site prepared a tax return.

**Unenrolled Preparers** – Unlicensed paid preparers/agents are individuals that range from those who might receive extensive training to those with little or no training.



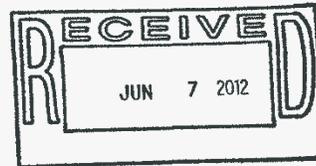
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**Appendix VII**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224



MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David R. Williams *DWilliams*  
Director, Return Preparer Office

SUBJECT: Draft Audit Report – Implementation of the Return Preparer  
Visitation Project Was Successful, but Improvements Are  
Needed to Increase Its Effectiveness (Audit # 201130005)

Thank you for the opportunity to comment on your draft report titled "Implementation of the Return Preparer Visitation Project Was Successful, but Improvements Are Needed to Increase Its Effectiveness." We appreciate your positive feedback concerning the overall success of our visits to paid tax return preparers, and particularly the professionalism and knowledge of our Revenue Agents.

As you note in your report, paid tax return preparers play a significant role in helping taxpayers fulfill their tax obligations. The Return Preparer Visitation Project (RPVP) is just one of many efforts included in the comprehensive IRS Return Preparer Program. Through it we are able to interact directly with many preparers every year, with the primary goal of increasing their awareness of their responsibilities.

We agree that the methodology for selecting the return preparers who receive these visits should be improved. We recently concluded our own review that made it clear data driven filters are necessary to ensure visits are focused on preparers who have the highest risk of errors. The scope of the Fiscal Year (FY) 2013 visits has been narrowed and will concentrate on those who prepare a significant number of returns appearing to be in the highest risk segment of the population. To make this possible, we are developing data driven filters, as you recommended. We are committed to continuous analysis and improvement of the RPVP process.



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2

Your conclusion about the success of the visits relies in part on the survey you conducted of a sample of paid return preparers. While we find the survey results to be of interest, we believe that certain survey questions led to biased responses, and therefore, we do not agree that they provide the best measure of the effectiveness of the visits. In fact, the phrasing of some of the questions appears likely to have created incentives for less than accurate answers. Specifically, the question asking if the preparer planned to make any changes as a result of the visit most likely leads to the socially desirable response of no; an answer of yes would be a statement against interest because the preparer would be admitting improper action<sup>3</sup> before the visit. The fact that 62 percent of respondents stated they found the visits helpful and/or informative also raises questions about the survey methodology.

We recognize the need to develop strategic measures to assess the effectiveness of the return preparer visits. In addition to developing data driven filters, we are developing data driven outcome measures to assess the results of the visits.

Our specific comments to your two recommendations are attached. We agree with both and have already begun their implementation. We concur that over time they will help to improve the quality and accuracy of filed tax returns, as well as heighten paid preparers' awareness of their responsibilities. If you have any questions, please contact me, or a member of your staff may contact Karen Hunter-Thomas, Director, RPO Strategy & Finance, at (202) 435-6328.

Attachment



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Attachment

**RECOMMENDATION 1**

The Director, Return Preparer Office, should ensure the RPVP uses data-driven selection criteria to specifically identify paid preparers who filed tax returns with errors to make certain the most egregious paid preparers are receiving educational and enforcement visitations

**CORRECTIVE ACTION**

The Return Preparer Office is in the process of developing data-driven selection criteria for the FY 2013 visitation program.

**IMPLEMENTATION DATE**

August 31, 2012

**RESPONSIBLE OFFICIAL(S)**

Director, Return Preparer Office

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 2**

The Director, Return Preparer Office, should develop objective, quantifiable performance measures and a process to generate management information reports that can be used to assess the impact of the RPVP on the paid preparer community. This effort includes a process to monitor and track the behavior of paid preparers visited to determine whether the quality and accuracy of tax returns improved.

**CORRECTIVE ACTION**

The Return Preparer Office is in the process of developing a statistically valid controlled test design plan for the visitation program. This plan will include the strategic measures that will be used to assess the effectiveness of the visitation program.

**IMPLEMENTATION DATE**

August 31, 2012

**RESPONSIBLE OFFICIAL(S)**

Director, Return Preparer Office

**CORRECTIVE ACTION MONITORING PLAN**

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